ENUGU STATE GOVERNMENT

INTERNAL AUDIT MANUAL

June 2010
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**Foreword**

In compiling this Internal Audit Manual, references were made to relevant sections relating to finance and accounting controls in the Constitution of Federal Republic of Nigeria 1999, Financial Instruction and Stores of Enugu State Government (Revised in 2003) and Treasury Circulars. References to these books and policies were made to align the Internal Audit Manual with provisions of current regulations and practices in the State. Existing procedures which support modern practices and still delivering acceptable results are retained for consistency. This Manual should therefore be used along other Finance and Accounting Regulations operating in Enugu State Government.

In addition to government regulations, this Internal Audit Manual also complies with technical provisions of the International Accounting Standards (IAS), International Financial Regulatory Standards (IFRS), Statement of Accounting Standards issued by the Nigerian Accounting Standards Board (SAS), Institute of Internal Auditors Guidelines and other international practices. This is adopted to benchmark the standard to best national and international practices.

The Manual is desired to standardise the practice of Internal Auditing in all Enugu State Government MDAs. Standard procedure would facilitate auditing and co-ordination of activities in the State. It is also intended that this Manual would be applied to control corrupt practices, efficient utilisation of government scarce resources and improvement in productivity. Under this accountability and good governance environment, employment opportunities would be created, social services would be provided and sustained, and investment from the private sector would be attracted to the State. The expected result for the State under this transparent system is rapid economic growth and development.

It is expected that all Accounting Officers, Head of Departments, Internal Auditors, Accountants, and in fact all staff in employment of Enugu State Government should obtain and read this Internal Audit Manual to broaden their knowledge and contribute significantly in the financial system reform programmes.

It is also recommended that this Manual should be reviewed and updated periodically in line with changes in government legislation, technology and economic realities. Addendum could also be made as interim measure, pending comprehensive reviews by a Team drawn across the MDAs.
CHAPTER ONE: BACKGROUND INFORMATION

1.1 Introduction

Purpose

The purpose of this Internal Audit Manual is to document the policies, methods, approaches and general rules applied by the Enugu State Government to promote and maintain integrity and accountability in its financial system. The manual is intended to serve as a reference guide to all Internal Audit staff in Enugu State Government; and to promote general uniformity in working papers and documentation; as well as provide the means to the production of quality and professional internal audit work.

Objectives

Internal Audit is an independent appraisal activity which assists management by providing information on operational risks, as well as confirming results of financial performance. It also provides a guide to Management through report of findings and useful recommendations for improvement of operations.

The Internal Audit function is responsible for reviewing operational and financial activities in the organization, and reporting its findings, conclusions, and recommendations to Management. In so doing, it assists the MDA in achieving its goals by ensuring that internal and operational controls exist and are functioning, for the orderly and efficient conduct of its business.

The auditor’s judgment will be required while applying the information in this Manual to specific audit assignments. This Manual is solely meant to provide guidance and should not inhibit professional judgment, practicality and innovation during audit work.

Amendments

Suggestions for changes to the guidelines and procedures in this Manual should be proposed and directed to the Audit Manual Team or Senior Management of the MDA. Suggestions will be evaluated and adopted based on their applicability to the audit space. The manual will be periodically reviewed and updated in line with new developments.

1.2: Mandate, Governing Framework and Professional Standards

The Mandate and Governing Framework is based on the Enugu State Financial Instructions for Finance and Stores (Revised in January 2003), also known as FI. The FI was derived from various enactments of the Government, both at the State and Federal levels. Professional Standards are derived from the Institute of Internal Auditors (IIA), Information Systems Audit and Control Association (ISACA), Nigerian Accounting Standards, Professional Accounting Acts, Constitution of the Federal Republic of Nigeria, etc.
1.2.1: Internal Audit Mandate in the Financial Instruction

FI 1901 provides that the Permanent Secretary of a Ministry or Head of Extra-Ministerial Department shall ensure that an Internal Audit Unit is maintained in their MDA to provide a complete and continuous audit of the accounts and records of revenue and expenditure, plants, allocated stores and unallocated stores as appropriate. The Internal Audit function shall also include Management Audit encompassing other areas of activities and functions of an MDA. The existence of an Internal Audit Unit will not divest any member of the MDA of their individual responsibilities; neither will it obviate the necessity for normal departmental checks and balances (also known as internal control system).

FI 1902 also provides that the Permanent Secretary of the MDA shall ensure that the Internal Audit function is placed directly under the control of a competent Accounts Officer trained in Treasury duties by the Office of the Accountant-General.

1.2.2: The Institute of Internal Auditors (IIA)

Founded in 1941, The Institute of Internal Auditors (The IIA) is an international association dedicated to the continuing professional development of the individual Internal Auditor and the internal auditing profession. The Institute has promulgated a Code of Ethics, a Statement of Responsibilities, and Standards for the Professional Practice of Internal Auditing. These standards are means by which the conduct of any individual auditor and the operations of any internal auditing organisation may be evaluated and appropriately measured. In the words of the Board of Directors of The Institute, the pronouncements represent the “practice of internal auditing as it should be”.

The IIA’s Code of Ethics and Standards for the Professional Practice of Internal Auditing are in Annexure 1 and 2.

1.2.3: Information Systems Audit and Control Association (ISACA)

The Information Systems Audit and Control Association (ISACA), founded in 1969, is a recognised global leader in IT governance, control and assurance.

ISACA issues Standards for Information Systems Auditing on an ongoing basis and is the body responsible for the continuing professional development of information systems auditors and the information systems auditing profession. The ISACA’s Code of Professional Ethics and Standards for Information Systems Auditing are in Annexure 3 and 4.

1.3: Professional Procedure in Modern Auditing

As noted in previous paragraphs, Auditing is a noble profession in the field of Accounting and Finance. The professional approach in auditing requires that certain steps or procedure should be adopted in every assignment undertaken by the Auditor. The following information is useful in modern professional auditing:
1.3.1: Classes of Audit Work
Professional audit work includes the following process:

(i) Planning the Audit
(ii) Examining and Evaluating Information
(iii) Communicating the Results
(iv) Carrying out post audit follow up

1.3.2: Planning the Audit
Planning the audit requires the following steps:

(i) Establishing audit objectives and scopes
(ii) Obtaining background information
(iii) Risk assessment
(iv) Writing the audit programme

1.3.3: Examining and Evaluating Information
The following steps should be taken:

(i) Information collected should be sufficient, complete, relevant and useful to provide a sound basis for recommendations.

(ii) The system of controls should be determined, documented and tested.

1.3.4: Communicating Results
Audit results, or information gathered during the audit assignment should be effectively communicated. The following steps should be taken:

(a) Issuance of an audit report

(b) Discussing conclusions and recommendations with the appropriate levels of management prior to issuing the final report.

(c) Report should present the purpose, scope and result of the audit, and in most cases, the auditor’s opinion.

(d) The report should include any recommendations for improvement.

(e) The auditee’s response to the recommendations should be included in the audit report.
1.3.5: Follow Up

The Internal Auditor should carry out a follow up review to ensure that the recommendations made have been properly implemented.

1.4: Nature of the Internal Audit Activity

Depending on risk assessment of the organization, Internal Auditors, Management and the Audit Committee (in whatever form or name), should determine where to focus internal auditing efforts. Internal Auditing activity is generally conducted as one or more discrete projects. A typical internal audit project involves the following steps:

(i) Establish and communicate the scope and objectives for the audit to the Management.

(ii) Develop an understanding of the business area under review. This includes objectives, measurement and key transaction types. It involves the review of documents and interviews. Flowcharts and narratives may be created if necessary.

(iii) Identify control procedures used to ensure that each key transaction type is properly controlled and monitored.

(iv) Develop and execute a risk-based sampling and testing approach to determine whether the most important controls are operating as intended.

(v) Report problems identified and negotiate action plans with management to address the problems.

(vi) Follow-up on reported findings at appropriate intervals. Internal Audit Unit or Department should maintain a follow-up data base for this purpose.

By analysing and recommending business improvement in critical areas, the Auditor helps the organization to succeed. In addition to assessing business processes, Information Technology (IT) Auditors are called to review information technology controls.
CHAPTER TWO: INTERNAL AUDITING IN THE PUBLIC SECTOR

2.1: **Definition of Internal Audit**

Internal Audit has been defined as: “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Institute of Internal Auditors, Code of Ethics 1999 page 7).

2.2: **Duties of Internal Auditor**

Internal Auditors carry out objective assessment of evidence to provide an independent opinion or conclusion regarding a process, system or other subject-matter. Such process must adhere to generally accepted accounting principles. This is the common role of both Internal and External Auditors.

One of the important duties of an Internal Auditor is to determine the extent to which the various Operating Units/Department or individuals are observing the policies and procedures prescribed by the Management. Due to this important role they relate basically with everybody concerned with virtually all the financial transactions of the organization.

FI 1902 provides that the Internal Auditor will be directly responsible to the Permanent Secretary for a comprehensive audit of all the operations and activities of the MDA. For this purpose, he shall carry out financial and management audit of all areas of the MDA’s functions, with a view to monitoring their efficiency and effectiveness.

Internal Auditors in the Public Sector should cover the following critical areas of operation:

i) **Examination of Books and Records**, such as:

- Cash Book; for Revenue and Expenditure
- Register (Project, Salary and Running Costs)
- Salary Registers, claimed and unclaimed
- Cheque Control Register
- Cheque/Cash Release Register
- Project Register
- Remittance Register
- Vote Book - Running Cost and Capital Expenditure Register, etc.

ii) **Prepayment Auditing**:

- Audit of Payment Vouchers
- Audit of Variable Cards
- Audit of Payroll or Salary Schedule
- Audit Inspection of Supplies and Purchases
- Audit Inspection of Contracts, Services, etc.
iii) **Quality Assurance Services:**

- Check for availability of records
- Check for adequacy of records
- Check for completeness of records
- Check for accuracy of records
- Check for compliance of records

iv) Stores and Asset Verification

v) Monitoring of Direct Labour Fund

vi) Post-Payment Audit

vii) Appraisal of Internal Control

viii) Staff Audit

**2.3: Work Plan**

The Internal Auditor should prepare a comprehensive Work Plan that covers every important aspect of the MDA’s operations to ensure that:

- The safeguards introduced for the prevention or the prompt detection of fraud and loss of cash are adequate. Normal safeguards include the observance of Government and departmental regulations and instructions, and for existence of internal checks.

- The control for collection of revenue is adequate, and that all money received have been properly recorded under correct account head and sub-head.

- The system for the control of expenditure is adequate and that all payments made are properly authorised and correct, that they are paid to the right person, from the correct head and sub-head, and made for the purpose for which they were authorised.

- The system for the control of the issue and consumption of stores is adequate, that all issues are properly authorised and correct, that issues are made to the right person, and are used for the purpose for which they are authorised.

- There are adequate means for the verification by him of all cash, stores and plant held.

- The accounting records are accurate.
The Internal Auditor is required to submit to his Permanent Secretary a detailed audit programme and send copies to the Accountant-General and Auditor-General. See FI 1905 for details.

2.4: Progress Register

FI 1908 provides that the Internal Auditor will maintain under his personal control a Register to record the progress of the audit. The Register will normally be in columnar form of not less than thirteen columns to record in the specific tasks to be undertaken in the period covered. At the end of each month, he would initial to indicate the task that he has completed.

2.5: Audit Guides

FI 1909 provides that the Internal Auditor will draw up detailed Internal Audit Guides for the use of the staff, setting out concisely the nature and extent of the checks to be applied to each account or record. The guide should be comprehensive and amplify the Audit Programme. It should also explain the general nature of the account, the relationship to the functions of the MDA; contain references to the basis in law and any relevant accounting instruction issued by the Accountant-General or other instruction issued by the Government.

2.6: Prepayment Audit

FI 1911 provides that Internal Audit Unit in all MDAs shall ensure that 100 per cent pre-payment audit of all Payment Vouchers is carried out and the Vouchers forwarded under security schedule direct to the appropriate Sub-Treasury for checking and for payment. Vouchers received in the Internal Audit Unit must be promptly dealt within four days. It is therefore important that all Vouchers received for prepayment audit are processed promptly.

2.7: Restrictions in the Duties of Internal Audit Staff

The staff of Internal Audit Unit may not be deployed within the MDA on accounting duties or on the internal check of accounting records, other than audit. Furthermore, an Officer would be precluded from taking up the duties of internal audit staff if he has previously been engaged on accounting or internal check duties within the MDA over the period to be covered by the internal audit exercise. See FI 1910.

2.8: Stock Verification Duty

In the MDA where a system of Stores Stock Verification is available, the Internal Auditor will assume the control of the Stock Verification Staff and direct the programmes of inspection. See details in FI 1917.
2.9: **Internal Auditor’s Reports**

The Internal Auditor shall report monthly and quarterly, to the Permanent Secretary or Head of the MDA on progress of the audit and submit copies of these reports to the Accountant-General and the Auditor-General. He will also issue special reports, if necessary, when in his opinion, the attention of the Permanent Secretary and the Director of Finance of the MDA must be called to any issues in the previous reports not yet addressed. Copies of these special reports should also be copied to the Accountant-General and Auditor-General; FI 1906.

FI 1907 also provides that the Internal Auditor will render a half-yearly report to his Permanent Secretary, with copies to the Auditor-General and Accountant-General to certify to what degree he is satisfied with the safeguards against fraud, controls of the receipts and payments, controls on the issues and consumption of Stores, with the verification of cash and stores held, and with the accuracy of the accounting records. The report will also include his observations on the economy of co-operation, efficiency and effectiveness of other areas of activities and functions of the MDA.

2.10: **Issuance of Internal Audit Stamp**

All Internal Audit Stamps will be issued by the Accountant-General and should be treated strictly as security instrument (Fi 1912). Extra precaution should be taken to avoid entering into wrong hands.

2.11: **Procedure for Issuance of Internal Audit Stamp**

The MDAs are required to submit the following information regarding their Internal Auditors that are qualified to be issued Audit Stamps:

- Names and rank of the Officer
- Two recent passport photographs, stamped and identified by the Head of Internal Audit Unit
- Specimen signature of the Officer

Only Internal Audit Officers not below Grade Level 08 are entitled to be issued Audit Stamp (Please see details in Fi 1913).

2.12: **Custody of Internal Audit Stamp**

The Head of Internal Audit Unit should arrange to collect all Audit Stamps at the end of duty and have them locked up in a Treasury Safe with two Senior Officers holding the keys. The stamps shall be released to their respective users the next issuance day in the presence of at least two senior officers. The daily issuance and return shall be recorded in a “Daily Release of Audit Stamps Register (Please see details in FI 1914).
2.13: Transfer and loss of Internal Audit Stamps

Internal Audit stamps are not transferable from one officer to another. It should not be re-issued to another officer under any circumstance. Internal Auditors reassigned should return their Audit Stamps to Internal Audit Unit or Office of the Accountant-General (OAG) immediately. Any Internal Auditor who loses his Internal Audit Stamp would be surcharged or made to replace it as confirmed by the Accountant-General (Please see details in FI 1915 and 1916).
CHAPTER THREE: FUNCTIONS OF INTERNAL AUDITORS IN THE PUBLIC SECTOR

3.1: Introduction

The IF 1901 and 1902 issued in 2003 provides that all MDAs should develop and maintain effective and efficient Internal Audit Unit which reports directly to the Accounting Officer. It is the responsibility of the Accounting Officer to prevent losses resulting from criminal conduct and take necessary steps against perpetrators.

The three major areas of management focus are:

- Procedures to deal with fraud
- Internal Control and Risk Management (ICRM)
- Internal Audit and Audit Committees

3.2: The Scope of Internal Audit Functions

The duties and responsibilities of the Internal Auditors are at the discretion of management. However, the following are the areas of interest to an Internal Auditor:

(a) Prepayment Audit (also known as pre-audit)

(b) Vouching of Payroll and third party claims

(c) Auditing of Store movements and records

(d) Conducting internal investigations and evaluation for management

(e) Constant review and appraisal of the existing internal control measures

3.3: Tasks Involved in Internal Audit

The Internal Auditor should review and assess the conclusions drawn from the audit evidence obtained as a basis for the expression of opinion on the adequacy of internal controls and the state of affairs of the public enterprise or ministries.

The review and assessment would require forming opinion on whether:

(i) The financial information has been prepared using acceptable accounting policies and audit regulations, which have been consistently applied.
(ii) The financial information complies with the relevant legislations and statutory requirements.

(iii) The view presented by the financial information is consistent with the Auditor’s knowledge of the business in public enterprises or ministries.

(iv) There is adequate disclosure of all material facts relevant to the proper presentation of the financial statements to the Auditor-General.

3.4: Prepayment Audit

In the Public Sector, it should be noted that the Internal Auditors are required to carry out prepayment audit, also known as pre-auditing. This is the examination of transactions before payments are made. See details in FI 191.

The objectives of pre-auditing are:

- To ensure that expenditures are not unreasonable or extravagant.
- Sufficient funds are available to meet the payment of the Voucher.
- There are compliance with budgetary, civil service, financial memoranda and financial regulations.

3.5: Auditors’ Role in Investigations

By their vantage position, Internal Auditors may come across situations during their examinations, which may point to malpractices and irregularities. Since investigations require different standards and skills, the Auditors may not be required to take certain actions, but could forward their findings to appropriate Agencies for further probe.

Strictly speaking, investigation is not the primary function of Internal Auditors. However, Auditors can play vital role in assisting the agencies responsible for investigation against alleged cases of corruption. The investigation agency could be an Internal Panel, Anti-Corruption Commission, Police, Judiciary or any other specialized body. As the Internal Auditor usually have more diversified and detailed knowledge of operations in different parts of the organization, he can assist the investigating Officer. The Internal Auditor can assist the investigator in the following areas:

- Interpretation of various rules
- Explaining reasons behind various practices
- Sharing some confidential information at their disposal
- Discussing technical details of operations
- Identifying areas of excessive or abnormal costs which is suspected
- Identifying areas of weak controls where the process could be manipulated to aid malpractices

3.6: Audit Alert Committee

Section 35 of the Civil Service Re-organisation Decree No. 43 of 1988 established the Audit Alert Committee. In the new service reform, the Chief Internal Auditor or Head of the Internal Audit is empowered to raise an alarm on any payment which he considers not appropriate. Once there is an alarm, it is an offence to process the Payment Voucher further without being resolved by the Committee. The alarm system assists in monitoring expenditure and ensuring compliance with the FI and stipulations of the Treasury Circulars.

The Audit Alert Committee is composed of the following:

(i) The Auditor-General, who is the Chairman
(ii) The Accountant-General
(iii) A representative from Office of the Governor

This is a minimum requirement. The Audit Alert Committee could be broadened to accommodate more diverse interests. A broadened interest should include a representative of Revenue Generating Agencies, Board of Internal Revenue and the Commissioner responsible for Budget and Planning.
CHAPTER FOUR: STARTING AS A NEW INTERNAL AUDITOR IN AN MDA

4.1: Introduction

An Internal Auditor can be posted to any MDA hence he must be fully prepared for this type of assignment. He should bear in mind that every MDA has its own peculiar nature since they carry out distinct functions. Their activities should therefore be fully geared towards achievement of the particular purpose for which the MDA was established by law.

The Internal Auditor should acquaint himself with the activities, the set up, the financial transactions and ensure that the controls are properly put in place. This procedure should be carried out even if the Internal Auditor has worked in the MDA previously, as processes and procedures might have changed.

The new Internal Auditor may not necessarily stick to the routine of the previous Auditor due to the following reasons:

- The previous Officer might have been complacent and hence leave certain things undone.
- The previous Officer might have overlooked some crucial tasks which might be revealed later.
- The transactions and activities in the MDA might have changed or others added to it.
- Activities not hitherto emphasized might be given priority by current Management.
- There might have been collusion of the previous Auditor with other people to carry out some malpractices; hence expanding the scope of work would reveal such issues.

4.2: New Environment

A major aspect of deployment is that initially the environment may look strange. To those in other departments, there is the tendency for them to distance themselves from the new Internal Auditor and be cautious in releasing information.

The new Internal Auditor should be confident and go ahead to take the following actions:

- Ask as many questions as possible and make recommendations where necessary.
- Examine as many books as possible and make recommendations where appropriate.
- Query as many Payment Vouchers as possible where it appears that there has been breach of controls, rules and regulations. To effectively do this, the new Auditor should have good knowledge of the rules and regulations concerning Accounts and finance.
- He should get acquainted with the system and recommend some changes where appropriate.
The new Auditor should adopt a team spirit, with professional friendliness, to encourage people to confide in him. He should not be over-confident and claim to know everything. He should be humble, friendly, and simple without compromising his positions. He should earn his respect through hard work, experience, respect for others, honesty, integrity and extra study.

An Officer can broaden his knowledge through the reading of relevant magazines, newspapers and books, to be able to express himself better in writing and in speech; which will earn him the respect and confidence of his colleagues.

4.3: Getting Acquainted With The New System

The following steps should be followed in getting acquainted with the new environment:

a) Review the Vote Books and Recurrent and Capital Estimate for the Previous Year

The newly deployed Officer to the MDA should study the estimate for the year. The Heads and Sub-Heads of the MDA will give him an insight into the activities carried out in the MDA and critical areas to focus attention.

b) Revenue

The Revenue Section of the estimate would show the amounts collected, the volume (for previous year) and also the material ones to pay greater attention this year. The new Auditor should among other things:

(i) Know the location of collection

(ii) Check the books

(iii) Check the recording and the controls

(iv) Satisfy himself that the recording is properly done

(v) Check that there is adequate supervision

(vi) Ensure that the revenue is actually lodged in Government Account

(vii) Check the supporting documents, e.g. Tellers, Receipts, Cash Book, etc. He should go back at least one month to apprise himself of the Process and previous incidents.

(viii) If there are lapses, he should draw the attention of Management to it and also make recommendations for remedial actions.

(ix) Review the Internal Control System
c) **Payment Vouchers**

The newly appointed Internal Auditor should take the following action regarding Payment Vouchers:

(i) He should meticulously go through initial Payment Vouchers referred to him for checking. There should be little delegation during this period to familiarize himself with the processes and procedures in the MDA. He should acquaint himself with the authorizing Officers (names, signatures and style of writing), levels of authority and responsibility.

(ii) He should ask questions when in doubt of any issue.

(iii) He should ensure that there is compliance with procedures, rules and regulations.

(iv) He should cross check the processes of preparation and recording of Payment Vouchers.

(v) He should carry out walk through test on each of the initial Payment Vouchers presented to him for review.

(vi) He should record the process of preparing the Payment Vouchers and maintain notes for quick reference.

(vii) He should obtain and verify specimen signatures of scheduled staff that authorize transactions.

d) **Variation Reports**

He should take the following steps regarding Variation Reports:

(i) Identify the staffs that prepare the Variation Reports.

(ii) Ensure that there is authority for each of the variation carried out.

(iii) Ensure that the authorizing documents are attached to the Variation Reports meant for Computer processing.

(iv) Ensure that record is kept of monthly variations.

(v) Review the internal control process.

(vi) The review should be carried out after the variation has been approved to avoid duplication of auditing efforts.

e) **Central Pay Office**
The newly appointed Internal Auditor should acquaint himself with the activities going on in the Central Pay Office (CPO) where it is applicable. He should know the personnel working there and their duties. The following action should therefore be carried out:

(i) He should draw up a Flow Chart of Documents from the different departments to the Director for Accounts through the various Units and the CPO.

(ii) He should examine all the books and understand how the transactions are treated.

(iii) He should review the internal controls regarding Cheque Writing, Cash Book, Bank Statements, Running Cost Registers, etc.

(iv) He should review at least one month’s transactions before his deployment.

(v) The newly appointed Internal Auditor should not hesitate to ask questions on any issue he does not understand and seek for proper direction.

f) Bank Reconciliation, Cheque Books and Payment Vouchers

The Internal Auditor should ascertain that all cheques written are backed by good Payment Vouchers and necessary supporting documents. He should take the following steps periodically:

(i) Ensure that Bank Reconciliation Statements are prepared on a monthly basis. Even when Bank Reconciliation Statements are not prepared, demand for the Cash Book/Cheque Book and do a tick off. Any observation should be stated in the Report.

(ii) All Reconciliation Statements prepared should be examined and observations should be noted in the Internal Audit Report.

g) Induction in the Accounts Department

The newly appointed Internal Auditor should request for induction in the Accounts Department. Thereafter, the Auditor should visit each Unit on his own and request to examine their books. He should make efforts to extract useful information from the respective Officers.

h) Examine the Organogram

The newly appointed Auditor should examine the Organogram to understand the structure of the MDA. He should note the line of authority and responsibility and those responsible for the core functions.

i) Audit Reports

Rendering Audit Reports is an essential aspect of the Internal Auditors’ responsibilities. The Audit Reports should among other things lay emphasis on the following issues:
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(i) Personnel and Salary Audit

(ii) Bank Reconciliation

(iii) Revenue Collection and Audit

(iv) Internal Control System, to ascertain if there is deviation from the procedure

(v) Checking of the paid Payment Vouchers against cheque books and Cash Books. The report must be forwarded to the Accounting Officer and a copy sent to the OAG.

j) Programme of Work

At the inception of every year, the Auditor is expected to write a programme of work. Work Plan is the plan of work to be carried out. It would show the activities, resource requirements, timelines, etc.
CHAPTER FIVE: AUDITING OF REVENUE

5.1: Introduction

Revenue is the income accruing to an organization from the sales of its goods and services to customers. In the Public Sector, revenue is largely generated from statutory allocation, taxes, levies and fees with the backing of enabling laws. Revenue from various sources can be regular or occasional. Revenue is vulnerable and should have strong internal control processes around its administration.

Revenue provides the primary funding for government operations – payment of salaries and wages, overheads, and provision/maintenance of public services.

5.2: Types of Revenue in the Public Sector

Revenue is the income accruing to the government. It is the means to the achievement of projects approved in the annual budgets and development plans. Adequate controls are required to secure public revenues generated by the state.

Some of the sources of revenue to the State include the following:

- **Statutory Funding from the Federal Government**, which includes: Statutory Allocation, Share of VAT Account, Ecological Fund, Special Grants, Reimbursements, Excess Crude Account, etc.

- **Internally Generated Revenue (IGR) which includes**: Taxes, Fines, Fees, Licences, Earnings, Sales, Rent of Government Properties, Interests, Dividends, Reimbursements, Hospital Licences Renewal, Tuition Fees from Schools of Health Technologies, Common Entrance Examination Fees, External Auditors’ Registration Fees, Audit Fees, Registration of Company Premises, Registration of Contractors, Income and Road Taxes, Tender Fees, Power of Attorney Fees, Stamp Duty, Sale of Boarded Vehicles, Sale of Assets, Inter-State Transfer Fees, Site Inspection, Registration of Private Schools and Miscellaneous Classification.

- **Other Sources includes**: Internal Loans, External Loans, Grants from Local and Foreign Agencies, Donations, etc.

5.3: Internal Control Measures In Respect of Revenue

Revenue controls are the various checks put in place to ensure that all monies due to the government are collected, recorded and accounted for accurately. The revenue control system in the public sector is designed to have the following elements:

(i) Periodic monitoring, through reviews and preparing of reports.

(ii) Policing the Revenue Administration System to ensure that services are not rendered without charges being levied and collected. This should be done by spot checks and periodic reviews.
(iii) Timely issuance of demand notices and follow-up action to collect the money.

(iv) Timely issuance of all revenue documents.

(v) Prompt lodgement into the bank of all money received.

(vi) Establishment of authority limits for revenue handling.

(vii) Establishment of functional system of internal controls and constant reviews of procedures. Please see the Internal Control Manual for details.

5.4: Controls In Respect of Internally Generated Revenue (IGR)

As revenue is attractive and vulnerable to theft, necessary controls should be built around the IGR to secure the process chain and minimize leakages. Measures that should be adopted in securing IGR process in Enugu State Government are as follows:

Assessment Process

The basis of assessing the charges and fees should be transparent, by publishing and displaying the amount and basis of calculation conspicuously in strategic places in the business office. This would enable the payers to confirm or verify such assessment to assure them that they are paying the correct amount. It would also reduce corruption among the revenue collection staff who may manipulate the charges to their personal benefits.

Recording of Demand Notice

Upon issuance of Demand Notice, it should be recorded as Receivable in the Accounts. The amount for each customer should be reconciled with the manifest issued by the banks to confirm payment. At the expiry of the days of grace granted in the Demand Notice, the debtors should be contacted and followed up to ensure that they settle their debts. Pre-recording of the Demand Notice would ensure that no one is either totally or partially cancelled without proper approval. Once issued, no Demand Notice should be cancelled unless it is approved by the Accounting Officer of the MDA or a Senior Official empowered to do it.

Settlement of Assessed Charges and Fees (Revenue)

All revenue customers should pay their fees and charges as assessed and indicated in the Demand Notice directly to the government bank account or through e-Transact in designated banks, irrespective of the amount involved. This is provided in FI 0614. Revenue losses usually occur where payment is made in cash due to pilferages and theft.

The bank should send a Manifest showing details of the payment to the MDA for issuance of Official Government Receipt. Official Receipt should be issued for every payment made to
the State Government. Notice should be placed in the office of the MDA advising customers to demand and collect their Receipt for all payments made as evidence of payment.

Receipt Booklet must run serially and issued in that manner. Cancelled Receipts should be left in the booklet for Audit verification.

Revenue Collector should keep a Cash Book (also known as ENT Book 113). All Receipts of Revenue and all payments to a Sub-Treasurer or other prescribed officer shall be entered in the Cash Book as soon as the transaction is consummated.

It is the duty of the Internal Auditor to validate and confirm that all Demand Notices distributed to customers are settled and that accurate account is rendered.

5.5: Role of Internal Auditor in Revenue Control

- The Internal Auditor should examine the system of Internal Controls surrounding revenue generated by the MDA. He should thoroughly check the daily transaction and prove the work of each staff involved in revenue collection independently, with the objective of preventing or early detection of errors and fraud.

- The Internal Auditor should observe that there is separation of duties. Thus, an Officer who is responsible for Assessment, i.e. one who determines the amount to be paid should be separate from the one who collects the money. Also the Assessor should be separate from the Cashier and should maintain separate records.

- There should be approved list of what each customer or client is to pay for the services obtained. Such list should be made public by posting it around the premises, notice boards and brochures. Amount payable should be certain and not subjectively determined. The assessment should be presented in a specific standard format, depending on the activities carried out by the MDA.

- The collection of Revenue is largely carried out by the Director of Finance and Supplies of the MDA. The Director of Finance and Supplies or Chief Accountant as may be designated is directly responsible to the Accounting Officer of the MDA. It is therefore the responsibility of the Accounting Officers to draw up a procedure to ensure prompt collection of revenue in their MDA. The Internal Auditor should ensure that such procedure observed.

- Under the Pay Direct Policy, all payments should be made directly to the approved government revenue bank accounts. Payment could also be made by e-Transact in the designated banks. The Internal Auditor should check the payment system thoroughly to ensure that amount paid is correctly captured in the Cash Book and Bank Statement. If there are lapses or loopholes, it is the responsibility of the Internal Auditor to call the attention of the authorities through his activity reports.
5.6: Procedure for Assessment and Payment

The general procedure for assessment and payment of government revenue are as follows:

(a) Assessment must be carried out on a specific standard format. The Assessor should have a record of the assessment and a copy of the form issued to the payer.

(b) Payment is made by going through the following steps:

- Payment should be made directly to the designated banks.
- A copy of the Teller is tendered to the Government Revenue Collection Agent who issues Official Receipt (on receipt on bank manifest).
- The Revenue Collection Agent enters the transaction into the Cash Book and specifies the code, to show the consumed service being settled.
- The Receipts issued should be at least in triplicate. The original should be given to the Payer; a copy is sent to the Computer Department for processing; while a copy is retained in the booklet and sent to the document security store. The copy sent to the Computer Department is used in processing the daily revenue collected and should be assessable to the Internal Auditor for checking.

The Teller is issued in four copies and should be distributed as follows:

- One copy to the customer
- One copy (usually original) retained by the Bank
- One copy to the Accountant-General's Office
- One copy to the MDA (for reconciliation and audit purpose)

5.7: Auditing of the Revenue Books

Factors to be considered in auditing the revenue books of the MDA are as follows:

(a) Knowledge of the System

The Internal Auditor should have a good knowledge of the system before effectively auditing it. For a thorough understanding of the system, he should carry out the following procedure:
 Interviews – The Internal Auditor should interview the Director of Accounts or the Chief Accountant as he understand the transactions carried out in the MDA, the sources of revenue and the approved procedure for the collection of revenue.

The procedures and transactions as stated by the Director of Accounts or Chief Accountant should be documented for future reference.

He should request for documents and books in use to record transactions.

(b) Evaluation of the System

The Internal Auditor should evaluate the system of documentation of transactions to ascertain that there are no loopholes or lapses that could serve as avenue for malpractices and fraud. It is the duty of the Internal Auditor to call attention of the management to such lapses and ensure that action is taken as early as possible.

For proper evaluation he might need to carry out a “Walk Through Test”. That is, a few transactions are selected and traced through the system from inception to conclusion. This helps to determine that in actual fact the documented procedures as stated by the Director of Finance and Administration or Account is actually being adhered to by implementation of the system.

(c) Planning

Planning is normal to all human activities. If there is no plan, efforts would likely be directed wrongly; hence time and resources would be wasted. The plan should be followed; where there are shortcomings, it could be amended. Adequate staffing with employees of right skills and experience should be considered at the planning stage.

The following guidelines should be observed in planning:

(i) Establish the objectives and scope of work

(ii) Obtain background information

(iii) Determine the resources necessary to perform the audit

(iv) Communicate with relevant actors

(v) Perform on-site survey to become familiar with the system in operation.

(vi) Focus attention on critical and high-risk areas, such as Receipts, Tellers and Bank Statements.

(vii) Be flexible in controlling and directing the audit.

(viii) Complete the work economically and on time.
(d) Examination of the Books

The Internal Audit should carry out examination of the books in line with the procedure adopted in recording of the transactions. For example, where payment is made by a customer directly to the bank account for services provided, the following examination should be carried out:

(i) Check the assessment to ascertain that the amount paid agrees with the amount that should be paid as provided in the approved list published by the MDA.

(ii) Check the assessment against copies of Receipts issued by the Government Revenue Collecting Agent.

(iii) Check the Receipts issued against the Cash Books.

(iv) Carry out arithmetic checks of the entries for each day and ascertain that they correlate with the totals or sub-totals.

(v) Check such totals against the Bank Tellers.

(vi) Check the Bank Teller against the Bank Statement.

The above procedure should correlate with the documents and books emanating from the system. The process should be followed in detail to ensure a conclusive audit.

(e) Documentation

The Internal Auditor must document all observations in the course of the examination to avoid forgetting important facts. Where observations are made, it is important to refer to relevant portions of the Cash Book or relevant receipts, tellers or documents stating specific dates and amount. This will help in the course of writing the report and will assist in defending the audit report when the occasion arises. Unreasonable assumptions or rumours should not be stated in the report. All information obtained should be carefully verified before stating it in the report.

An Auditor should be scientific and methodical in his approach to work to avoid ruining the integrity of his reports. All information stated in the report should be substantiated.

The Internal Auditor should not conclude his report without ensuring that meticulous work has been done. Necessary documents must be verified and appropriate reviews carried out to the satisfaction of the Auditor before releasing his report.
CHAPTER SIX: AUDITING OF EXPENDITURE AND AUTHORISATION LIMITS

6.1: Introduction

Government expenditure represents payments made from the revenue generated to settle bills for goods and services benefitted. All expenditure must comply with Sections 120 to 122 of the Constitution of the Federal Republic of Nigeria 1999 outlined in Section Two of this Manual. Some of the expenditure already identified in Enugu State Government includes:

Payment to Contractors for executed Projects, payment to suppliers, payment of expenses claims, remittances of proceeds to third parties, donations, payment of subventions to parastatals, repayment of loans to banks, etc.

6.2: Roles of Internal Auditors on Expenditure Control

The Internal Auditor should play active role to ensure that necessary controls are observed in public expenditure. The following steps should be taken:

a) He should verify that all payments are covered by the budget.

b) He should verify that documents accompanying Payment Vouchers actually supports the claims being made.

c) He should verify that funds released to the MDAs for public expenditure by the Accountant-General have been authorised by General Warrant signed by the Honourable Commissioner for Finance.

d) He should ensure that disbursement of funds by the MDAs comply with the Government Financial Regulations.

The Internal Auditor should check for compliance of the following procedure in public expenditure Controls:

i) The Officer Must Have the Authority to Spend

The following actions should be carried out:

a) The Internal Auditor should verify that the Accounting Officer of the MDA issues Expenditure Warrant to the Accountant-General before money is spent as specified in FI Section 0501.
b) He should verify that the Expenditure Head and Sub-Head are controlled by the Head of Department. If the Capital Expenditure Sub-Head is controlled by more than one Head of Department, the right of all parties should be verified in the Appendix to the Budget.

c) Where the responsibility of any Expenditure Head or Sub-Head is delegated, the Head of Department is expected to supervise personally. This should be noted by the Auditor and observed by the extent of reporting and feedback given.

d) Where the Officers in outside Station are given authority to spend, the Internal Auditor should verify that the A.I.E. (E.N.T.F. 32) is issued. See details in FI Section 0519 and 0520.

e) The Auditor should also verify that where an Officer delegates his authority, he should personally sign or initial the expenditure document.

ii) The Controls on Purchases, Contract for Works and Services

The Internal Auditor should verify that contract for purchases of Stores or for works and services are put to Tender for the general public to bid. The Tender should be issued by a properly constituted Tenders Board. The Internal Auditor should also observe that the MDAs comply with the approval limits specified in FI Section 2902 as summarised in Table 1 below:

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Threshold</th>
<th>Approving Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Up to N250,000.00</td>
<td>MDAs can approve and spend</td>
</tr>
<tr>
<td>2</td>
<td>N250,001.00 – N10,000,000.00</td>
<td>Ministerial Tenders Board or Procurement Committee to approve</td>
</tr>
<tr>
<td>3</td>
<td>Above N10,000,000.00</td>
<td>State Tenders Board to approve</td>
</tr>
<tr>
<td></td>
<td>N25,000,000.00</td>
<td></td>
</tr>
</tbody>
</table>

These limits were determined in 2003. Since Naira value has depreciated over the years, the limits should be reviewed upwards to make it relevant to current economic realities. It should also be reviewed every five years in line with inflationary trend.

For details about Financial Authorities and Responsibilities, please see the Internal Control Manual Section Two.
6.3: **Classification of Expenditure**

All expenditure must be classified strictly in accordance with the Approved Estimates as amended from time to time, and the amount available under any Head and Sub-Head may be applied only for the purpose which the funds is provided. Expenditure incorrectly charged to a vote will be disallowed by the Accountant-General. See FI 0506 for details.

6.4: **Responsibility for Signing on Vouchers**

The signature of the Officer controlling a vote, or an Officer signing for him, certifies to the accuracy of every detail on the Voucher. He will therefore be held responsible:

- that the services specified have been duly performed;
- that the prices charged are fair and reasonable, according to local rates;
- that authority has been obtained as quoted;
- that the computations and castings have been verified and are arithmetically correct;
- that the persons named in the vouchers are those entitled to receive payment;
- that stores purchased have been duly taken on and charged correctly.

Any Officer allowing or directing any disbursement without proper authority or in excess of the sum allocated to him will be held personally responsible for the amount. See details in FI 0508.

The government requires Officers controlling expenditure to exercise due economy in managing resources. Money must not be spent merely because it has been voted, but when it is absolutely necessary.

**The Internal Auditor** should obtain specimen signatories of authorizing or approving officers for verification of Payment Vouchers and documentation during reviews and Prepayment Audit.

6.5: **Planning of Expenditure**

Officers controlling recurrent expenditure should be prudent and spread it evenly over the year, unless there are special reasons for not doing so, e.g. seasonal expenditure. A portion of the vote should be reserved to meet unforeseen contingencies.

Capital expenditure should be reviewed periodically in relation to the funds available and to the progress of the work. Whenever it appears that the funds provided will be insufficient for the service of the year, the Officer controlling expenditure must either take steps to reduce the rate of expenditure or initiate an application for additional provision in accordance with the procedure set out in Chapter 4 FI 2003.
6.6: Records to be kept by Officers Authorised to Incur Expenditure

Officers authorised to incur expenditure will maintain the following records:

(i) A Departmental Vote Expenditure Account Book (E.N.T. Book 46 (R)).

(ii) A Voucher Register (E.N.T. Book 115)

(iii) An Expenditure Summary (E.N.T. F. 95)

These Records must be reviewed and validated by the Internal Auditor regularly. See details in FI 0515.

6.7: Departmental Vote Expenditure Accounts Book

The Departmental Vote Expenditure Accounts Book (D.V.E.A. Book) must be kept in such form as will show clearly at any time in respect of each sub-head:

(a) The total amount of expenditure sanctioned for service of the year, including any subsequent increases or reductions. See details in Chapter 4 of FI revised in 2003.
(b) The expenditure incurred and any expenditure credits.
(c) Further known liabilities in respect of the service of the year.
(d) The balance available

The gross amount (i.e. the actual charge to the vote) of every expenditure voucher must be entered in the D.V.E.A. Book. At the time of entry, all Vouchers, Warrants and other documents upon which expenditure or liabilities are incurred, must be stamped “Entered in Vote Book” and initialled by the Officer keeping the Book. This must be done before a Voucher or similar document is signed. FI 0517 contains instructions concerning the method of making debit and credit entries in the Book.

Similarly, all liabilities and commitments (e.g. Warrants, LPOs or Indents) must be entered in the D.V.E.A. Book as soon as they are known or incurred; if the exact amount of the liability is known it should be entered, but even if it is not available, an estimate should be entered in the book.

6.8: Voucher Register

Vouchers raised in relation to the MDA voted expenditure, whether Payment, Receipt or Adjustment Vouchers, should be entered in the Voucher Register (and in the D.V.E.A. Book). If the effect of an Adjustment Voucher is to debit the MDA vote, then it should be entered in the D.V.E.A. Book with blue or black ink. If the effect is to credit the MDA vote, then it should be entered in red ink and prefixed “Cr”, both in the Voucher Register and the D.V.E.A. Book. If the Voucher is both a debit and a credit to the same MDA’s account, then the Voucher should be entered twice in the D.V.E.A. Book, and one in red ink to support the credit entry. See details in FI 0517.

The Internal Auditor should ensure compliance with this provision of the FI.
6.9: Authority To Incur Expenditure

An Authority to Incur Expenditure (AIE) form (E.N. T. F. 32) is issued in triplicate with copy to the Sub-Treasurer at the paying station. The duplicate will be countersigned by the receiving officer and returned to the issuing office. The A.I.E. must state the nature of the service, the amount allocated and the Head and Sub-Head numbers, and must be entered immediately as a commitment in the D.V.E.A. Book of the issuing office. If an A.I.E. holder wishes to incur expenditure at a station other than that of the Sub-Treasurer to whom the triplicate has been issued, he must produce to the new Sub-Treasurer the original copy of the A.I.E. Officers holding A.I.E.s must comply with relevant provisions of FI.

6.10: Submission of Expenditure Summary to Headquarters

At the close of the last working day of every month, all A.I.E. holders will:

✓ Total the amounts entered in the Voucher Register and remove the original from the book.

✓ Complete the Expenditure Summary from the D.V.E.A. Book in respect of each Ministry from which an A.I.E. has been received; the expenditure by sub-heads must agree with the expenditure by sub-heads as shown in the Voucher Register.

✓ Sign the Voucher Register and Expenditure Summary and forward them, together with lists of all transport warrants (see Chapter 27 FI revised in 2003 for details) issued during the month, to headquarters not later than 5th of the following month. The list of warrants should state the destination and estimated cost of each. The dispatch of these documents should not await evidence of actual payment by the Sub-Treasurer and in no circumstances should the A.I.E. holder insert the Treasury Voucher particulars in the Voucher Register.
CHAPTER SEVEN: AUDITING OF PAYMENTS

7.1: Introduction

All expenditure of public money should be vouched for on the prescribed payment voucher form. Payment Vouchers are to be made out in favour of the person or persons to whom the payment is actually due.

7.2: Particulars on Vouchers

Transactions should be clearly described in Payment Vouchers. Documents referred to on the Voucher should be attached to it when it is submitted to the Sub-Treasury. The following particulars, where applicable, should be quoted on all Vouchers:-

(a) Reference to Contracts

(b) The Treasury Receipt Voucher number (not the counterfoil number), the date and the receiving Sub-Treasury, in cases of withdrawal of a deposit.

(c) The appropriate financial authority for the payment.

For details about types of Payment Vouchers, eligible Forms, Processing and Documentations, please see the Internal Control Manual Section 4.3.

7.3: Signature on Vouchers

Only original of the Payment Voucher will be signed in full by the Officer raising the Voucher, in ink or ball-point pen. Each certificate on the Voucher should be signed separately. Copies should be initialled. The payee should sign the original and initial the duplicate copy. Two copies of an adjustment voucher should be signed in full since one is the original credit and another the original debit.

Specimen Signatures: Specimen of the signatures of all Officers authorised to sign or countersign Vouchers should be provided to all Sub-Treasurers to whom the Vouchers may be presented for payment, and the Internal Audit who does the prepayment audit.

7.4: Alteration on Vouchers

Alteration on Payment Vouchers should be signed in full by the Officer who approves the payment. No erasure or alterations of any kind should be made in the amounts, either in words or figures.

7.5: Responsibility of the Sub-Treasurer Before Payment

A Sub-Treasurer should not make payment against a Payment Voucher:
(a) Unless it is signed and certified for payment by the Officers authorised to do so and whose
specimen signatures are in his possession.

(b) Unless it is signed and stamped “entered in the D.V.E.A. Book and Voucher Register” and
checked and passed for payment by the Internal Auditor.

(c) Unless it bears a classification number. It is not the responsibility of the Sub-Treasurer to check
the correctness of the classification, but if he has reason to consider it incorrect, he may return
the Voucher to the issuing Officer. He should not alter the classification of a Payment Voucher
himself.

(d) If more than three months have elapsed since the Voucher was signed by the Officer controlling
expenditure. See details in FI 0826.

(e) The Vouchers submitted to the Sub-Treasurer for payment should be accompanied by a
Schedule. The Schedule should certify that the Vouchers have been entered into the Vote Book
or other appropriate record of expenditure and the Voucher Register. For details of the
Schedule format and other information, please see FI 0809.

(f) The Station of payment should be stated on the space provided on each Voucher.

7.6: Payment of Vouchers

The following precautions should be taken during payment of duly approved Vouchers:

(a) **Identification:** Payment should be made only to the person or persons named in the Voucher or
a properly authorised representative. The paying officer should be satisfied that the person
being paid is the bona fide payee or his legal representative. The payee should prove his
identity with a valid identification acceptable to the Sub-Treasurer. Identity can also be done by
a responsible member of the department attesting payment, by signing the Payment Voucher
accordingly. Copy of identity or attestation by the paying department should be attached to the
paid Voucher.

(b) **Witness to Payment:** If a payee is illiterate, his mark should be witnessed by a literate Officer
other than the Paying Officer. The Officer should indicate on the Voucher his rank, title and
department.

(c) **Payments to Legal Representatives:** If payments are to be made to legal representatives,
authorities such as a power of attorney or letters of administration should be presented to the
paying officer for inspection, and it should be recorded on the Voucher that such checks took
place before payment.

(d) **Payment to Firms:** If payment is due to a Firm or Contractor, the Sub-Treasurer will, unless
otherwise requested, credit the firm’s bank account with the proceeds of the Vouchers through
bank transfers. After the transfer has been carried out, the payee should be advised to confirm by issuing his Receipt.

(e) Receipt for Payment: The payee should issue Official Receipt as evidence of receiving the amount paid. The Receipt should be attached to the paid documents. Vouchers should not be receipted before payment is actually made. If the Voucher is presented by a Government official to a Sub-Treasurer for the purpose of obtaining cash to make further payments elsewhere, it should be supported by a Cheque or Cash Order Form (E.N.T.F. 25).

(f) Certificate of Payments: If it is difficult to obtain Receipts for petty disbursements, a certificate of payment should be given on the face of the Voucher by the Paying Officer and the signature of a witness to the payment obtained.

(g) Stamp Duty on Receipts: Receipts issued upon payments are liable to stamp duty in accordance with the Stamp Duties Law Cap 120. For the avoidance of doubts, the following payments are exempted from stamp duties:

- Payments for amount below =N=1,000.
- Salaries, duty payments, transport and travelling allowances, refunds of out-of-pocket expenses incurred on duty, advances of salary and all other advances where no personal benefit is derived.
- Payments to an officer in respect of passages by an abnormal route.
- Pensions, gratuities and compassionate allowances.
- Refunds of overpayments to Government, customs drawbacks and customs refunds.
- Imprest reimbursements.
- Payments to Government.
- A duplicate receipt required by Government.

(h) Payment of Large Amount: FI 0818 provides that where payment is above =N=10,000.00, it should be made by cheque. Also in January 2010, the Central Bank of Nigeria (CBN) issued a directive that any payment above =N=10 million should be made by transfers through the bank account of the payer to the payee.

(i) Paid Stamp: The Paying Officer should stamp “Paid” on the original and all copies of the Vouchers he pays, including all attached supporting documents. It should not be in doubt whether such Vouchers have been paid or not.

(j) Stale Vouchers: No Voucher should be paid after three months from the date of issue. Stale Vouchers should be returned under registered cover to the issuing officer with a request that the date be amended. The amendment should be signed in full by the issuing officer.

For further information, please refer to Chapter 8, FI revised in 2003.
CHAPTER EIGHT: POSTING OF TRANSACTIONS TO THE VOTE BOOK (DVEA)

8.1: Introduction

The Vote Book, known as DVEA (Departmental Vote Expenditure Account) or Treasury Book 46 is a book showing the accumulated expenditure and the expended balance from time to time on certain sub-heads of expenditure with reference to the amount provided in the estimate. It also shows in respect of each-sub head, the amount approved in the estimates, all liabilities and commitments as soon as they are known or incurred.

8.2: Sections of the Vote Book

On the top left hand corner are the following subtitles:

(i) Head
(ii) Sub-Head
(iii) Service

On the top right hand corner of the Vote Book are:

(i) Amount authorised for expenditure
(ii) Authority Number

The amount approved in the Annual Estimates for each Sub-Head or the amount released out of the total amount approved in the Annual Estimates for each Sub-Head is posted at the top right hand corner. The Head, Sub-Head and the Service for which that Sub-Head is meant for in the estimate are quoted at the top left hand corner of the Vote Book.

The Vote Book is divided into 15 columns. Columns 1 – 7 which is just a page of the Vote Book is used in recording the expenditure, while columns 8 – 15 which is the other page is used in recording liabilities/commitments.

8.3: Posting in the Vote Book

Once the General Warrant is released or Authority to Incur Expenditure is received, the amount released for each Sub-Head will be posted in serial number. The Vote Book is balanced as each Voucher is posted by adding column 5 to balance in column 6, and subtracting column 5 from balance in column 7 to arrive at the new balance.

If a mistake is made, and there is need to withdraw or cancel a Voucher, the serial number of the Voucher to be cancelled will be recorded under particulars (Line 4) in red ink and the amount in red ink under payment (line 5). The amount to be withdrawn is deducted from the balance in line 6 and same is added to the balance in line 7 to arrive at the new balance.
When an MDA incurs any liability or if there is commitment, it should be recognize in the Vote Book. The reference number on the LPO/Letter of Award is entered in line 8 and the gross amount in line 9. The total amount is entered in line 11.

When there is settlement of liability, the amount is entered in line 10 and subtracted from the total outstanding amount in line 11.
CHAPTER NINE: STORES AND STOCK CONTROL

9.1: Introduction

Stores include all movable property purchased with public funds or acquired by the Government through any other means.

For accounting purposes Stores are of two main classes, namely, allocated and unallocated stores. These classes are further divided into three categories as follows:

(i) Non-expendable Stores, such as Plant and Machinery, Motor Vehicles, Photocopy Machines, Furniture, Electronics, etc.
(ii) Expendable Stores, such as Shovels, Rakes, Paint Brushes, Brooms, etc.
(iii) Consumable Stores, such as Paint, Soap, Beverages, etc.

It is important to keep the value of inventory at the lowest practicable level to minimize the handling and storage costs.

9.2: Classes of Stores Items

There are two types of stores items: Allocated and Unallocated Stores.

(a) Allocated Stores

These are stores items which are purchased for a particular purpose or project. The costs are charged directly to a Sub-Head of Expenditure in which the funds for their purchase are provided in the Estimates. Such store items are issued as requisitions are made and recorded accordingly.

(b) Unallocated Stores

These are store items for which the cost of purchase is not immediately debited to a final vote of charge. Unallocated stores items consist mainly of the following:

(i) Stocks of materials which must be maintained for the execution of recurrent and specific works and for which a final vote of charge would not be stated at the time of purchase.
(ii) Surplus store items returned from completed works or projects.
The following rules also apply in respect of unallocated store items:

- Approval must be received from the Ministry of Finance who would create the Unallocated Stores Account, before it is created.
- The store items should be held in both financial and numerical values and charged to appropriate expenditure sub-head of the respective MDAs when issued out.
- It should be kept separately from Allocated Store Items. Allocated and Unallocated store items should not be mixed up together.

9.3: Services Rendered by Stores

Various services are provided by the Stores to manage and protect the items procured for use in business operations. The services are discussed as follows:

(a) Classification and Identification

Store items should be systematically defined and described for easy identification. It includes the preparation of store code, adoption of material specifications and standardization.

(b) Receipt of Items into Store

This is the process of accepting from various sources; materials, equipment, supplies, plants, maintenance items, capital installations and finished products. All receipt entries in the Store ledgers will be supported by combined Store Requisition/Issue/Receipt Vouchers (Form Store 30). If the stock is conversion or manufactured, Conversion Voucher (Form Store 5) would be used. See details in FI 3401.

(c) Inspection

This process involves the examination of consignments for quality and completeness.

(d) Issue and Dispatch

This is the process of receiving demands, selecting the items required and handing them over to users. FI Section 3501 provides that issues of store items will only be made on the authority of a numbered Combined Requisition/Issued/Receipt Voucher (Form Store 30) signed by an authorised officer of the MDA concerned and countersigned by the Issuing Officer.

(e) Store Accounting

This involves the recording of stock movement and balancing the value. It also includes Stock Control, Stock Taking and Storage. The Internal Auditor should ensure that there is no weakness in the system in practice.
9.4: Storekeeper and His Responsibilities

The Head of Department is responsible for the general supervision and control of Stores and Store Accounts in the MDA. However, he is expected to delegate the function to a Storekeeper, in any designation he may be described in the particular MDA.

The Storekeeper is personally responsible for the following functions:

(i) The checking, handling and storage of items received.
(ii) The checking and packing of items issued, and ensuring that they are delivered only to persons authorised to receive them.
(iii) The restriction of stocks to the limits prescribed.
(iv) The avoidance of waste.
(v) The periodical verification of stock balances with tally cards (in small Stores with ledger balance) and reporting immediately any discrepancies revealed, any obsolete, damaged or deteriorated stores surplus to requirements.
(vi) Ensuring that no article is removed without his knowledge or in any other irregular manner.
(vii) Ensuring that fire-fighting appliances are in good order, reporting immediately any defects.

The Storekeeper is also required to provide basic security to ensure safe-custody of the items in the Store. He should prevent illegal access and ensure that the locks and fastenings are working firmly. He is primarily responsible for the keys to the Store and is not allowed to delegate the duty of locking and opening to any other person.

9.5: Stocktaking

This is counting of physical quantity of Stores (raw materials, finished goods, etc.) at a given date, at least once in a year, usually the year-end, and reconcile with the balances in the stock record. It is also regarded as the complete process of verifying the quantity balances of the entire range of items held in stock. Therefore, stock should be carefully protected, counted and checked in order to avoid or minimize discrepancies. The Internal Auditor as a representative of the Accounting Officer of the MDA that is responsible to ensure that stock taking is properly conducted and that the physical stock items balance with the accounting books.

While conducting stock taking, the store will be closed and issues will not be made. Normal stocktaking should be carried out by at least two officers who will be assisted by one of the Store Officers. The Officer should be provided with Stock Ledger and the individual Bin Cards for each item in the store.

9.5.1: Purpose of Stocktaking

The purpose for stocktaking should include the following:

(i) Verification of the accuracy of stock record.
(ii) Stock items are cash in a different form, i.e. they are vulnerable assets of the organization and must be accounted for.

(iii) To disclose the possibility of fraud, theft or loss.

(iv) To highlight the current value of Stock and to identify items of Stock that is obsolete.

(v) To help in the design of a workable replacement theory.

(vi) To reveal any weakness in the system of the custody and control of stock.

9.5.2: Planning of Stocktaking

For a satisfactory stocktaking, a good deal of preparation is necessary. A programme should be drawn up and agreed with all concerned, including the Finance Department and Internal Auditor.

9.5.3: Procedure of Stocktaking

The following procedure should be observed during the stocktaking exercise:

(i) Assessment of the adequacy of internal control system.

(ii) Where the Store is small, carry out physical count of all items; but where it is a large Store, and then select samples and count.

(iii) Samples collected must include items that are very small, valuable and useful.

(iv) Where there are discrepancies, ascertain the materiality.

(v) Where the discrepancy is not material, request the officer to make it good.

(vi) Where it is material, include it in your report and invite members of the Board of Survey to carry out investigation.

(vii) List separately any goods which have been received but not yet taken into stock.

Viii Show the method of checks, i.e. count weight, measurement or estimation on the sheet for each item.

9.6: Methods and Procedure of Carrying Out Stocktaking

The various methods and procedure for carrying out stocktaking are as follows:
9.6.1: Blind Stocktaking

This is a system whereby the person taking stock is given no prior information about the items, descriptions, store record balances or location of the items he is to check and is not allowed access to stock record or bin cards. This system of stocktaking facilitates reliability, as the stock checker has no prior knowledge of what is supposed to be in stock. The stock checker has to locate and identify stores and is obliged to count every item.

9.6.2: Team Work

A common practice is for stocktaking to be carried out by a Team of people. Some of the reasons for this practice are:

(i) Segregation of duties, i.e. when the quantity is not large, the counting or weighing can be done by one person and the clerical work of recording by the other.

(ii) When two people are concerned, they will largely check each other’s work, thus minimizing errors.

9.7: Records to be provided for Stocktaking

The following records should be made available for stocktaking:

9.7.1: Bin Cards or Tally Cards

To keep a record of the physical stock, the bin cards should be attached. The cards give a description of the items, including the serial number, the unit of issue, quantities received, issued and the balance remaining in the bin card. Every stock item should have its own bin card attached to it. The ledger folio should be quoted on the bin card. All receipts and issues must be entered in the bin card in ink and initialled by the Storekeeper.

9.7.2: Store Ledger

Transactions involving the receipt and issuance of stocks are posted to the Store Ledger. Effective control is maintained through the Store Ledger in the following ways:

(i) Separate ledger should be kept for each store item.
(ii) Individual pages of the ledger should be dedicated for each item in the store.
(iii) The ledger should be recorded both in quantity and value.
(iv) A new ledger should be posted daily and every entry should be supported by a Voucher.
(v) All ledgers should be balanced daily or monthly where a separate column for the purpose is provided in store ledger.
(vi) At the end of financial year, a red line should be drawn immediately below the last entry on each page of the ledger and totals obtained.
9.7.3: **Store Received Voucher (SRV)**

This Voucher is raised whenever there are incoming goods or items placed on order. Any incoming goods to the store are always accompanied with all necessary documents to warrant the issuance of SRV. The SRV contains the following information:

(a) Name of the company or supplier, supplying the goods or items  
(b) Letter of award of contract, supplies or LPO  
(c) Description of items received  
(d) Quantity of items received  
(e) Unit price and total unit price  
(f) Location and date  
(g) Receiver’s and Store Keeper’s signature

The SRV should be attached to the Payment Voucher when the payment to the supplier is being processed. A copy should also be kept in the Store.

9.7.4: **Store Issue Voucher**

This is the Voucher raised whenever a requisition is made and it is supported with the following:

(a) All issues should be supported with Store requisition duly signed by the authorised officer  
(b) All issues should be supported by Store Voucher  
(c) An authorised Issuing Officer may only issue Stock

9.8: **Continuous Stocktaking**

This is a method of verifying stock continuously throughout the year. To do continuous stocktaking, there should be detailed stock records showing receipts, issue and balance on hand. The programme should be designed to count substantial number of the stock items daily.

During continuous stocktaking, there is no need to close down the Stores or works while stocktaking is in progress. The normal posting of receipts and issues on the stock record can continue without interruption. Some appointed, experienced and trained stock takers independent of the Storekeeper can do the work. This process keeps the Storekeeper on his toes by ensuring that all receipts and issues are documented immediately they are made. The Internal Auditor is also kept abreast of what is going on in the store and fraud and theft would be kept to a minimum. The Internal Auditor should ensure that the continuous stocktaking activities do not disturb the work of the storekeeper.

9.9: **Re-order Level**

This is the level of stock at which a further replenishment order should be placed. The re-order level is dependent upon the lead-time, which is when goods are available for use and the demand during the lead-time. Re-order level is characterized with the following:
(a) A pre-determined re-order level is set for each item.
(b) When the stock level falls to the re-order level, a replenishment order is placed.
(c) Maintenance of stock records with calculated re-order levels which trigger off the required replenishment order.

It should be noted that re-order stock level indicates the minimum level before a new order is placed.

Two main factors are involved in deciding the ordering level:

- Rate of Consumption
- The estimated time which will elapse between the raising of a provision demand and the actual availability of goods in Store after receipt and inspection

9.10: Maximum Stock Level

This is a stock level, selected as the maximum desirable, which is used as an indicator to show when stock has risen too high. It is amount expressed in units of issue above which the stock should not be allowed to rise. The purpose of this level is to avoid excess investment, and obsolescence. In fixing a maximum, the main consideration is usually financial, and the figure is arranged so that the value of the stock will not become excessive at any time.

9.11: Minimum Stock Level

This is the amount expressed in unit of issue below the stock of any given commodity should not be allowed to fall. When the level is reached, it triggers off urgent action to bring forward delivery of the next store. In fixing a minimum, the main factor to be taken into account is the effect which a run-out of stock would have upon the flow of work or operation.

9.12: Essence of Maintaining Stock Level

It is important to maintain maximum or minimum stock levels for the following reasons:

(i) There should be no stock-out as it would be embarrassing. Stock-out of official receipts or security documents may lead to loss of revenue which is not in the Government interest.

(ii) There are not too many of certain items in the stock. Certain items especially medical drugs can become obsolete or expire over a short period of time. It is important that just enough of these items are stocked at any particular point in time.

The Internal Auditor has a major role to play in the control of store activities and ensure that:

- Issue and consumption of store item is adequate
- All issues are properly authorised and correct
- Issues are made to the right person and for the purpose authorised
9.13: *Roles of Internal Auditor in Stock Control*

The Internal Auditor should ensure proper accountability of Stock received into the Store by taking the following steps:

a) Store items are properly classified for easy identification and grouping,

b) All Stock received are accurately recorded in the Store Register.

c) Carry out inspection to ensure that Stock supplied are the type, quantity and quality ordered.

d) Stock issued to users are accurately recorded and acknowledged by the receiving officer or department.

e) Check to ensure that Stock Account Balances agree with the physical counts.

f) Participate in Stocktaking to ensure that actual counts are correctly recorded and carried in the books.

g) Check to ensure that stock items recorded in the Bin Cards are correct.

h) Check the Stores Received Voucher to ensure that information contained are accurate.

i) Confirm that the Storekeeper adheres to the Stock Management Policy of the MDA. He should review observance of the Policy to ensure that Minimum Stock Level, Maximum Stock Level, Reorder Level, Reorder Quantity, etc. are maintained by the Storekeeper.

Finally, it should be noted that store and stock control is an aspect of management that should not be taken casually but handled with all seriousness to forestall any losses. The Internal Auditor should regard stocktaking and auditing of stores as a very important aspect of his work because store items are convertible to cash. He should take interest in the operation of the MDA store and ensure proper documentation.
CHAPTER TEN: BANK RECONCILIATION

10.1: Introduction

For every Current Account opened in the bank, the MDA is expected to open its own Cash Book, to serve as a mirror of the bank account. The entries in the bank statement should be recorded on the opposite side of the MDA’s Cash Book. For instance, if the MDA has money in the current account, the bank account balance would be on credit, since the bank regards the MDA as a creditor. On the other hand, the MDA’s Cash Book would show a debit balance, as the bank is a debtor to them.

10.2: Definition of Bank Reconciliation Statement

Bank Reconciliation Statement is a calculation performed to balance what is in the MDA’s Cash Book to what is on the Bank Statement.

Bank reconciliation, if well carried out will confirm that there are no errors in the Cash Book or in the Bank Statement.

10.3: Objectives of Bank Reconciliation

The main objectives of preparing Bank Reconciliation Statement are as follows:

(i) To give account of the differences between the Cash Book and Bank Statement.

(ii) To explain the errors committed in either the Cash Book or the Bank Statement.

(iii) To verify any wrong transaction posted into bank statement or cash book during the period under review.

(iv) To ascertain the credit to the bank account, i.e. interest received during the month, or year under review.

(v) To ensure that all lodgements are correctly entered into the bank statement and Cash Book.

10.4: How to Prepare a Bank Reconciliation Statement

A Bank Reconciliation Statement is prepared to reconcile the bank column in the Cash Book with the Statement of Account received from the bank at the end of every month. Documents required for preparation of Bank Reconciliation Statement are as follows:

(i) Cheque Summary Register
(ii) Cash Book updated to the bank statement date
(iii) The Cheque stubs
(iv) Monthly Bank Statements

10.4.1: Procedure for Preparing Bank Reconciliation Statement

Bank Reconciliation Statement in the Public Sector starts with the Balance in the Cash Book to which are added Unpresented Cheques and Receipts credited to the Bank Account but not recorded in the Cash Book. While Payments by the Bank but not recorded in the Cash Book and Receipts in Cash Book not in Bank Account, i.e. Uncredited Cheques are deducted. The resultant balance should agree with the balance in the Bank Statement. In this case there is no adjustment to the Cash Book before the Reconciliation Statement is prepared.

A specimen format is shown in Table 2 as follows:

**MINISTRY OF XYZ**

Bank Reconciliation Statement as at 31/3/2010

<table>
<thead>
<tr>
<th>Details</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as per Cash Book as at 31/3/2010</strong></td>
<td>000</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>* Unpresented Cheques</td>
<td>00</td>
</tr>
<tr>
<td>* Direct Receipts in Bank not in Cash Book</td>
<td>00</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>* Uncredited Cheques</td>
<td>00</td>
</tr>
<tr>
<td>* Direct Payments in Bank not in Cash Book</td>
<td>00</td>
</tr>
<tr>
<td><strong>Balance as per Bank Statement as at 31/03/2010</strong></td>
<td><strong>0000</strong></td>
</tr>
</tbody>
</table>

Table 2: Bank Reconciliation Statement Format

10.4.2: Illustration

The Cash Book Balance of Ministry of Wealth as at 31/03/2010 is $\text{₦}750,000\text{(Dr)}$. However, the Bank Accounts Statement reads $\text{₦}1,004,750\text{(Cr)}$. On investigation the following were discovered:

(i) Cheques Nos. 00321 and 00326 for $\text{₦}5\text{M}$ and $\text{₦}15\text{M}$ respectively were not presented to the bank for payment by the payee.

(ii) Direct Lodgement of Taxes $\text{₦}250\text{M}$ was not reflected in the Cash Book.
(iii) Money remitted to the bank amounting to \( N=15M \) was not credited before the statement was issued.

(iv) Bank Charges of \( N=250M \) is yet to be reflected in the Treasury Cash Book.

You are required to reconcile the balances, i.e. the Bank Account and the Cash Book

**Suggested Solution**

**MINISTRY OF WEALTH**

Bank Reconciliation Statement for The Month of March 2010

<table>
<thead>
<tr>
<th>Details</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as per Cash Book</td>
<td>( N=750,000 )</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>* Unpresented Cheques</td>
<td>20,000</td>
</tr>
<tr>
<td>* Direct Lodgement of Taxes</td>
<td>250,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>* Uncredited Cheques</td>
<td>(15,000)</td>
</tr>
<tr>
<td>* Bank Charges</td>
<td>(250)</td>
</tr>
<tr>
<td>Balance as per Bank Statement as at 31/03/2010</td>
<td>( 1,004,750 )</td>
</tr>
</tbody>
</table>

**Table 3: Worked Example of Bank Reconciliation Statement**

10.5: Reasons for Differences between Cash Book and Bank Statement

The main reasons for differences between the Cash Book and Bank Statement are as follows:

(a) Cheque not yet cleared (timing differences)
(b) Bank Charges i.e. Commission or Turnover
(c) Interest on Investment
(d) Standing Order (Insurance Premium, etc.)
(e) Direct Credit (Dividend to Shareholders)
(f) Bank errors and MDA errors
(g) Inter-account transfer (timing difference)
(h) Unpresented Cheques
10.6: Roles of Internal Auditor in the Reconciliation of Bank Statement

The Internal Auditor should be meticulous in carrying out the following duties regarding the reconciliation of bank statement:

a) He should review the basis of calculating bank charges by the banks to ensure accuracy.

b) He should monitor to ensure that unreconciled items are promptly investigated and cleared by the Officers responsible for the transactions.

c) He should monitor to ensure that the Sub-Treasurer reconcile their bank accounts against the Cash Book on a weekly and monthly basis. He should also confirm that the certificate of bank balances showing outstanding cheques and credit slips, including the explanation of variations are issued and signed by the Bank Manager on a monthly basis.

d) He should verify and confirm that the Account Officers prepare and send the Bank Reconciliation Statement monthly to the OAG at the appropriate time. Failure to comply should be noted as exception and reported accordingly.

e) The Internal Auditor should verify and confirm that the format of the Bank Reconciliation Statement adopted by the MDA is in standard format. Please see standard format in Table 2.

The Internal Auditor should demand for the age analysis of outstanding items in the Bank Reconciliation Statement and carry out thorough reviews of very old ones.

10.7: Conclusion

The preparation of Bank Reconciliation Statement is the job of the Accounts Department. The Head of Accounts should make sure that Bank Statements are collected from the bank or arrange for the statement to be delivered either physically or electronically at the beginning of each month.

Bank Reconciliation should be prepared on a monthly basis to make sure that errors are communicated to the bank early for correction.

In Agencies where lodgements are heavy and on daily basis especially in Revenue Generating Agencies, weekly bank summaries may be required so that “ticking off” can be done on a weekly basis.

It is the duty of the Resident Internal Auditor to check the Bank Reconciliation Statements on a monthly basis and all observations stated in his report. In heavy revenue collections agencies or centres, the Internal Auditor may be required to carry out a daily “ticking of” to ensure proper and timely recording of collections.
CHAPTER ELEVEN: AUDITING OF PAYROLL SYSTEM

11.1: Introduction

Enugu State Government operates a computerised Payroll System. Under the Computerised Payroll System, Account is opened for every staff, controlled by the Staff Number. The important information that should be updated in every Staff Account in the Payroll System includes the following details:

- Name of staff
- Staff Personnel Number
- MDA Number
- Description of MDA and Unit
- Date of Appointment
- Whether the staff is on Contract, Full time or Part Time employment
- Salary Grade Level and Step
- Staff Status (whether Senior or Junior)
- Basic Salary
- Other Allowances
- Bank Account Number and Code, etc.

All these are vital information that the Computer Section in the Central Pay Office would require to create and update the Payroll Account of each staff.

Staff Payroll Account is updated when the following occurs:

- Promotion to Higher Levels with change in Salary
- Annual Salary Increment
- Change of Name
- Annual Bonus Payment
- Off Payroll Payment
- New Appointment
- Short-Payment or Over Payment
- Bank Account Number of Staff
- Deductions from Salary, etc.

It should be noted that Staff Salary Account must be updated on the effective dates of Annual Salary Increment, or at the beginning of new financial year.

11.2: General Payroll Procedure

The following processes and procedure applies in the Payroll Administration of ESG:

a) Each MDA is responsible for preparing their Payroll, which is handled by Finance & Accounts Department.
b) At the beginning of every month, Finance & Accounts would prepare the Variation Control and then the Payroll and send to Internal Audit for checking.

c) Payroll would sign, Director of Finance & Accounts would countersign while the Permanent Secretary would approve the processed Payroll.

d) Finance & Accounts would then send the processed Payroll to Accountant-General’s Office for defence and verification.

e) The Salary Section of the Accountant-General’s Office would then send the approved and verified Payroll of the MDAs to the Computer Section of the Ministry of Finance to consolidate.

f) Pay Slips would be printed by the Computer Section for each MDA after processing the consolidated Payroll.

g) The Pay Slips are then returned to the originating MDA for distribution to staff.

h) Payroll in each MDA would produce the Schedule of Payments or Bank Schedules, in addition to Payment Vouchers according to the Bank Schedule, and submit to the Accountant-General’s Office along with other Payroll documents.

i) The Schedule of Payment and Payment Vouchers would be sent to the Accountant-General Internal Audit Section for Verification and Stamping.

j) The Salary Section in the Office of the Accountant-General would produce the Schedule of Payment.

k) The Schedule of Payments and Payment Vouchers, with an application for approval, would then be sent to the Accountant-General Office for approval, issuance of Cheques and Payment into the Paying Bank, which now pays other Banks for crediting of staff accounts.

l) The Accountant-General’s Office would then send the Cheques or Bank Transfers with the Schedule of Payments to the respective Banks for crediting of staff bank accounts.

m) Staff can now draw their money.

11.3: Examples of Updates Carried Out in the Payroll System

The following are some examples of updates that could be carried out in the Payroll System:

11.3.1: Off Payroll
An Officer who disengages from service would have his Salary stopped in the Payroll System. Final payments would be processed and paid off payroll.
11.3.2: Short-Payment

An Officer who observes short-payment could apply for refunds and correction in writing, approved by the Head of his MDA. All relevant documents like copy of the current pay slips and appointment or last promotion letters should be attached. The short-payment could also be as a result of non-implementation of annual increment. The Auditor should confirm that indeed the Officer had been short-paid by examining necessary documents and carrying out recalculations.

11.3.3: New Staff Emolument

The Internal Auditor should review the Offer of Appointment Letter or Gen 69C. Details of the conditions of service applicable to the new staff and the Salary Grade Level with Steps offered should be reviewed and confirmed in the computerised Payroll System.

The following procedure should be observed regarding new staff employed into the Service:

a) MDA is allowed to employ staff on GL 01 – 03 and issue Offer of Appointment Letter, i.e. Gen 69.

b) GL 04 and above are employed by the Civil Service Commission (CSC), who would issue Gen 69.

c) Upon assumption of duties in the MDA, the Director of Admin and Supplies on behalf of the Permanent Secretary would issue Gen 69C to the staff and send a copy to Finance and Accounts for processing the salary and allowances. Gen 69C and salary commences on the date of attending Medical Examination.

d) Details about the new staff salary, allowances and other payments are entered in the Payroll.

e) Payment of salary would commence, in most cases, after three months. All the arrears for three months would be paid with the first salary.

The Internal Audit should ensure compliance with the above procedure.

11.3.4: Annual Increment

a) Increment is done twice a year, i.e. January and July.

b) Those employed after 1st January but before 1st July would get their annual increment on 1st July of every year. Those employed after 1st July but before 1st January would get their annual increment on 1st January of every year.

c) Under the elongated salary structure, annual increment is awarded to staff every year by Payroll by moving the staff from one step to the next step automatically. However, if the staff has disciplinary measure or action, the Permanent Secretary can issue a written instruction to defer or withdraw the annual increment of the staff.
d) Approved steps movement per Grade Level are as follows:

- GL 01 – 10; Steps 1 – 15; step 15 is the bar, unless by executive fiat.
- GL 12 – 14; Steps 1 – 11
- GL 15 and above: Steps 1 – 9

e) A staff that gets to the bar of the steps would remain there and be earning the same salary.

**11.5: Promotion and Advancement**

a) A Junior Staff, i.e. GL 01 – 04 who spend a minimum of two years in their grade would be required to pass the Confirmation/Promotion (COMPRO) Examination before promotion to the next grade level, depending on the level of pass in the examination. If the score is PP (Pass Promotion), the staff would be confirmed and promoted. If the score is PC, the staff would be confirmed only, and not promoted.

b) Middle cadre staff, i.e. GL 06 – 14 would remain in the same GL for minimum of three years before being considered for promotion. Staff in this category would write promotion examination and appear before promotion oral interview panel. Those who score 50% and above would be promoted to the next level.

c) Senior Cadre staff, i.e. GL 15 and above would remain in the same GL for minimum of four years. Promotion examination and oral interview is also required, but pass mark is 60% and above.

d) Promotion is done by the CSC who would send notification to the MDA.

e) The Permanent Secretary would then direct the Director of Admin & Supplies to issue Gen 35 to notify the staff officially of the promotion, and send a copy to Payroll to update the salary with the new GL.

f) Payroll would compute the Salary, including any arrears.

**11.6: Voluntary Resignation from the Service**

Staff that wants to resign from the Service voluntarily should observe the following procedure:

a) Send his resignation letter to the Permanent Secretary of his MDA.

b) The resignation letter is forwarded to the Civil Service Commission who will issue approval letter to the staff through the MDA.

c) Staff would get a copy of the approval letter and use it to process his terminal benefits.
11.7: Monthly Payroll Control Sheet

Each MDA should prepare a Monthly Payroll Control Sheet (summary), showing the following details:

(i) Serial Number  
(ii) Unit  
(iii) Staff Number  
(iv) Name of Staff  
(v) Net Amount Payable  
(vi) Remarks

The importance of using the Control Sheet is to provide a summary of the Payroll, to facilitate final reviews and effect payments to Staff bank accounts. The Control Sheet should be checked by Internal Audit and attached to the detailed Payment and send to the Accountant-General’s Office in a Lock Box for further processing and payment. The idea of Lock Box is additional control to ensure that nobody tampers with the approved Payroll once it leaves the MDA. Under this procedure, one of the Keys would be kept at the AG’s Office while the Director of Finance in the originating MDA would retain one. When the Payroll is to be dispatched to the AG’s Office, it would be locked in the Box, while the schedule officer in the OAG would use his key and open the Box.

11.8: Internal Control over Payroll

Fraud is an inherent risk in every Payroll System. However, it could be curtailed if proper internal controls procedures are put in place. To be able to appraise controls in a proactive manner, the Internal Auditor should be aware of some risks and dangers common with Payroll. These risks are discussed in the subsequent paragraphs.

11.9: Common Payroll Risks and Dangers

The common Payroll risks and dangers comprise of the following:

a) Inadequate piece work record, enabling employees to receive pay for work not done, especially where the employees are paid on piece-work rate basis. This is applicable to Casual or Contract Staff who perform special assignments, e.g. in the Forestry Department.

b) Inadequate timing records resulting in employees receiving pay for time not worked, if employees are paid on hourly basis, or overtime claims.

c) Errors in preparation of the Payroll.

d) Fraudulent manipulation of the Payroll, resulting in cash being drawn in excess of actual requirements.

e) Leaving ex-employees on the Payroll and pocketing their pay.

f) Over-casting the gross and net column in the Payroll and embezzling the difference.
g) Failure to handover or remit deductions.

h) Misappropriation of unclaimed wages and salaries of ex-employees.

i) Deliberate duplication of employees names in the Payroll.

j) Including ‘ghost or dummy’ employees in the Payroll and embezzling the difference.

To prevent or minimize all these anomalies, a good internal control system should be put in place, which would in the absence of collusion, ensure adherence to laid down rules and regulations. The Internal Auditor should be familiar with the amount of Salaries usually paid on a monthly basis so that when there is variation, the difference should be explained.

11.10: Objectives of Internal Control System over Payroll

The objectives of a sound internal control system over Payroll include the following:

(i) To ensure that only bona fide employees are remunerated for services rendered at the authorised rate of pay.

(ii) To ensure that all Wages and Salaries are computed in accordance with records of work performed, whether in respect of time, output or attendance.

(iii) To ensure that calculations in Payroll is error-proof.

(iv) To ensure that payments are made to only bona fide employees.

(v) To ensure that payroll deductions are correctly accounted for and paid over to appropriate quarters.

(vi) To ensure that all Payroll transactions are correctly recorded in the books of account.

11.11: Essential Internal Control System over Payroll

A good internal control system should be put in place around Payroll to ensure that no opportunity is created for fraud or errors to take place. Necessary measures that should be taken are discussed further explained below:

11.11.1: General Arrangements

The following general arrangements should be made:
a) Staff working in the Payroll Operations should be adequate to create the atmosphere for segregation of duties.

b) There should be segregation of duties among the staff in the Payroll Operations.

c) There should be someone who authorises the engagement and discharge of employees at a senior level.

d) A senior official should authorise the change of rates or basis applied in calculating wages.

e) There should be clear process of authorising advancement and promotions.

f) There should be clear process of recording and notifying Accounts Department of changes in Personnel profile and emoluments.

g) There should be designated senior officer who authorises the deductions from staff salaries and its proper treatment.

h) Basis of calculating payments should be scrutinised and verified (e.g. for time wage basis attendance register should be verified).

i) There should be designated officer that authorises pay advance to staff.

j) There should be staff designated to deal with salaries and wages queries.

11.11.2: Preparation of Payroll

The following controls should be put in place in the preparation of Payroll:

(i) There should be source records for compilation of Payroll, which should be attached as supporting schedule.

(ii) There should be identifiable officers responsible for preparing Pay Sheets, checking Pay Sheets and approving Pay Sheets.

(iii) There should be procedure for preparing pay advice.

11.11.3: Payment of Wages and Salaries in Cash

Sometimes, there could be need to pay staff salaries in Cash. During staff audit or payment of wages to Casual or Contract Staff, settlement could be done in Cash. The following additional control measures should be taken while making payment of Wages and Salaries in Cash:
(i) There should be safety measures when collecting the bulk Cash from Bank, such as Police Escort and a Bullion Van.

(ii) Pay Officers or Packing Officers should not be same as those who prepared the Pay Sheets.

(iii) Designated pay points for each section or unit in the MDA should be advised, and different staff should be assigned to each point.

11.11.4: Deduction from Salaries and Wages

Control measures that should be made on deductions from salaries and wages are:

(i) The calculations of deductions should be error-proof.

(ii) Deductions should be forwarded to appropriate quarter, immediately after payment.

(iii) Report of deductions and remittances of deductions should be prepared by the Pay Office. The Internal Auditor should get a copy of the report, for reviews and validation.

11.11.5: Additional Checks to Be Carried Out

Further checks that should be carried out comprises of the following:

(i) There should be separate employee records in the Personnel Department with which the pay list would be compared.

(ii) There should be reconciliation to explain changes in total Payroll and deductions.

(iii) The Internal Auditor should carry out surprise investigation of Payroll records and procedure.

(iv) The Internal Auditor should carry out backward tracing of Payroll to validate previous payments.

11.12: Payroll Summary from Central Pay Office

After updating the Payroll Computer System at the AG’s Office, a Payroll Summary should be printed and sent to the Internal Auditor for cross-checking. If the information from the Payroll from all the MDAs have been correctly consolidated by the Central Payroll in the AG’s Office, the Internal Auditor would stamp and sign, and return to the Central Pay Office to proceed with payment. If there are corrections to be made, the Payroll Summary would be amended. The corrections would then be effected by the Central Pay Office in the Payroll Computer System before payment.
11.13: Role of Internal Auditor in Checking the Payroll and Variations Sheet

Internal Auditors are required to check the Payroll and Variation Sheet meticulously. Specifically, the following areas should be properly checked:

i) Variations for new staff should be checked carefully and cross-referenced to their letter of appointment.

ii) Changes in staff emoluments should be carefully checked and confirmed by the Internal Auditors. Such changes should be explained and the approval documents obtained and confirmed.

iii) Variations arising from annual increment, promotions with new salary level, advancement with new salary level, payment of lump sum allowances, reimbursements, etc. should be meticulously checked and the approval documents obtained.

iv) The audited documents should be stamped and signed by the Internal Auditor to signify that the appropriate checks have been carried out.

v) The audited and stamped Payroll, Variations and other supporting documents should be despatched to the Central Pay Office in the AG’s Office in a Locked Box. This box should only be opened by the Central Pay Office with the duplicate key in their possession.

vi) When the Payroll Summary is received from the Central Pay Office, it should be checked against the Monthly Payroll Control Sheet to ensure that the information captured by the Computer Operator into the Payroll System is correct as approved. If there is correction, the corrected Payroll Summary should be returned to the Central Pay Office for update of the Computer Payroll System.

vii) The final Payroll Summary which is used to pay staff salaries into the bank should also be reviewed by the Internal Auditor to ensure that there are no changes along the line before payment.
CHAPTER TWELVE: AUDIT OF DEDUCTIONS AT SOURCE

12.1: Definition

Deductions at source, also known as On-Payment deductions, are legitimate obligations which the payee is liable to pay to the government or other approved organisations. Government Contractors or Suppliers of goods and services, and Civil Servants are often required to make such payments, deductible from amounts due to them or monthly salaries.

On-Payment deductions are made in two categories of payments.

12.2: Other Charges On-Payment Deductions

These are statutory deductions from on-payments due to Contractors/Suppliers of goods and services. They are:

   (i) 5% Withholding Tax from eligible Payments due to Individuals and Unincorporated Companies
   (ii) 5% VAT from eligible payments due to Individuals and Unincorporated Companies
   (iii) 5% Withholding tax and 5% VAT from eligible payments due to Limited Liability Companies.
   (iv) 5% Retention fee (where applicable)

These are calculated as a percentage of the total or gross sum.

12.3: On-Payment Deductions from Staff Emoluments

These are deductions from salaries and allowances paid to the employees which include:

   (a) PAYE on government employees’ emoluments
   (b) Housing Loan
   (c) Allocation of Staff Quarters in Lieu of Housing Allowance
   (d) Car Refurbishment Loan
   (e) Share Purchase Loan
   (f) Private Loan Repayment
   (g) Co-operative Societies Contributions
   (h) Civil Service Union Dues
   (i) National Housing Fund (N.H.F.)
   (j) National Health Insurance Scheme (NHIS)
   (k) Pension Fund (P.F.)
   (l) Union and Association Dues; etc.

Salary On-Payment deductions can be divided into four main categories as follows:

   a) Statutory deductions from staff salary, i.e. P.A.Y.E.
b) Salary On-Payment deductions from benefits provided by the government to the employees either in the form of loans or in lieu of certain allowances; e.g. Housing Loan, Share Purchase Loan, Car Refurbishment Loan, Allocation of Staff Quarters in lieu of Housing Allowance, etc. The repayment is usually on instalment basis.

c) Salary On-Payment deductions in the form of Association Dues or Union Dues and any private loan routed through the government Payroll system, e.g. Quick Cash, etc. Deductions are made from those who are members of such associations, unions, etc. These include Co-operative Societies contributions, private loan repayment, Civil Service Union dues, Association Dues such as Medical Guild, Association of Secretaries and Stenographers, etc.

d) Some other Salary On-Payment Deductions include National Housing Fund (N.H.F.), Pension Fund (P.F.), etc. These are savings by the employees for the future.

Apart from the (a-b) above, all other Salary On-Payment deductions do not accrue to the government but to the different societies, associations, and other private Financial Institutions that give out loans to government employees.

12.4: Processing of On-Payment at the Accounts Department

It is the duty and responsibility of the Accounts Department to ensure that the following actions are taken:

(i) That the deductions schedules are sorted into the various heads contained therein, and Payment Vouchers prepared for every head total.

(ii) That Cheques are written in accordance with every bit of information contained in the Schedules for the particular deduction especially the amount of the collated schedules.

(iii) That Payment Vouchers are recorded in the Salary Ledger and Salary Register.

(iv) That Cheques are made readily available to the beneficiaries through a responsible Officer.

(v) That Cheque Release Register and the Payment Vouchers are duly signed by the recipients or their accredited representatives.

(vi) That Union or Co-operative Receipts are collected from Payee or their representatives as an additional evidence of Cheque collection.

(vii) Put up where necessary Adjustment Voucher e.g. P.A.Y.E.

12.5: Audit of On-Payment Deductions

The responsibility and duty of the Internal Auditor among others include the following:

(a) Collection of copies of the Deduction Schedules
(b) Collation of the deductions and arranging them category by category
(c) Adding the collated schedules together to get the total figure
(d) Adding the total On-salary Schedule to the total On-Deduction Schedules and compare with the remittance received, to ascertain that it is correct.
(e) To ensure that Vouchers are prepared for each category of deduction.
(f) The Auditor should then stamp and sign and record the Vouchers in his Audited Vouchers Register.
(g) To ensure that records contained in the deduction register tally with Auditor’s records.
(h) To ascertain that all the cheques are collected by the beneficiaries
(i) To ensure that Cheques released are acknowledged by the Payee’s representatives by signing

The Auditor should monitor to ensure that the Cheques are released to the authorised Payees.

12.6: Processing of On-Payment Deductions at the Treasury Office

This is further sub-divided into Contractors On-Payment deductions and Salary On-Payment deductions:

12.6.1: Contractors On-Payment Deductions

The MDA that awards the contract will prepare the Payment Voucher for the value of the deductions along with the contract sum and submit at the Treasury Office for payments. These deductions accrue to the Federal and State Governments as follows:

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Type of Deduction</th>
<th>Beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5% Withholding Tax on Individuals and Unincorporated Companies</td>
<td>State Government</td>
</tr>
<tr>
<td>2</td>
<td>10% Withholding Tax on Limited Liability Companies for eligible services</td>
<td>Federal Inland Revenue Services (FIRS)</td>
</tr>
<tr>
<td>3</td>
<td>5% Value Added Tax (VAT)</td>
<td>FIRS</td>
</tr>
<tr>
<td>4</td>
<td>Other Levies introduced by the State Government</td>
<td>State Government</td>
</tr>
</tbody>
</table>

Table 4: Taxes Deducible from Contractors Payments

The sum is deducted on the contract sum when the Contractor or Service provider is being paid to mobilize him to commence work on the Project.
12.6.2: Salary On-Payment Deductions

These are deductions from monthly salary such as:

- Car Refurbishment Loan
- Housing Loan
- Rent Loan
- Union Dues
- Association Due
- Co-operative Contributions
- Pay-AS-You-Earn (PAYE) Tax
- National Housing Fund (NHF)
- Pension Fund (PF)
- Salary Advance, etc.

Cheques for on-payment deductions are issued based on the information contained in the On-Payment Deduction Schedules.

12.7: Duties of Internal Auditor Over On-Payment Deductions

The Internal Auditor must ensure that there are adequate controls on the processing and release of On-Payment cheques. He should ensure that all the activities enumerated above are effectively carried out.

12.7.1: Checks of On-Payment Deductions Over Other Charges

The Internal Auditor should:

(i) Check the Payment Vouchers from the originating MDA to ascertain the actual amount and the type of deductions made.

(ii) Check the list of Cheques written at the Treasury Operations and reconcile with the Cheques collected, and also reconcile with the Receipts given out by the Investment Unit.

(iii) Check the Tellers for payment to the bank and agencies. Note the date of collection from Treasury Operations and the date payment is made to the bank and agencies. Any lateness in payment should be queried. This is to forestall loss, staleness or possible sharp practices.

(iv) Sight the letter of introduction from the different corporate bodies introducing their representatives authorised to collect the Cheques and issue Receipts. This process would ensure that the Cheque is delivered to the right person and that fraudsters kept away. If the defined process is observed by Treasury Operations, it would absolve them of blame fraud or any incident occurs.

(v) Ensure that all the Receipts for every month are received.
(vi) Sight all the Receipts in hand and note those that are yet to be received (if any). The Auditor should follow up to ensure that all Receipts are eventually received.

12.7.2: Checks of On-Payment Deductions Over Salary

The Internal Auditor should carry out the following functions:

(i) Collect a copy of the Monthly On-Payment Schedule direct from Treasury.

(ii) Confirm the arithmetical accuracy of the On-Payment Cheques written by Treasury Office and compare with the amount in the Deduction Schedule. This will ensure that there are no omissions, errors or fraud.

(iii) Ensure that the amount written in the Cheques are correct.

(iv) Ensure that all the cheques are recorded in the Cheque Release Register and those cancelled are marked cancelled and or perforated. The wasted Cheques should be attached to the Cheque Stubs and kept safely. The cancelled Cheques and the Cheque Release Register are kept safely, and produced upon demand by external Auditors or for other purpose.

(v) Ascertain that all the Cheques are collected by the actual beneficiaries.

(vi) Ensure that Cheques released are signed for, and Receipt collected from the beneficiary.

(vii) Sight and ensure that cheques not yet released for the month are safely kept. The Auditor should note these cheques and trail them by checking regularly until they are eventually released to the Payee. If there are any uncollected cheques for a long period of time, the Auditor should recommend payment into government purse where the beneficiary can claim the money in future. This is to forestall loss, staleness or any possible sharp practices.

(viii) Confirm the payment to government purse and sight the Treasury Receipt.

(viii) Sight the Letter of Introduction from the Association, Union, etc. introducing their representatives authorised to collect the Cheques on their behalf. This will ensure that not just anybody can pick the Cheque and issue Receipt. It will also keep fraudsters away, and thirdly it will assuage the Treasury Operations of blame in case of any fraud committed by the designated representative(s).
CHAPTER THIRTEEN: PERSONNEL AUDIT

13.1: Introduction

Public Sector is usually the largest employer of labour in the economy. Due to this large number of employees maintained in the Payroll, there is a major risk of carrying the name of workers that do not exist. This is referred in some cases as “ghost workers”. In this situation, salaries meant for the ghost workers are converted for personal gain by the government officials in the Payroll Section.

Generally, Payroll system is susceptible to fraud, which could be carried out over a long period of time. It may start with a small amount, and graduated little by little, till it grows to a significant amount. Therefore, this is an important area that should attract the special attention of the Internal Auditor.

13.2: Staff Audit

This is a conscious effort to determine the actual number of employees in an organisation at a particular time. It is carried out to ensure that the name of employees in the Payroll represent people actually working in the MDA. Staff Audit is frequently undertaken in the public sector, especially in MDAs with large number of employees, as the overall boss may not know everybody under his supervision. Staff Audit goes further to classify personnel by function, to show whether there is over-staffing or under-staffing. Usually when an MDA suspects that there are ‘ghost’ or ‘dummy’ workers in the Payroll, then a staff audit would be carried out. It is also recommended where the MDA is over-staffed or if there is a sign of under-utilisation of personnel in some departments. With this measure, optimal staff strength would be determined to assist in addressing the Human Resources allocation problem.

13.3: Internal Audit Reviews to Detect Under-Staffing Situation

Possible internal control issues that may arise from understaffing are discussed in these paragraphs.

13.3.1: Segregation of Duties

This review is carried out to ensure that there is checks and balances in the day-to-day transactions that operate continuously in the various sections of the MDA. As part of the routine system, the work of one person should be proved independently or complemented by the work of another, so as to prevent or detect early possible errors and frauds. This is referred to as segregation of duties.

The Internal Auditor should carry out reviews to ensure that the following duties are segregated as much as possible:

(i) Authorisation
(ii) Execution
(iii) Custody
(iv) Recording
(v) Cash handling
(vi) Posting into the Computer

However, with understaffing, the tendency of compressing these roles into one or few hands will be high. The inherent risks should be pointed out in the Audit Report.

13.3.2: Incompetence and Low Performance of Staff

Assigning the right calibre of Officers to organisational tasks becomes practically impossible. Possibility of having round pegs in square holes increases. For instance, a Cleaner may double as Filing Clerk, or a Secretary doing the work of a Cashier. The symptoms to watch out by the Internal Auditor are low productivity, administrative bottlenecks, corruption, inefficiency in managing resources, delays in processing transactions, etc.

13.3.3: Supervision

When senior officers are directly involved in primary assignments which they supposed to supervise, it is a sign of under-staffing. In this instance, it could be observed that responsible officers are personally involved in the operations of examining books and records, e.g. Revenue Registers and Receipt Booklets, Vote Books, Cash Books, Cheque Stubs, etc. If this situation occurs, there would be no segregation of duties, and no direct supervision of a higher authority, which is a breach of control. The Internal Auditor should pick this development as exception and reflect it in his Audit Report.

13.3.4: Personnel Control Measures

Some measures usually introduced to ensure personnel control include the following:

(i) **Staff Identification Numbers**: Every staff of the MDA should be given a unique number which should identify him in the MDA. The number should run serially and indicated in documents signed by the staff and in official forms completed by such personnel. The Staff Identification Number should be indicated in the Payroll system. The Internal Auditor should check against duplications, disengaged staff and numbers out of pattern.

(ii) **Staff Identity Card**: All staff of the MDA should be given a standard Identity Card, for identification purpose. The Identity Card should contain the name of the employee, passport photograph, staff identification number, position in the MDA, signature of staff, and the signature of Head of the MDA. The staff identity card should be renewed from time to time as the Head of the MDA is changed. The Internal Auditor should note the unique features of the identify card and the authorised signatory who signs on behalf of the MDA.

(iii) **Appraisal Form**: Performance of staff should appraised, semi-annually and annually. The appraisal should be done in an official Appraisal Form. There should be one Appraisal Form per staff, so that the staff would make his comments and sign. All recommendations for increment or promotion should be done in the Appraisal Form. The Internal Auditor should refer to this document while carrying out personnel audit.

(iv) **Attendance Register**: Every Section or Unit in the MDA should maintain Attendance Register. Staff should be required to sign in the morning when they arrive in the office for work, and
before they go home after closing from work. This would keep a log of attendance of staff that works in the MDA on a daily basis and form additional basis for personnel audit by the Internal Auditor.

(v) **Staff List Report**: Every MDA should prepare updated Staff List on a monthly basis. New staff should be added while disengaged staff are deleted. This document should be circulated to the Head of MDA and Senior Management of the MDA. The Report would provide useful guide while carrying out personnel audit by the Internal Auditor.

(vi) **Organisation Chart**: All staff in the MDA should be reflected in the Organisation Chart. Staff should also be identified by the function they perform in the Chart. The Internal Auditor should refer to this document while carrying out personnel audit of the MDA.

13.4: Personnel Audit Procedure

There are two main approaches to personnel audit.

13.4.1: The Vouching Approach

Under this approach, employees are paid in cash by hand, with all the employees of each department paid on a particular day. The vouching approach is very tedious, hence it is done periodically. In using this approach, it is essential that every employee presents proper organisational identification particulars, e.g. Identity Card, Appointment Letter, Letter of Last Promotion, preceding month pay slip, etc. to qualify for payment. The Internal Auditor should scrutinise the identification documents to ensure authenticity.

13.4.2: System Audit Approach

In this approach, the Auditor checks the sample of names in the Payroll with the nominal roll from the Personnel Department, as independent evidence that the staff is currently in employment. The Internal Auditor should continually do this, ensuring that the sample covers all sections or units of the MDA. The Auditor should obtain updated nominal roll monthly from the Personnel Department and the list of disengaged as a reference document for validating the current particulars of employees.

Where payment is made both by hand and in cash, the Auditor should attend and observe the payment of wages; how receipt of payment is acknowledged (usually by signing or thumb-printing) and tracing a sample of such acknowledgement through the Personnel Department record, comparing it with specimen signature held on records. The Auditor should also note all unclaimed wages, take down the names of employees concerned. He should follow up on the position of the unclaimed salary until it is claimed. Signature of the staff who claimed the salary should be compared with the one in the personnel record. Where the salary remains uncollected for about three months, it should be paid back to the Treasury. The Internal Auditor should then carry out further investigations on the state of the staff whose salaries were returned to the Treasury and issue a report to Management of the MDA.
13.5: Payroll Procedure

Payroll procedure involves the computation of the gross pay of employees from such records as the appointment letter, job cards, time sheet, etc. Then the net pay is determined by computing and effecting all deductions such as:

- Income tax,
- Official house rents,
- Staff Loan Repayment
- NHIS
- Union dues, etc.

Non-taxable allowances are added to obtain the take-home pay of employees. The pay slip is also prepared for employees to know the make-up of their pay.

Where payment is by hand:

- Cash analysis is made
- Money is drawn from the bank
- Pay packets are prepared for distribution on pay day

Where payment is made through the bank, the schedule of payment is prepared and lodged into the various bank accounts of the employees.

The Internal Auditor is responsible for ensuring that the internal control over Payroll is put in place by Management, and that such controls are strong and effective.

13.6: The Roles of Internal Auditors in Personnel Audit

The public perceives the Auditors as Watchdogs or Police on public funds that should be able to prevent and detect fraud at all times. In modern day audit, the primary role of the Internal Auditor is not necessarily to detect fraud but to provide assurance to the Management or Accounting Officers that the existing internal control system is sufficient, adequate and effective in practice, and to recommend improvement measures where existing controls are found wanting.

If the Auditor comes across any issue that puts him on enquiry during the course of audit, he should investigate it to the logical conclusion. In other words, audit should be executed with due diligence.

Fraud would be adequately frustrated or exposed if management puts in place adequate and workable internal control system which are reviewed constantly and improved upon as the need arises.

The Internal Auditor should participate actively in Personnel Audit to ensure that some Officers who may have dubious intentions do not inflate the staff nominal roll. The position (both substantive and acting), salary grade level and steps, allowances and entitlement of staff should be noted and reconciled to the number of staff identified during personnel audit.

Finally, management or Accounting Officers should identify, evaluate and mitigate all possible risks applicable to its operations.
CHAPTER FOURTEEN: AUDITING OF RETIREMENT BENEFITS

14.1: Introduction

The employment condition of Civil Servants provide for some financial benefits to disengaged officers who served for specific number of years, provided that they are not dismissed. Eligible disengagement could be voluntary, statutory or the officer may be asked to leave the service due to other reasons that may not deprive him of the accrued benefits. The financial benefits in the public service include among others Pension and Gratuity.

14.2: Pension

This is the financial benefits (paid on monthly basis) to an employee who has served for specified number of years and has decided to leave or he is asked to leave in circumstances that does not deprive him of accrued benefits. It is payable till the death of the retired officer.

In the event of death of an officer who has put in pensionable service year, he is entitled to Hypothetical Pension. This is the lump sum payment of 60 months (5 years) pension to the family of the deceased through the Administrator General/next of kin.

14.3: Gratuity

This is a lump sum once and for all payment which is part of retirement benefits.

14.4: Types of Pension Scheme

Basically, there are two schemes:

(i) Non-Contributory, also known as PAY-AS-YOU-GO Scheme. The retiree under this scheme draws his retirement benefits as he leaves the public service without making any contribution to the Pension Fund.

(ii) Contributory Pension Scheme. Both the employer and employee contribute to a Pension Fund.

This scheme was signed into law under the Pension Reform Act 2004. The Act provides that both the officer and the State Government would contribute 7.5 per cent of their salary to the Pension Fund Commission through the Pension Fund Administrator. Upon retirement, the Pension Fund Commission would pay the agreed amount to the officer through his Pension Fund Administrator. The Contributory Pension Fund Scheme is yet to take off in Enugu State but for details, please read the Pension Fund Reform Act 2004.

14.5: Administration of Pension and Gratuity

The Administration of Pension and Gratuity of staff in public service is being guided by:

(ii) Establishment Circulars issued by the Federal Government. These Circulars amend or add to the provisions of the law, e.g. General Guidelines on Processing of Pension Payments.

(iii) Administrative Regulations on Pensions.

14.6: Eligibility for Retirement Benefits

The Pension Act No. 102 of 1979 provides that only employees of the government on permanent and pensionable appointments are entitled to receive retirement benefits, and only on the condition that they retire from the public service in pensionable circumstances.

14.7: Pensionable Situation

Retirement from service is categorised into the following situation:

(a) Voluntary retirement after a qualifying service of 5 years for payment of Gratuity only.

(b) Voluntary retirement after a qualifying service of 10 years for payment of both Pension and Gratuity.

(c) Statutory retirement after a qualifying service of 35 years or 60 years of age, whichever comes earlier, for payment of both Gratuity and Pension.

(d) Compulsory retirement for the purpose of improvement in the retiree’s organisation.

(e) On the advice of a properly constituted Medical Board.

(f) On total or permanent disability of the officer while in service.

(g) On the abolition of retiree’s position or office.

(h) On the death of an Officer.

14.8: Non-Eligibility for Gratuity and Pension Situation

The situation includes the following:

(i) Resignation of appointment with less than 5 years of service.

(ii) Termination of appointment for which service is less than 5 years.

(iii) Dismissal from service
(iv) Service benefits less than 10 years old is not pensionable

(v) Contract appointment does not attract Pension

It should be noted that Pension cannot be drawn until the Pensioner has attained the age of 45 years except if it is a case of termination of appointment. These conditions have been amended under the contributory Pension Reform Act of 2004.

**14.9: Processing of Retirement Benefits**

Under the Pensions Act No. 102 of 1979, the administrative requirements prescribed by the Pension Board for processing of retirement benefits are as follows:

i. Six copies of typed and signed Notice of Withdrawal from Service, Retirement, Termination, etc.

ii. Six copies of Letter of Appointment

iii. Six copies of Gazette/Letter of Confirmation

iv. Six copies of last promotion letter and other previous promotion letters

v. Six copies of letter of approval of retirement from the service commission or retiree’s ministry or agency

vi. Six copies of record of service

vii. Six copies of completed Pension Forms

viii. Six copies of Letter of Condonation of break in or merger of service (if applicable)

ix. Six copies of Transfer of Service from one employer to another within the public service

x. Six copies of Stamped Death Certificate (applicable only to a deceased officer)

xi. Six copies of Letter from the next of kin of a deceased officer notifying the MDA of his death and requesting for processing and payment of his retirement benefits to his estate

xii. Six copies of last Pay Slip

Other information/requirements apart from the ones mentioned above by the Computation/Verifying Officers are:
(i) Provision of the Pension Act which had over the years been updated through the issuance of Federal Circulars from time to time and mostly adopted by the State Government.

(ii) Ascertaining and confirmation of the following information:

   (a) Name of retiree
   (b) Date of birth
   (c) Date of first appointment
   (d) Date of retirement
   (e) Terminal salary
   (f) Length of pensionable service
   (g) Gratuity as percentage of terminal salary; pension as percentage of terminal/salary including all approved allowances
   (h) Whether appropriate notice of intention to leave the service had been given
   (i) Whether notice of retirement had been accepted
   (j) Whether the retiree's service had been continuous
   (k) Debt owed to Government (car loan, housing loan, car refurbishment loan, etc.) have been fully paid
   (l) Whether change of name or marital status had been effected and documentary evidence attached.

14.10: Computation of Gratuity and Pension

The non-contributory or PAY-AS-YOU-GO pension scheme is computed based on percentages of final total emoluments of the retiring Officer.

The final total emolument in this case means the annual terminal basic salary plus annual rent, subsidy, transport, meal, utility entertainment allowances and annual basic salary and allowances of domestic staff of entitled Officer.

14.11: Procedure for Processing Voluntary Retirement

a) The Officer must serve for a minimum of 10 years

b) The Officer is required to apply for voluntary retirement through his Permanent Secretary or Head of MDA to the Civil Service Commission.

c) The CSC would approve and send the Notice of Retirement to the Officer through his MDA.

d) The retiring Officer would then write a formal letter to the Head of Service through his MDA, attaching relevant Forms. His main file would accompany the letter to the Head of Service.

e) The Head of Service would then send the letter and the file to the Permanent Secretary Establishment.
f) Establishment would then calculate his entitlement, i.e. Gratuities and Pension. All indebtedness (if any) would be deducted en bloc from the final entitlement.

g) The calculations would be sent to the Auditor-General for confirmation.

h) After confirmation the Auditor-General would return the calculations to Establishment who would raise Payment Vouchers relating to the Gratuity.

i) The approved Payment Voucher would be sent to the Accountant-General for payment. Before payment is made, the Retiree would produce the original and photocopies of Pension Authority, Identity Card and Bank Account Number.

j) The retiring Officer would be given the original copy of his Pension Authority and two Pink Cards.

k) The Officer would take the Pink Cards to his Treasury of choice for issuance of Pension Identity Card.

l) The second copy of Pension Authority would be sent to the Accountant-General along with the Gratuity Payment Voucher.

m) The third copy of the Pension Authority is sent to the Sub-Treasurer where the monthly Pensions would be collected.

n) Another copy of the Pension Authority would be sent to the Auditor-General.

14.12: Auditing of Retirement Benefits

All computations for retirement benefits carried out by the Pension Office are subject to verification first by the Internal Audit Unit before they are transferred to the Office of the State Auditor-General for further reviews and validation.

The Internal Audit Unit is expected to verify the following:

(a) Correction of pension records as they relate to name, date of birth, date of appointment, etc.

(b) Resolving issues relating to confirmation promotion/advancement and placement.

(c) Correcting of salary progression.

(d) Correcting typographical errors.

(e) Total enforcement of pension law.
Other issues relating to pension payment which require verification include the following:

(i) Pension variations raised for any adjustments, e.g. short payment of outstanding payments (arrears), etc.

(ii) Payment Vouchers raised in respect of gratuity or and hypothetical pension.

(iii) An alive verification of pensioners which is conducted twice in a year.

(iv) Verification of monthly pension payroll.

14.13: Conclusion

Pension processing, administration, computation, auditing, etc. rely mainly on correct information. Therefore, officers should always ensure that correct and consistent information are contained in their Records of Service which are kept by the Central Records Section of the Office of Civil Service of the State.

The Internal Auditor should carry out their duties meticulously as wrong payments are usually very difficult to correct. The Auditors should also put in more efforts to expenditure action in auditing pension calculations to reduce the suffering of Pensioners due to long time of waiting for payment. The Internal Auditor should act professionally with integrity to maintain the respect of his office.
CHAPTER FIFTEEN: CARRYING OUT INVESTIGATIONS

15.1: Definition

Investigations are activities carried out to uncover the extent of irregularities or deceit in obtaining illegal or unjust advantages. In other words, investigation is done to determine how the incident occurred and estimate the extent of losses suffered.

An Auditor may be required to carry out investigation due to his professional training and experience. He could be commissioned to carry out this assignment alone or work as a member of a group appointed to do the investigation. He may as well be required to provide information to the Investigators. Depending on the situation, the Auditor is expected to co-operate as long as he is directed by Management or his boss. Such directive should be preferably in writing as Investigators may require the provision of sensitive documents or information.

15.2: Terms of Reference

Investigators must be given terms of reference by those who appointed them. The terms of reference should be clear and specific to enable the Investigators focus on important issues. Terms of reference carefully determined should contain the following information:

a) **Type of irregularity**: The type of irregularity to be investigated should be clearly stated. For instance, is it Cash, Bank, Convertible Assets, Reporting, etc.

b) **Who are the likely participants?** Those mentioned along the line, in the process of carrying out the suspected action should be investigated to determine their roles.

c) **What method is applied in carrying out the irregularity?** Is it manual or IT assisted? Internal or external parties? Documented or undocumented? Etc.

d) **Recommendation of measures to forestall future occurrence**: This is based on the findings and facts gathered during the investigation.

15.3: Investigation Procedure

It is not practical to devise a set of rules that can be applied in every circumstance, but a framework for carrying out investigations could be provided. Therefore, the recommended procedure that should be considered during investigation would include the following steps:

a) **Plan the Investigation Assignment**: The Internal Auditor should draw up a plan of action on the investigation assignment. He should obtain the resources required and open a Case File for information and documents to be generated during the exercise.
b) **Identify the Departments Involved:** The department where the incident being investigated is traced to have originated should be identified and noted as the commencement point of the investigation.

c) **Identify the Officers or Staff Involved:** The key staff mentioned in the process chain and their roles should be identified and noted.

d) **Identify the Officers’ Schedules:** The job functions of the staff mentioned in the process chain should be identified. Their job description should be obtained and analysed to understand their roles in the organisation and specifically relating to the incident being investigated.

e) **Identify Relevant Records and Documents:** The Investigator should identify and request for relevant records and documents used in the transactions for reviews during the assignment. The records may include computer tapes, personal files and documents in the archives. He should also make a list of information required but beyond his reach, such as bank statement, paid cheques, etc. Make photocopies of documents obtained and keep safely in the Case File.

f) **Draw a flow chart of the internal control system** and document trail relating to the area being investigated. He should establish the normal procedure and identify the point where the incident occurred.

g) **Ask Officers to make Statements:** Staff identified to have participated in the process should be requested to make voluntary statements in writing. The Auditor may prescribe a particular format to guide the staff in supplying only relevant information.

h) **Conduct Interviews:** The staff should be relaxed to remove fears so that vital information would not be withheld. Clear and clever questions that would extract relevant information should be asked. Micro Recorders or Videos should be used to record proceedings where available. Notes should also be taken.

i) **Verification of Facts Obtained:** This is done through thorough review of:

- Information extracted from Statements made by staff
- Information generated from outside the organisation: Banks, Treasury Office, Individuals, etc.
- Information generated from evidences gathered during the exercise. The Auditor should exercise some care and carry out some tests to determine the extent of reliance to place on them
- Information from previous reports may also provide a lead on current incident
- General observations made by the Auditor based on experience
15.4: Investigation Findings

The Auditor should prepare a comprehensive report to Management or those who appointed him, on his findings during the investigation assignment. The report should among other issues provide the following information:

(i) **Extent of losses sustained:** The amount of losses incurred from the incident should be quantified and reported. This would also serve as a measure to quantify the value added to the business by the Auditor.

(ii) **Period Covered:** The period when the incident occurred should be identified and reported. The exact dates and time should be mentioned if obtained. This information would assist in putting necessary controls in place to forestall future occurrence.

(iii) **Suspects:** The suspects identified during the investigation and their specific roles should be noted in the report. Such suspects could be categorised into prime and ancillary to provide a guide for further action.

(iv) **Loopholes Observed:** The loopholes observed during the investigation assignment and the controls which were breached should be noted in the report. The extent of breach and those who aided the action should be clearly stated in the report.

(v) **How to forestall future Occurrence:** Recommendations should be made on necessary measures that should be taken to forestall future occurrence. Measures that require immediate action should be flagged for Management attention.

(vi) **Discussion of Report:** The Investigation Report should be preferably presented officially by the Auditor to the Management, to afford him the opportunity to emphasise some salient points and offer more clarifications where important questions are asked. It would also afford the Auditor opportunity to paint clearer picture of the incident to enable the Management appreciate the incident and act promptly. A clearly articulated report would spur the Management in acting promptly on the recommendations presented by the Auditor.

It is important to note that during investigation, no member of the team should communicate with the media on the findings unless granted express permission to do so by Management. In other words, information obtained should be kept confidential. The report should be written under confidential cover.

15.4: Differences Between Audit and Investigation

The main difference between Audit and Investigation are contained in Table 5 below:
Investigation relates to critical checking of particular records. Auditing relates to checking of all books and records.

Investigation may be conducted on behalf of owners and outsiders such as investors. Audit is conducted on behalf of owners only. The appointment is made by them.

Investigation work can be completed through 100 percent checking. Audit work may be completed through test checking.

Investigation has no time limit. It may relate to many years. Audit of accounts is made for a particular time period.

Investigator may or may not be a Charted Accountant. Statutory Auditor must be a Chartered Accountant.

Investigation is voluntary. Audit is compulsory under the law for both the public sector and private sector concerns.

Investigation is usually conducted after the audit of accounts. Audit is usually conducted following a specified time table, irrespective of any event.

There is no legal requirement to disclose information in investigation. The auditor requires the full disclosure of information under the law.

<table>
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<tr>
<th>Investigation</th>
<th>Auditing</th>
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<td>The purpose of investigation varies from business to business.</td>
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Table 5: Comparison of Audit and Investigation

15.5: Types of Investigations

The two broad categories of investigations are:

- Proactive Investigations
- Reactive Investigations

Proactive investigations are carried out on the internal control system to forestall the occurrence of the incident in future. Losses could be suspected but not established, but occurrence of incident in other areas or outside the organisation could trigger a proactive investigation to determine the likely events that may occur and take necessary measures to prevent the situation.

Reactive investigation is carried out when the incident has already occurred. It is done to ascertain the extent of losses, implications to the government business and recommend measures to forestall the situation from reoccurring in future.

15.5.1: Pro-active Investigations

This is investigation on effectiveness of internal controls pertaining to the following areas:

- a) Procurement control systems
- b) Official motor vehicle control systems.
- c) Verification of qualifications.
- d) Investigation of allocation or payment of rentals on government houses by officials.
- e) Checking whether the qualities of services or products provided by Vendors or Suppliers are in line with the Tender Contract.
f) Ensuring that Leave Forms and other relevant documents are submitted for recording.
g) Lifestyle investigations of officials working in fraud and corruption friendly areas.

15.5.2: Reactive Investigations

These are reported cases of incidents that already occurred, such as the following situation:

a) **Procurement Fraud:** There are cases where the government is losing or has lost a lot of money. There could be manipulation of procurement system by employees and politicians.

b) **Nepotism in Appointments or location of Projects:** This refers to the appointment of friends and relatives in an improper manner and appointment of people without the required qualifications. It also involves locating some projects in a disadvantaged area due to tribal sentiments.

c) **Conflict of interest:** Failure to declare an interest where a civil servant derives a benefit in an improper manner.

d) **Bribery:** Receiving of gifts for performing official work and failing to declare them, or receiving of a gift from potential or a service provider and failure to declare it.

e) **Unauthorized private business:** Officials running or participating in an unauthorized private business.

f) **Theft of government property:** Officials stealing government Property.

g) **Fraud:** General fraud activities involving government officials.

h) **Improper conduct:** Conducts that may lead to government losing money or valuable resources.

i) **Irregular Tender Procedures:** Adopting procedures that are not transparent and in conflict with the advertised conditions.
CHAPTER SIXTEEN: AUDIT MANAGEMENT AND CONTROL

16.1: Introduction

Professional approach should be adopted by the Head of Internal Audit to manage and control the entire auditing process. Audit management and control are professional steps taken by the Internal Auditor to plan, organise, direct and control the audit function, in order to achieve the desired objectives. Therefore, the Head of Internal Audit should define the scope of the audit assignment, draw up the plan, assign the audit staff various roles for executing the plan, coordinate the entire process and organise meetings to review the audit findings stated in the report.

16.2: Scope of the Audit Work

The scope or area of audit coverage should be defined by the Internal Auditor in consultation with Management of the MDA and based on requirements of the FI. In compliance with these requirements, the following issues should be considered in defining the audit scope of an MDA:

a) Reasons for carrying out the audit
b) Audit objectives, risks and key controls
c) Work programme
d) Limitations and mitigating factors
e) Special considerations, e.g. statutory requirements
f) Timing of the audit assignment
g) Available resources
h) Recipient of reports to be issued

16.3: Auditing Procedures and Techniques

Internal Audit procedure is the method or professional processes that should be followed in executing various types of audit assignments. The procedures and techniques should include the following steps:

- Audit Planning and Control
- Professional execution of the Audit, which comprises the coordination of resources, testing of samples and issuing reports of findings
- Conducting Follow-up Audit to ensure that previous recommendations have been implemented
16.4: Audit Planning

Plan is a course of action, decided in advance, to achieve a stated goal or objective. It is necessary for an Auditor to decide in advance what needs to be done so that he can effectively control the audit assignment. Planning enables the Auditor to achieve a high standard performance and result.

Planning process enables the Auditor to apply his judgement to the circumstances surrounding a particular audit assignment. It is the formulation of the general strategy for the audit which sets the direction, scope, conduct and provides guidance for the development of the audit programme.

16.5: Objectives of Audit Planning

Planning an audit assignment in advance would enable the Auditor achieve the following objectives:

- To ensure that the audit objectives are identified and achieved.
- To determine appropriate strategy for the audit assignment.
- To control and direct all stages of the audit assignment.
- To determine the time it would take the Auditor to complete the assignment.
- To determine the staffing requirement and the use of experts where necessary.
- To estimate the cost and resources required to complete the assignment.
- To determine the extent of relying on the internal control system and tests to perform.
- To enable the Auditor determine the areas of special audit emphasis.
- To enable the Auditor to prepare appropriate audit program to adopt in the assignment.
- To focus on critical areas of the audit without omitting any important aspect.
- To complete the audit assignment in an efficient and cost effective manner.

16.6: Important Considerations in Audit Planning

The Auditor should consider the following matters in planning an audit assignment:

a) Preliminary Work: This is the work done by the Auditor before the full audit assignment commences. This would include the review of previous working papers, stock taking, cash counts, debtors’ circularisation, etc.

b) Changes in legislation, Treasury Circulars, Audit Standards or Guidelines: New policies arising from such changes should be reviewed to determine their effects on operation of the department being audited.

c) Knowledge of the Business and Operations: Political and economic factors affecting operation of the MDA should be identified and understood by the Auditor. This would guide him in applying the rules fairly.

d) Analytical Reviews: This is carried out at the planning stage to apprise the Auditor of trends and indicators to expect during the audit assignment.
e) **Leadership and Structural Changes**: Audit plans may need to be updated when there are changes in the leadership of the MDA, State Government or if the MDA is restructured.

f) **Changes in the Accounting System**: The Auditor should endeavour to understand the accounting and internal control systems of the MDA. Where there is change from manual to computer-based accounting system, both internal control system and audit plans would require updating.

g) **Risk and Materiality**: Expected inherent and control risks should be identified. Materiality level for determining exceptions should also be set at the planning stage. Critical areas which may require special attention should be identified so that appropriate action would be taken during the audit exercise.

h) **Changes in Reporting Date**: Whenever there is directive to change the accounting or audit reporting date, plans would also require updating.

a. **Rotational Testing**: As samples are tested, the Internal Auditor would be required to determine in advance the new sections of the operational processes in the MDA to conduct the tests.

**16.7: Audit Planning Memorandum (APM)**

This is also known as Audit Strategy Memorandum. It is a document setting out the main issues involved in the planning process and a guide to key decisions that should be taken regarding the audit. Objectives of the audit plan are addressed in practical terms in the APM. APM is therefore a standing guideline made by the Auditor to control and direct his assignment.

APM should cover the following matters:

a) **Objectives of the Audit**: The main objectives for carrying out the audit should be defined in the APM. This would guide the Auditor in preparation, execution and update of future plans.

b) **Time Table**: Audit time table, designed to meet the deadline for submitting the report should be stated in the APM. There should be updates whenever changes occur.

c) **Operational and Environmental Changes**: Changes in business operations or environment, which were not there previously but affects the current and subsequent audit, should be noted in the APM.

d) **Detailed Plans**: The details of planning decisions taken as guide for carrying out the audit assignment should be stated in the APM.

e) **Expert Support**: Areas where external experts would be required to provide specialised services should be identified and noted in the APM.

f) **Problem Areas**: Possible problem areas in the audit assignment and the approach to deal with them should be noted in the APM.
g) **Staff Requirements:** Staffing requirements for the audit assignment, skills and method of
allocating duties to members of the audit team should be noted in the APM.

h) **Coverage:** How to cover each location, where there is multi-offices should be defined in the APM.

i) **Communication Channels:** Acceptable or agreed channel of communication with the MDA or
section being audited should be stated in the APM.

**16.8: Audit Strategy**

The audit plan should start by formulating the appropriate strategy to adopt in carrying out the
assignment. Important factors to be considered in formulating a sound audit strategy are:

- Audit Risk Management Strategy
- Materiality Guide Strategy
- Application of IT Audit Strategy

**16.8.1: Audit Risk Management Strategy**

Audit risk is the chance that the Auditor would reach a wrong conclusion on the subject being audited.
For example, if the acceptable audit risk is 5%, it means that the Auditor would be comfortable if his
conclusion is not above 5% misstated. Therefore, there is 95% chance that the report is materially
correct and should be relied upon by users. The audit process does not give an absolute level of
assurance that the conclusion is 100% correct since human judgement may not be perfect.

Major risks impacting on the audit assignment should be considered at the planning stage. Such risks are
considered in the sections that follow.

(i) **Risk-Based Approach to Auditing**

Risk-based approach is recommended to the Auditor in most assignments. The Auditor should identify
and analyse the main risks associated with the department to be audited. He should prepare the audit
plan to focus the exercise on the high risk areas.

The Auditor is required to:

- Assess the risks involved in the audit.
- Plan the audit work so that any material misstatements are identified and corrected.

(ii) **Audit Risk Model**

This model is used to identify and quantify the elements making up overall audit risks. For an Auditor to
effectively manage the risks, he should measure the associated risks attached to the audit subject and
define a tolerable limit to arrive at favourable conclusion.

The audit risk model is defined as follows:
AR = IR x CR x DR

Where

AR = Audit Risk
IR = Inherent Risk
CR = Control Risk
DR = Detection Risk

To determine the ratio, weight should be attached to each component based on the likelihood of the event occurring, and evaluated accordingly.

(iii) Inherent Risk

This is the risk that items may be misstated as a result of their peculiar characteristics. Inherent risk may result from:

- **Nature of the items**: For instance, estimated items are inherently risky because their measurement is not precise but based on assumptions.

- **Nature of the operation**: For example, purchase of materials is volatile and has the high risk of being over invoiced.

Note that inherent risk operates independently of controls. The Auditor should accept that such risks exist and may not be eliminated. The Auditor should take necessary steps to assess the extent of inherent risks.

(iv) Control Risk

This is the risk that a misstatement would not be prevented or detected by the internal control systems in operation.

In preparing an audit plan, the Auditor should make an assessment of control risk for different areas of the audit. Evidence about control risk can be obtained through tests of control for each of the major transaction cycles. It is not likely that control risk would be zero because of some limitations of internal control system. However, control risk could be reduced by introducing new or better controls.

(v) Detection Risk

This is a risk that audit testing procedure would fail to detect a misstatement in a transaction or account balance. For example, if detection risk is 10%, then there is a 10% probability that the audit tests will fail
to detect a material misstatement. Therefore, increase in the ratio of test carried out would reduce the detection risk.

The flow diagram of the risk management model discussed above is represented in Table 6 below:

![Flow Diagram of Audit Risk Management Model](image)

**Table 6: Flow Diagram of Audit Risk Management Model**

### 16.8.2: Key Issues in Audit Risk Management

In preparing an audit plan, the Auditor would be required to:

- Set an overall level of audit risk which he judges to be acceptable for the particular audit.
- Assess the levels of inherent and control risks.
- Adjust the level of detection risk in order to achieve the overall required level of risk in the audit.

Detection risk can be managed by the Auditor in order to control the overall audit risk. Inherent risk cannot be controlled. Control risk can be reduced by improving the quality of material controls.
16.8.3: Material Guide Strategy

This is the impact for which inclusion or exclusion of particular information or data would have on the Auditor’s conclusion. Information is material if its omission or misstatement would influence the judgement or decision of users of the audit report. It depends on the materiality or size and nature of the item being considered in the circumstance.

Assessment of materiality is based on judgement of the Auditor, as applicable to the situation. There should be guidelines on materiality – but these should not be strictly seen as rules.

16.8.4: Application of IT Audit Strategy

Computer is the common IT equipment in use. Computer systems affect the audit process in the following ways:

➢ The Auditor may use Computer as tool to perform his audit work.

➢ Operation of the department being audited may be computerised. In this case, the Auditor may need to consider:

   ▪ The controls that are in place for the system.
   ▪ Whether to use Computer-Assisted Audit Techniques (CAATS) to execute the audit work.

16.9.: Audit Programmes

Audit programmes are schedules or checklist which the Auditor prepared to guide him obtaining evidence on the subject being audited. A well articulated Audit Programme guides the entire audit staff involved in the assignment to obtain relevant information required to draw appropriate conclusion and issue acceptable report.

16.10.: Types of Audit Programme

Audit programmes could be designed for any audit assignment. Common types of audit programmes have been produced by Auditors in the following areas:

(i) Compliance Audit Programme: This audit programme seeks to obtain information on the existence and operation of internal control system in the MDA.

(ii) Substantive Audit Programme: This audit programme is designed to obtain information on the costs, authorisation, valuation, existence, beneficial ownership and presentation of these items in the financial reports.

(iii) Interim Audit Programme: This programme is prepared to obtain information during interim audit visit. Interim audit are usually conducted to review the system to facilitate the full audit exercise when it commences.
(iv) **Financial Year-End Audit Programme**: This programme is prepared to obtain information during the year-end audit.

16.11.: **Executing the Audit**

The first stage of executing the audit is to move to the department, section or unit to be audited and conduct an Opening Meeting with their representatives. The Auditor’s requirements, communication channels, documentation, expectations, timelines and deliverables would be discussed and agreed at the meeting. Briefly, the following steps should be taken in executing the audit assignment:

a. **Objectives**: The scope, information required and tests to be carried out should remain within the objectives of the audit. These should be agreed with Management and the audit team before commencing the assignment.

b. **Work Plan**: The Auditor should prepare a work plan to guide him and the audit team in remaining focused during the audit. The work plan should include vital information as budget, time table, audit risk, responsibility of each member of the audit team, deliverables, etc.

c. **Visit Notice or Letter**: A visit letter or notice should be sent in advance to the area to be audited to enable them prepare for the exercise. Such notice should include description and period of documents required, number of staff in the audit team, time table, logistics required, etc.

d. **Opening Meeting**: As noted in the introduction, the first step upon arrival in the unit or section to be audited is to conduct an opening meeting. This should be an interactive session between the audit team and the representatives of the section or unit or department to be audited. Expectations and constraints should be discussed and a common understanding reached.
CHAPTER SEVENTEEN: THE ART OF REPORT WRITING

17.1: Introduction

Report is a medium of presenting account of government activities to the desired audience. It may be presented for information, discussions and decision-making. Report writing is an important aspect of the Internal Auditor’s work. A good report depends on the knowledge, experience, skills and the communication ability of the Auditor.

17.2: Format of a Good Report

Generally, a standard report should be arranged logically to show the Introduction, Terms of Reference, Methodology (Method or Approach Adopted), Observations/Findings, as well as Recommendations and Conclusion. Essential parts of a good report are discussed further as follows:

17.2.1: Introduction of a Report

This is an important part of a report. It gives the background information of the issue being reported. The introduction gives an overview of the subject-matter and provides a link to the main issue being discussed in the report. The scope and objectives of writing the report could be stated in the introduction or discussed under separate sub-headings.

17.2.2: Terms of Reference

This is a guide of the main issues expected to be covered in the report. The reference statement includes the subject of the assignment being carried out, the timeframe for completing the assignment, expected outputs and the composition of the team (where applicable). It is an important guide to keep the team members focused on the critical issues to be examined.

17.2.3: Methodology

In this section of the report, the writer should state the approach adopted in carrying out the review, its assumptions and steps taken to obtain the information being presented. This may include the thorough examination of some documents, interviewing of persons who may have useful information concerning the exercise, calling for memoranda from those that have contributions to make or paying visits to certain locations to have up to date knowledge of what is on ground.

The essence of stating the methodology is to show the person reading the report that the Committee or writer has been objective; is competent to handle the assignment; and that whoever wishes, could undertake the exercise again to arrive at the same (or similar) conclusion.

17.2.4: Observations or Findings

Observations or findings are facts and issues emanating from the assignment, be it an audit or investigation. They convey the judgement, recommendations and conclusion the writer makes based on the work done. Observations and findings should be as objective as possible such that an independent reviewer would arrive at the same or similar conclusion.
17.2.5: Recommendations

It is important that after reporting the observations or findings, and checking the facts against set standards, the writer is expected to propose actions to resolve the problems being addressed. Recommendations should be carefully arranged in the order of implementation impact to elicit management’s attention and interest. Alternative courses of action should also be proposed to provide choice to decision makers.

It should be noted that, depending on the style or choice of the writer of the report, each of the problems investigated could be followed by recommendations. If this is the case, it is advisable to have a summary of recommendations in the concluding part of the report, just before the Annexure (Appendices). This would give a focused view of the solution proffered by the writer. The terms of reference, findings and observations, as well as recommendations (particularly the last one) are the aspects of a report that attract most attention.

17.2.6: Conclusion

This is the final statements by the writer to wrap up the entire report. It summarises the key findings and implication to the success of the issues being addressed. Conclusion is usually concise and direct to the point. It gives a picture of the outcome of the situation.

17.2.7: Annexure or Appendices

These are information or documents relevant to the report but not included in the body of the report. They provide references and additional detailed information, which enhances the objectivity of the report. Appendices should be properly titled and arranged at the end of the report.

17.3: Audience Being Addressed

The report writer should understand its audience. The audience are those that would receive and read the report and take appropriate decisions. The report writer should understand the audience being addressed so that he would determine the language and tone to be used in the report. Such language should be lucid, understandable and appeal to the audience. Uses should be made of analytical tools, such as tables, graphs and diagrams to enhance the quality and effectiveness of the report.

17.4: Language of a Report

The language used in writing a report should be lucid, i.e. simple, unambiguous and comprehensible to the audience. Words used should be in the context of the assignment to enable the readers follow the argument. Technical terms should be reduced to the minimum for easy flow of ideas while reading the report. Where such terms are very necessary, they should be explained to guide the readers. Several official matters compete with the time of top executives, hence the reports should be simplified to enable them comprehend at first reading, without requiring to consult the experts for guides.
17.5: Integrity of a Report

A report should be factual, transparently truthful and devoid of bias. It should be objective. Reports are instruments of correction, control and in some cases, change. Where changes are involved, human beings and their careers are at stake. For this reason, those undertaking the exercise should be objective and experienced to ensure that their decisions and recommendations are not influenced by sentiments of any kind. They should be fair to all concerned.

Sometimes, recommendations contained in reports are retained to form the core of future standards. If such standards are unattainable, the Committee which report formed the basis of the standards would have failed in its duty.

The integrity of a report is enhanced if it is signed by the writer with their names and designations, and properly dated.

17.6: Epilogue

Report writers should be cautious not to reveal (deliberately or inadvertently) the content of a report until the authorizing body makes it public. This is to avoid any backlash that may arise due to the leakage of sensitive information or recommendations made in the report.
CHAPTER EIGHTEEN: HOW TO WRITE AN AUDIT REPORT

18.1: Introduction

Auditor’s Report is the end-product of his assignment. It communicates his objectives, approach of work, findings and results. Report is the Auditor’s deliverable after completing his work. An audit report should have the following features:

(i) It should show details of work done over the period of time allocated for the assignment, in a concise manner.

(ii) The Report may be short but very important as the Auditor would be held responsible by his immediate client or boss and third parties, i.e. external parties who may use the report for investment decisions.

(iii) Most Auditors’ Reports are short statements expressing their opinion that the accounts show a true and fair view and comply with statutory requirements (e.g. Accounting Standards, Government Rules and Regulations, State Treasury Circulars and other government directives). The opinion may be qualified, in which the Auditor expresses his opinion with reservations. On the other hand the Auditor’s Report is clean where there is no reservation in his opinion, with the clause that the accounts give “a true and fair view” of the state of affairs.

(iv) An auditor should be very meticulous to ensure that no aspect of the work done is omitted or partially dealt with in the report. It is advisable to have a checklist to ensure that all requirements of a practical, legal (such as Auditing Standard or Guidelines) and regulatory nature have been met. Regulatory requirements in the public service refer to the government financial rules and regulations, such as Financial Instruction, State Treasury Circulars, Constitution of the Federal Republic of Nigeria and other government directives.

(v) The internal audit report in the public service should proffer corrective actions that should be taken, in order to enhance effective and efficient internal control system.

18.2: Exceptions in Audit Report

The Auditor is expected to highlight both positive and negative aspects of his findings during the assignment in the final report. Some of the exceptions that need to be noted are:

(i) Where access to accounting records was restricted.

(ii) Where there was restriction to scope of work.

(iii) Where Financial Statement were not in agreement with the books of Accounts and Returns.

(iv) Where the Auditor did not receive all the information and explanations which he deemed necessary for the purpose of the audit to enable him form an opinion.
18.3: Qualities of a Good Audit Report

A good Audit Report should possess the following qualities:

(i) **It must be factual:** The audit report should give a true and fair view of the position or state of affairs in the organisation.

(ii) **It must be objective:** The report should be prepared to satisfy a particular purpose. It should therefore provide adequate information and guide for the purpose for which the report is being provided.

(iii) **It must be written in clear terms:** It should be understandable by the readers, devoid of professional jargons and in simple and lucid language.

(iv) **There should be consistency:** This should be apparent in the expression of opinion and observations.

(v) **It must be provided at a good time:** The essence is to ensure that prompt corrective measures are undertaken to avert any negative situation.

18.4: Format of an Internal Audit Report

A good Internal Audit Report should show the following information:

a) **Heading:** The report should be properly titled. Recipient or audience of the Report must be clearly identified.

b) **Introduction or Objective of the Report:** A brief description of the aim of producing the Report should be stated.

c) **Terms of Reference:** Details of the scope of work done should be clearly stated.

d) **Methodology:** This is the approach of conducting the assignment. The essence is for the reader to judge the competency of work done.

e) **Observations:** It is based on the evaluation of accounting and internal control systems against the auditing standards and guidelines and other statutory regulations based on experience.

f) **Recommendations:** The report should proffer solutions to the weaknesses observed in the course of the assignment.

g) **Conclusion:** This segment of the Report gives an overall round-up to the issues contained in the report and information gathered during the assignment.

18.5: Internal Control and Audit Grading

An Internal Control and Audit Grading system is used to evaluate the Auditee's control environment in order to contextualise the significance of findings, evaluate the impact of the findings, and conclude on the control environment in its entirety. Grading is a rating based on the condition of the accounting
records, internal control system in operation, implementation of the internal control system and sanctions for violating such internal controls. For details please see Annexure 2 of the Internal Control Manual.

**18.6: Specimen of a Summary Internal Audit Report**

Table 7 below shows the format of a summarised Internal Audit Report pro forma

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<tr>
<td>For the Attention of: The Permanent Secretary</td>
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<td>Enugu State Government</td>
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<td>INTERNAL AUDIT REPORT FOR THE QUARTER</td>
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<td>APRIL - JUNE 2010</td>
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Signature: .................................................................

Name of Resident Internal Auditor:

Designation:

Date:

Table 7: Summary of Internal Audit Report Format
ANNEXURE 1: INSTITUTE OF INTERNAL AUDITORS (IIA) CODE OF ETHICS

Introduction
The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

- Principles that is relevant to the profession and practice of internal auditing.
- Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics together with The Institute's Professional Practices Framework and other relevant Institute pronouncements provide guidance to internal auditors serving others. "Internal auditors" refers to Institute members, recipients of or candidates for IIA professional certifications, and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement
This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members and recipients of or candidates for IIA professional certifications, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Bylaws and Administrative Guidelines. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable, and therefore, the member, certification holder, or candidate can be liable for disciplinary action.

Principles
Internal auditors are expected to apply and uphold the following principles:

- Integrity
  The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- Objectivity
  Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments
- Confidentiality
  Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency
Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

Rules of Conduct

- **Integrity**
  Internal auditors:
  - Shall perform their work with honesty, diligence, and responsibility.
  - Shall observe the law and make disclosures expected by the law and the profession.
  - Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
  - Shall respect and contribute to the legitimate and ethical objectives of the organisation.

- **Objectivity**
  Internal auditors:
  - Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
  - Shall not accept anything that may impair or be presumed to impair their professional judgment.
  - Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

- **Confidentiality**
  Internal auditors:
  - Shall be prudent in the use and protection of information acquired in the course of their duties.
  - Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

- **Competency**
  Internal auditors:
  - Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
  - Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
  - Shall continually improve their proficiency and the effectiveness and quality of their services.
ANNEXURE 2: THE IIA STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

The International Standards for the Professional Practice of Internal Auditing (Standards) are the result of careful study, consultation, and deliberation about the basic principles for providing internal audit services. All internal auditors should perform their work in accordance with the Standards. Members of The Institute of Internal Auditors (IIA) and Certified Internal Auditors (CIA) vow that they will comply with The IIA's Code of Ethics, which requires adherence with the Standards.

Standards are a part of the Professional Practices Framework and its purpose is to:
- Delineate basic principles that represent the practice of internal auditing as it should be.
- Provide a framework for performing and promoting a broad range of value-added internal audit activities.
- Establish the basis for the evaluation of internal audit performance.
- Foster improved organisational processes and operations.

Standards provide guidance for the conduct of internal auditing at both the organisational and individual auditor levels. The Standards describe the nature of internal audit activities, key components of a charter and an annual plan of activities, ways of conducting an engagements and communicating results, and criteria for evaluating the performance of the services.

Standards comprise Attribute, Performance, and Implementation Standards. Attribute Standards and Performance Standards apply to all internal audit services. Implementation Standards apply to specific types of engagements, such as, assurance and consulting activities. These are contained within the Attribute and Performance Standards and are identified by either (assurance engagements) or (consulting engagements). Attribute and Performance Standards are cross referenced to related guidance material such as the Practice Advisor and the Development and Practice Aids.

Attribute Standards
The Attribute Standards address the characteristics of organisations and individuals performing internal audit activities.

1000 Purpose, Authority, and Responsibility
The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the Board.

1000. A1 Implementation Standard (Assurance Engagements)
The nature of assurance services provided to the organisation should be defined in the audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances should also be defined in the charter.

1000. C1 Implementation Standard (Consulting Engagements)
The nature of consulting services should be defined in the audit charter.

1100 Independence and Objectivity
The internal audit activity should be independent, and internal auditors should be objective in performing their work.
1110 Organisational Independence
The Head of Internal Audit should report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities.

1110. A1 Implementation Standard (Assurance Engagements)
The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1120 Individual Objectivity
Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.

1130 Impairments to Independence or Objectivity
If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1130. A1 Implementation Standard (Assurance Engagements)
Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130. A2 Implementation Standard (Assurance Engagements)
Assurance engagements for functions over which the Head of Internal Audit has responsibility should be overseen by a party outside the internal audit activity.

1130. C1 Implementation Standard (Consulting Engagements)
Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130. C2 Implementation Standard (Consulting Engagements)
If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the engagement client prior to accepting the engagement.

1200 Proficiency and Due Professional Care
Engagements should be performed with proficiency and due professional care.

1210 Proficiency
Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

The Head of Internal Audit should obtain competent advice and assistance if internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210. A2 Implementation Standard (Assurance Engagements)
The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210. A3 Implementation Standard (Assurance Engagements)
Internal auditors should have knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210. C1 Implementation Standard (Consulting Engagements)
The Head of Internal Audit should decline the consulting engagement or obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 Due Professional Care
Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

The internal auditor should exercise due professional care by considering the:
- Extent of work needed to achieve the engagement’s objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of risk management, control, and governance processes.
- Probability of significant errors, irregularities, or non-compliance.
- Cost of assurance in relation to potential benefits.

1220. A2 Implementation Standard (Assurance Engagements)
In exercising due professional care the internal auditor should consider the use of computer-assisted audit tools and other data analysis techniques.

1220. A3 Implementation Standard (Assurance Engagements)
The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220. C1 Implementation Standard (Consulting Engagements)
The internal auditor should exercise due professional care during a consulting engagement by considering the:
- Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- Relative complexity and extent of work needed to achieve the engagement’s objectives.
- Cost of the consulting engagement in relation to potential benefits.
Continuing Professional Development
Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

Quality Assurance and Improvement Program
The Head of Internal Audit should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program should be designed to help the internal auditing activity add value and improve the organisation’s operations and to provide assurance that the internal audit activity is in conformity with the Standards and the Code of Ethics.

Quality Program Assessments
The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.

Internal Assessments
Internal assessments should include:
- Ongoing reviews of the performance of the internal audit activity, and
- Periodic reviews performed through self-assessment or by other persons within the organisation, with knowledge of internal auditing practices and the Standards.

External Assessments
External assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation.

Reporting on the Quality Program
The Head of Internal Audit should communicate the results of external assessments to the Board.

Use of "Conducted in Accordance with the Standards"
Internal auditors are encouraged to report that their activities are "conducted in accordance with the Standards for the Professional Practice of Internal Auditing." However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the Standards.

Disclosure of Non-compliance
Although the internal audit activity should achieve full compliance with the Standards and internal auditors with the Code of Ethics, there may be instances in which full compliance is not achieved. When non-compliance impacts the overall scope or operation of the internal audit activity, disclosure should be made to senior management and the Board.

Performance Standards
The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be measured.
Managing the Internal Audit Activity
The Head of Internal Audit should effectively manage the internal audit activity to ensure it adds value to the organisation.

Planning
The Head of Internal Audit should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Implementation Standard (Assurance Engagements)
The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the Board should be considered in this process.

Implementation Standard (Consulting Engagements)
The Head of Internal Audit should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organisation's operations. Those engagements that have been accepted should be included in the plan.

Communication and Approval
The Head of Internal Audit should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the Board for review and approval. The Head of Internal Audit should also communicate the impact of resource limitations.

Resource Management
The Head of Internal Audit should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Policies and Procedures
The Head of Internal Audit should establish policies and procedures to guide the internal audit activity.

Coordination
The Head of Internal Audit should share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Reporting to the Board and Senior Management
The Head of Internal Audit should report periodically to the Board and senior management on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management.

Nature of Work
The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.
2110 Risk Management
The internal audit activity should assist the organisation by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

2110. A1 Implementation Standard (Assurance Engagements)
The internal audit activity should monitor and evaluate the effectiveness of the organisation's risk management system.

2110. A2 Implementation Standard (Assurance Engagements)
The internal audit activity should evaluate risk exposures relating to the organisation's governance, operations, and information systems regarding the:
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

2110. C1 Implementation Standard (Consulting Engagements)
During consulting engagements, internal auditors should address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.

2110. C2 Implementation Standard (Consulting Engagements)
Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organisation.

2120 Control
The internal audit activity should assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organisation's governance, operations, and information systems. This should include:
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

2120. A2 Implementation Standard (Assurance Engagements)
Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organisation.

2120. A3 Implementation Standard (Assurance Engagements)
Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.
Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria.

2120. C1 Implementation Standard (Consulting Engagements)
During consulting engagements, internal auditors should address controls consistent with the engagement’s objectives and be alert to the existence of any significant control weaknesses.

2120. C2 Implementation Standard (Consulting Engagements)
Internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organisation.

2130 Governance
The internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- Promoting appropriate ethics and values within the organisation.
- Ensuring effective organisational performance management and accountability.
- Effectively communicating risk and control information to appropriate areas of the organisation.
- Effectively coordinating the activities of and communicating information among the Board, external and internal auditors and management.

2130. A1 Implementation Standard (Assurance Engagements)
The internal audit activity should evaluate the design, implementation, and effectiveness of the organisation’s ethics-related objectives, programs and activities.

2130. C1 Implementation Standard (Consulting Engagements)
Consulting engagement objectives should be consistent with the overall values and goals of the organisation.

2200 Engagement Planning
Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.

2201 Planning Considerations
In planning the engagement, internal auditors should consider:
- The objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity’s risk management and control systems compared to a relevant control framework or model.
- The opportunities for making significant improvements to the activity’s risk management and control systems.

2201. A1 Implementation Standard (Assurance Engagements)
When planning an engagement for parties outside the organisation, internal auditors should establish a written understanding with them about objectives, scope, respective responsibilities and other
expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201. C1 Implementation Standard (Consulting Engagements)
Internal auditors should establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding should be documented.

2210  Engagement Objectives
Objectives should be established for each engagement.

2210. A1 Implementation Standard (Assurance Engagements)
Internal auditors should conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of the risk assessment.

2210. A2 Implementation Standard (Assurance Engagements)
The internal auditor should consider the probability of significant errors, irregularities, non-compliance, and other exposures when developing the engagement objectives.

2210. C1 Implementation Standard (Consulting Engagements)
Consulting engagement objectives should address risks, controls, and governance processes to the extent agreed upon with the client.

2220  Engagement Scope
The established scope should be sufficient to satisfy the objectives of the engagement.

The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220. A2 Implementation Standard (Assurance Engagements)
If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220. C1 Implementation Standard (Consulting Engagements)
In performing consulting engagements, internal auditors should ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations should be discussed with the client to determine whether to continue with the engagement.

2230  Engagement Resource Allocation
Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.
2240 Engagement Work Program
Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

2240. A Implementation Standard (Assurance Engagements)
Work programs should establish the procedures for identifying, analysing, evaluating, and recording information during the engagement. The work program should be approved prior to its implementation, and any adjustments approved promptly.

2240. C1 Implementation Standard (Consulting Engagements)
Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 Performing the Engagement
Internal auditors should identify, analyse, evaluate, and record sufficient information to achieve the engagement’s objectives.

2310 Identifying Information
Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.

2320 Analysis and Evaluation
Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

2330 Recording Information
Internal auditors should record relevant information to support the conclusions and engagement results.

The Head of Internal Audit should control access to engagement records. The Head of Internal Audit should obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330. A2 Implementation Standard (Assurance Engagements)
The Head of Internal Audit should develop retention requirements for engagement records. These retention requirements should be consistent with the organisation’s guidelines and any pertinent regulatory or other requirements.

2330. C1 Implementation Standard (Consulting Engagements)
The Head of Internal Audit should develop policies governing the custody and retention of engagement records, as well as their release to internal and external parties. These policies should be consistent with the organisation’s guidelines and any pertinent regulatory or other requirements.

2340 Engagement Supervision
Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.
2400 Communicating Results
Internal auditors should communicate the engagement results.

2410 Criteria for Communicating
Communications should include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

Final communication of engagement results should, where appropriate, contain the internal auditor’s overall opinion and or conclusions.

2410. A2 Implementation Standard (Assurance Engagements)
Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410. A3 Implementation Standard (Assurance Engagements)
When releasing engagement results to parties outside the organisation, the communication should include limitations on distribution and use of the results.

2410. C1 Implementation Standard (Consulting Engagements)
Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 Quality of Communications
Communications should be accurate, objective, clear, concise, constructive, complete, and timely.

2430 Engagement Disclosure of Non-compliance with the Standards
When non-compliance with the Standards impacts a specific engagement, communication of the results should disclose the:

- Standard(s) with which full compliance was not achieved.
- Reason(s) for non-compliance.
- Impact of non-compliance on the engagement.

2440 Disseminating Results
The Head of Internal Audit should disseminate results to the appropriate parties.

2440. A1 Implementation Standard (Assurance Engagements)
The Head of Internal Audit is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440. A2 Implementation Standard (Assurance Engagements)
If not otherwise mandated by legal, statutory or regulatory requirements, prior to releasing results to parties outside the organisation, the Head of Internal Audit should:

- Assess the potential risk to the organisation.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.
2440. C1 Implementation Standard (Consulting Engagements)
The Head of Internal Audit is responsible for communicating the final results of consulting engagements to clients.

2440. C2 Implementation Standard (Consulting Engagements)
During consulting engagements, risk management, control, and governance issues may be identified. Whenever these issues are significant to the organisation, they should be communicated to senior management and the Board.

2500 Monitoring Progress
The Head of Internal Audit should establish and maintain a system to monitor the disposition of results communicated to management.

2500. A1 Implementation Standard (Assurance Engagements)
The Head of Internal Audit should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500. C1 Implementation Standard (Consulting Engagements)
The internal audit activity should monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 Management’s Acceptance of Risks
When the Head of Internal Audit believes that senior management has accepted a level of residual risk that may be unacceptable to the organisation, the Head of Internal Audit should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the Head of Internal Audit and senior management should report the matter to the Board for resolution.
ANNEXURE 3: INFORMATION SYSTEMS AUDIT AND CONTROL ASSOCIATION (ISACA) CODE OF ETHICS

General
The Information Systems Audit and Control Association, Inc. (the Association) sets forth this Code of Professional Ethics to guide the professional and personal conduct of members of the Association and/or holders of the Certified Information System Auditor (CISA) designation. Members and CISAs shall:

- **Support** the implementation of, and encourage compliance with, appropriate standards, procedures and controls for information systems.
- **Perform** their duties with objectivity, due diligence and professional care, in accordance with professional standards and best practices.
- **Serve** in the interest of stakeholders in a lawful and honest manner, while maintaining high standards of conduct and character, and not engage in acts discreditable to the profession.
- **Maintain** the privacy and confidentiality of information obtained in the course of their duties unless disclosure is required by legal authority. Such information shall not be used for personal benefit or released to inappropriate parties.
- **Maintain** competency in their respective fields and agree to undertake only those activities, which they can reasonably expect to complete with professional competence.
- **Inform** appropriate parties of the results of work performed; revealing all significant facts known to them.
- **Support** the professional education of stakeholders in enhancing their understanding of information systems security and control.

Failure to comply with this Code of Professional Ethics can result in an investigation into a member’s, and/or certification holder’s conduct and, ultimately, in disciplinary measures.
ANNEXURE 4: ISACA GENERAL STANDARDS FOR INFORMATION SYSTEM AUDITING

The ISACA Code of Professional Ethics requires members of ISACA and holders of the CISA designation to comply with the IS Auditing standards adopted by ISACA:

S1 Audit Charter
03 The purpose, responsibility, authority and accountability of the information systems audit function or information systems audit assignments should be appropriately documented in an audit charter or engagement letter.

04 The audit charter or engagement letter should be agreed and approved at an appropriate level within the organisation(s).

S2 Independence
03 Professional Independence In all matters related to the audit, the IS auditor should be independent of the auditee in both attitude and appearance.

04 Organisational Independence- the IS audit function should be independent of the area or activity being reviewed to permit objective completion of the audit assignment.

S3 Professional Ethics and Standards
05 The IS Auditor should adhere to the ISACA Code of Professional Ethics in conducting audit assignments.

06 The IS auditors should exercise due professional care, including observance of applicable professional auditing standards, in conducting the audit assignments.

S4 Professional Competence
03 The IS auditors should be professionally competent, having the skills and knowledge to conduct the audit assignment.

04 The IS auditors should maintain professional competence through appropriate continuing professional education and training.

S5 Planning
03 The IS Auditor should plan the information systems audit coverage to address the audit objectives and comply with applicable laws and professional auditing standards.

04 The IS Auditor should develop and document a risk-based audit approach.

05 The IS auditor should develop and document an audit plan that lists the audit detailing the nature and objectives, timing and extent, objectives and resources required.

06 The IS auditor should develop an audit program and/or plan and detail the nature, timing and extent of the audit procedures required to complete the audit.
S6 Performance of Audit Work
03 Supervision—IS audit staff should be supervised to provide reasonable assurance that audit objectives are accomplished and applicable professional auditing standards are met.

04 Evidence—during the course of the audit, the IS auditor should obtain sufficient, reliable and relevant evidence to achieve the audit objectives. The audit findings and conclusions are to be supported by appropriate analysis and interpretation of this evidence.

05 Documentation—the audit process should be documented, describing the audit work performed and the audit evidence that supports the IS auditor's findings and conclusions.

S7 Reporting
03 The IS auditors should provide a report, in an appropriate form, upon completion of the audit. The report should identify the organisation, the intended recipients and any restrictions on circulation.

04 The audit report should state the scope, objectives, period of coverage and the nature, timing and extent of the audit work performed.

05 The report should state the findings, conclusions and recommendations and any reservations, qualifications or limitations in scope that the IS auditor has with respect to the audit.

06 The IS auditors should have sufficient and appropriate audit evidence to support the results reported.

07 When issued, the IS auditor’s report should be signed, dated and distributed according to the terms of the audit charter or engagement letter.

S8 Follow-Up Activities
03 After the reporting of findings and recommendations, the IS auditor should request and evaluate relevant information to conclude whether appropriate action has been taken by management in a timely manner.

S9 Irregularities and Illegal Acts

03 In planning and performing the audit to reduce audit risk to a low level, the IS auditor should consider the risk of irregularities and illegal acts.

04 The IS auditor should maintain an attitude of professional scepticism during the audit, recognising the possibility that material misstatements due to irregularities and illegal acts could exist, irrespective of his/her evaluation of the risk of irregularities and illegal acts.

05 The IS auditors should obtain an understanding of the organisation and its environment, including internal controls.

06 The IS auditor should obtain sufficient and appropriate audit evidence to determine whether management or others within the organisation have knowledge of any actual, suspected or alleged irregularities and illegal acts.
07 When performing audit procedures to obtain an understanding of the organisation and its environment, the IS auditor should consider unusual or unexpected relationships that may indicate a risk of material misstatements due to irregularities and illegal acts.

08 The IS auditors should design and perform procedures to test the appropriateness of internal control and the risk of management override of controls.

09 When the IS auditor identifies a misstatement, the IS auditor should assess whether such a misstatement may be indicative of an irregularity or illegal act. If there is such an indication, the IS auditor should consider the implications in relation to other aspects of the audit and in particular the representations of management.

10 The IS auditors should obtain written representations from management at least annually or more often depending on the audit engagement. It should:
   • Acknowledge its responsibility for the design and implementation of internal controls to prevent and detect irregularities or illegal acts.
   • Disclose to the IS auditor the results of the risk assessment that a material misstatement may exist as a result of an irregularity or illegal act.
   • Disclose to the IS auditor its knowledge of irregularities or illegal acts affecting the organisation in relation to:
     - Management
     - Employees who have significant roles in internal control
   • Disclose to the IS auditor its knowledge of any allegations of irregularities or illegal acts, or suspected irregularities or illegal acts affecting the organisation as communicated by employees, former employees, regulators and others

11 If the IS auditor has identified a material irregularity or illegal act, or obtains information that a material irregularity or illegal act may exist, the IS auditor should communicate these matters to the appropriate level of management in a timely manner.

12 If the IS auditor has identified a material irregularity or illegal act involving management or employees who have significant roles in internal control, the IS auditor should communicate these matters in a timely manner to those charged with governance.

13 The IS auditor should advise the appropriate level of management and those charged with governance of material weaknesses in the design and implementation of internal control to prevent and detect irregularities and illegal acts that may have come to the IS auditor’s attention during the audit.

14 If the IS auditor encounters exceptional circumstances that affect the IS auditor’s ability to continue performing the audit because of a material misstatement or illegal act, the IS auditor should consider the legal and professional responsibilities applicable in the circumstances, including whether there is a requirement for the IS auditor to report to those who entered into the engagement or in some cases those charged with governance or regulatory authorities or consider withdrawing from the engagement.

15 The IS auditor should document all communications, planning, results, evaluations and conclusions relating to material irregularities and illegal acts that have been reported to management, those charged with governance, regulators and others.
S10 IT Governance
03 The IS auditor should review and assess whether the IS function aligns with the organisation’s mission, vision, values, objectives and strategies.

04 The IS auditor should review whether the IS function has a clear statement about the performance expected by the business (effectiveness and efficiency) and assess its achievement.

05 The IS auditor should review and assess the effectiveness of IS resource and performance management processes.

06 The IS auditors should review and assess compliance with legal, environmental and information quality, and fiduciary and security requirements.

07 A risk-based approach should be used by the IS auditor to evaluate the IS function.

08 The IS auditors should review and assess the control environment of the organisation.

09 The IS auditor should review and assess the risks that may adversely affect the IS environment.

S11 Use of Risk Assessment in Audit Planning
03 The IS auditor should use an appropriate risk assessment technique or approach in developing the overall IS audit plan and in determining priorities for the effective allocation of IS audit resources.

04 When planning individual reviews, the IS auditor should identify and assess risks relevant to the area under review.

S12 Audit Materiality
03 The IS auditors should consider audit materiality and its relationship to audit risk while determining the nature, timing and extent of audit procedures.

04 While planning for audit, the IS auditor should consider potential weakness or absence of controls and whether such weakness or absence of control could result into significant deficiency or a material weakness in the information system.

05 The IS auditors should consider the cumulative effect of minor control deficiencies or weaknesses and absence of controls to translate into significant deficiency or material weakness in the information system.

06 The report of the IS auditor should disclose ineffective controls or absence of controls and the significance of the control deficiencies and possibility of these weaknesses resulting in a significant deficiency or material weakness.

S13 Using the Work of Other Experts
03 The IS auditors should, where appropriate, consider using the work of other experts for the audit.
04 The IS auditor should assess and be satisfied with the professional qualifications, competencies, relevant experience, resources, independence and quality control processes of other experts, prior to engagement.

05 The IS auditors should assess, review and evaluate the work of other experts as part of the audit and conclude the extent of use and reliance on expert’s work.

06 The IS auditor should determine and conclude whether the work of other experts is adequate and complete to enable the IS auditor to conclude on the current audit objectives. Such conclusion should be clearly documented.

07 The IS auditor should apply additional test procedures to gain sufficient and appropriate audit evidence in circumstances where the work of other experts does not provide sufficient and appropriate audit evidence.

08 The IS auditors should provide appropriate audit opinion and include scope limitation where required evidence is not obtained through additional test procedures.

S14 Audit Evidence
03 The IS auditors should obtain sufficient and appropriate audit evidence to draw reasonable conclusions on which to base the audit results.

04 The IS auditors should evaluate the sufficiency of audit evidence obtained during the audit.

S15 IT Controls
03 The IS auditors should evaluate and monitor IT controls that are an integral part of the internal control environment of the organisation.

04 The IS auditors should assist management by providing advice regarding the design, implementation, operation and improvement of IT controls.

S16 E-Commerce
03 The IS auditors should evaluate applicable controls and assess risk when reviewing e-commerce environments to ensure that e-commerce transactions are properly controlled.
ANNEXURE 5: ETHICAL VALUES FOR ENUGU STATE GOVERNMENT EMPLOYEES

The Ethical Values for Enugu State Government Employees issued in 2007 provides that the core values that are essential for employment in the state public service are:

- Honesty
- Impartiality
- Integrity
- Service

The objectives of these ethical values are to provide framework for employees to be seen to act solely in the public interest and within the law. This would uphold public confidence in the State and enhance productivity.

Basic Code of Conduct for Employees

Employees of Enugu State Government are expected to observe the following code of conduct:

- **Honesty, Integrity and Fairness**: Employees must perform their duties with honesty, integrity, impartiality and objectivity.
- **Accountability**: Employees must be accountable to the Government in discharging their duties and actions. They must abide by the rules and regulations issued from time to time by the Government in performing their functions.
- **Respect for Others**: Employees must treat their colleagues with respect, irrespective of their position and background. There should be no discrimination and above all, professionalism should be maintained in inter-personal relationship with peers and the general public.
- **Stewardship**: Employees must use public funds entrusted in their care in a responsible and lawful manner. They should not use government property or facilities for personal benefits, unless they are authorised to do so.
- **Indication of Interest**: Employees should not solicit for gifts, fees, reward or favours for any act done in the course of their service. Staff should declare any hospitality, benefits or gifts received while in employment.
- **Declaration of Assets**: Eligible employees should declare their assets or interests in line with the Constitution of the Federal Republic of Nigeria and the Civil Service Rule.
- **Reporting of Misconduct:** Employees who observe their colleagues carrying out illegal act must report such conduct to their Supervisors, Head of Departments or higher authorities. Staff should not connive with perpetrators of such act to conceal it.

- **Personal Interest:** Employees should not allow their personal interests to conflict with official position. No staff should use his official position to confer advantage or disadvantage on any person.

- **Confidence:** Employees should not disclose information given to them in confidence. Also confidential information obtained in the course of work should not be disclosed to anyone without consent of appropriate authority.

- **Appointment of Staff:** Employees should not influence discipline, promotion or pay affecting their close friends or relations. Staff should be fair in offering employment opportunities to the public, and not consider their local tribes or acquaintances.

- **Trust:** Employees should conduct themselves in a manner that encourages others (both staff and general public) to trust them in their dealings.
ANNEXURE 6: GENERAL PRINCIPLES OF SOUND INTERNAL AUDITING

Internal Auditors are respected Officers and are expected to apply sound ethical principles in their conduct and daily activities. The following are some of the important principles expected from quality Internal Auditors:

- **Integrity**: The integrity of Internal Auditors establishes trust which provides the basis for reliance on their judgment.

- **Objectivity**: Internal Auditors shall exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors shall make a balanced assessment of all the relevant circumstances and shall not be unduly influenced by their own interests or by others in forming judgment.

- **Confidentiality**: Internal Auditors shall respect the value and ownership of information they receive and shall not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**: Internal Auditors shall apply the knowledge, skill and experience needed in the performance of internal auditing services.

### A: Expected Conduct of Internal Auditors

Quality Internal Auditors should strive to observe the following conduct in their daily operations:

- Internal Auditors shall perform their work with honesty, diligence and responsibility.

- Internal Auditors shall observe the law and make disclosure expected by the law and the profession.

- Internal Auditors shall not knowingly be a part to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organization.

- Internal auditors shall respect and contribute to the legitimate and ethical objectives of the organization.
B. Objectivity in the Conduct of Internal Auditors

Internal Auditors are expected to exhibit the practice of objectivity in their conduct as follows:

- Internal Auditors shall not participate in any activity or relationship that may impair or be presumed to impart their unbiased assessment. This participation includes those activities or relationship that may be in conflict with the interest of the organisation.

- Internal Auditors shall not accept anything that may impair or be presumed to affect their professional judgment.

- Internal Auditors shall disclose all material facts known to them that if not disclosed, may distort the reporting of activities under review.

C. Confidentiality as Attribute of Internal Auditors

Internal Auditors shall maintain confidentiality of information that comes to their knowledge as follows:

- Internal Auditors shall be prudent in the use and protection of information acquired in the course of their duties.

- Internal Auditors shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.
ANNEXURE 7: PICTORIAL DESCRIPTION OF INTERNAL AUDIT PLANNING METHODOLOGY

Timing

Our Audit plan should be prepared at least once a year and revised bi-annually to align it with current significant risks. There should also be a multi-year plan to ensure sufficient audit coverage of the MDA.

Create Content

Our Audit plan should summarise assessment of overall risks surrounding each process. This leads to selection of areas to be audited and shows the relationship between planned engagements and risks.

Discussions with Auditor General Office

Engage Auditor-General of Enugu State to identify other auditable areas not highlighted by Internal Audit. This step would also avoid duplication of effort.

Auditor General

The Auditor-General of Enugu State approves the annual and bi-annual revised plan.

Convey Plan

Internal Audit communicates the audit plans to Accounting Officer of the MDA.

Report on Plan

Internal Audit reports progress on the audit plan to Auditor-General of Enugu State and Accounting Officer of the MDA periodically as agreed.

Internal Audit (IA) draws up the following in developing the audit plan:

- IA risk assessments.
- Strategic and operational plans/initiatives (including Winning projects).
- Senior management input.
- Risk documentation.
- Auditor General Management Letter.
- Global audit hotspots.
- The previous year’s approved plan.

This plan focuses on the following:

- End-to-end review of processes.
- Estimates of resources needed and the impact of resource and skill limitations.
- Assurance services
- Effective completion and implementation of management action plans arising from previous audit work.
## ANNEXURE 8: LIST OF SYMBOLS AND PROCESS FLOWCHART

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="Symbol" /></td>
<td><strong>Process (Manual):</strong> A manual (non-computerised) process, action or operation.</td>
</tr>
<tr>
<td><img src="image2.png" alt="Symbol" /></td>
<td><strong>Process (Computerised):</strong> A computerised process, or operation.</td>
</tr>
<tr>
<td><img src="image3.png" alt="Symbol" /></td>
<td><strong>Decision:</strong> A decision/question within the process.</td>
</tr>
<tr>
<td><img src="image4.png" alt="Symbol" /></td>
<td><strong>Document/Report:</strong> Any document, form or report used in the process.</td>
</tr>
<tr>
<td><img src="image5.png" alt="Symbol" /></td>
<td><strong>Risk:</strong> Inherent risk. Documented in risk &amp; control matrix, with numeric reference number.</td>
</tr>
<tr>
<td><img src="image6.png" alt="Symbol" /></td>
<td><strong>On-Page Connector:</strong> Process continues on the same page. Use an alphabetical sequence to distinguish.</td>
</tr>
<tr>
<td><img src="image7.png" alt="Symbol" /></td>
<td><strong>Off-Page Connector:</strong> Process continues on different page. Use an alphabetical sequence to distinguish.</td>
</tr>
<tr>
<td><img src="image8.png" alt="Symbol" /></td>
<td><strong>Comment:</strong> Additional information applicable to the process.</td>
</tr>
<tr>
<td><img src="image9.png" alt="Symbol" /></td>
<td><strong>Connectors:</strong> Link process steps</td>
</tr>
<tr>
<td><img src="image10.png" alt="Symbol" /></td>
<td><strong>Yes/No label:</strong> Decision labels</td>
</tr>
</tbody>
</table>

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## ANNEXURE 9: TYPES OF AUDIT TESTING

### Part A

- Facilitated meetings
- Interviewing
- Questioning
- Observation and Inspection
- Documentation Review
- Confirmation/Representation
- Analytical review
- Data Analysis
- Vouching and Verifying
- Process mapping
- Process tracing
- Surveys
- Scanning
- Reconciliation
- Recalculation and Valuation

### Part B

<table>
<thead>
<tr>
<th>Test Description</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| **Facilitated Meetings** | ▪ Facilitates immediate sharing of ideas and synthesis of different opinions.  
E.g. Schedule Officers Customers and suppliers. With focus groups, many of these people can participate in an active interchange of ideas and issues.  
Auditee shares in the decision making process. | ▪ The success of the focus group method is highly dependent on the ability of the facilitator to focus the group on the achievement of the meeting objectives.  
▪ An individual may conform to group answers due to real or imagined peer pressure.  
Significant time investment required by management. |
| **Interviewing**         | ▪ Direct interface with personnel involved in the business process - facilitates greater understanding of the business.  
▪ Interviewers have the chance to probe for further details.  
▪ Effective way to identify opinions, causes and possible solutions to problems.  
▪ Clarification of questioning is possible before | ▪ Issues conveyed may be merely a one-sided perception of management and not actual business practice.  
▪ Data can be difficult to obtain, organise and analyse.  
▪ Interviewers must be trained to elicit valuable information - this involves the use of open-ended questioning versus closed ended |
<table>
<thead>
<tr>
<th>Questioning</th>
<th>Observation and Inspection</th>
<th>Documentation Review</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Questioning</strong>&lt;br&gt;Questioning is probably the most pervasive technique used by the Auditor who is reviewing operations. This type of testing may involve suggesting a viewpoint of the process to gauge management reaction, i.e. point interviewing.</td>
<td><strong>Observation and Inspection</strong>&lt;br&gt;Observing involves a careful, knowledgeable look at documents processed, activities and assets. It means a visual examination with a purpose, a mental comparison with standards.</td>
<td><strong>Documentation Review</strong>&lt;br&gt;This involves a review of existing reports and documents to identify controls, to understand the business or process, and to provide evidence in supporting audit conclusion.</td>
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<tr>
<td>▪ Builds on previously accumulated knowledge of the auditee and attempts to provide management with interpretation of issues with an opportunity for them to provide their viewpoint of the process.&lt;br&gt;▪ Attempts to identify &quot;root causes&quot; of identified errors or issues.&lt;br&gt;Can be an efficient technique in obtaining information from management, which may otherwise have not been volunteered to the audit team.</td>
<td>▪ Tends to provide a greater understanding of the business through audit involvement with operational personnel.&lt;br&gt;▪ Information collected reflects actual behaviour.&lt;br&gt;▪ Information collected is current, not retrospective.</td>
<td>▪ Unobtrusive.&lt;br&gt;▪ Highly valid as data is quantifiable, historical and objective.&lt;br&gt;▪ Strong base to build questioning upon.</td>
</tr>
<tr>
<td>▪ Unskilled interviewer can make respondent uncomfortable or defensive.</td>
<td>▪ Tests typically need to be corroborated with other procedures.&lt;br&gt;▪ Potentially time consuming.&lt;br&gt;▪ Difficult to record data and observe large numbers of people or activities.&lt;br&gt;▪ Random observation may not provide an adequate evaluation of the process due to fluctuations in volume or activity.&lt;br&gt;▪ Workers may alter their behaviour if they know their work is being reviewed.</td>
<td>▪ A skilled auditor is needed to apply historical documents to the current situation and to identify areas where interpretation is required of the document.&lt;br&gt;▪ Auditors may incorrectly assume that procedural manual documentation as provided is available to and actually used by intended users.&lt;br&gt;▪ Risks may be misinterpreted without involving client personnel in the review or corroborating the results through other types of tests.</td>
</tr>
<tr>
<td>Confirmation/Representation</td>
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</tr>
<tr>
<td><strong>Confirmation or representation</strong> is frequently prepared by the Auditor, completed by the relevant party, then delivered directly back to the Auditor. Confirmations and representations may be obtained either externally or internally.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Usually viewed as reliable audit evidence.</td>
<td>- Confirmation and representations should be corroborated with other information gained through alternative audit testing.</td>
<td></td>
</tr>
<tr>
<td>- May be a useful tool to evaluate extent to which relevant party &quot;is prepared&quot; to formally confirm or represent. For example, management may state in an interview that controls are sufficient but may be reluctant to sign a document that represents this.</td>
<td>- Confirmations need to be obtained from relevant and appropriate persons.</td>
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<tr>
<td>Analytical Review:</td>
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<tr>
<td><strong>Comparison of inter-relationships among sets of data, and the comparison of these relationships with some pre-defined expected relationship may be referred to as analytical testing.</strong></td>
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<tr>
<td>- Sound basis for determining the reasonableness of historical or forecast data.</td>
<td>- Lack of availability of appropriate and reliable data may limit the ability to develop effective analytical procedures.</td>
<td></td>
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<tr>
<td>- Facilitates strong understanding of business activities and relationships and provides a structured basis for identification of areas requiring further analysis.</td>
<td>- Unstable operating environments create increasing difficulties in predicting relationships.</td>
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<tr>
<td>- Can be used effectively as an audit test to assess the need for more detailed audit testing. Can be used in initial stages of the audit to identify problem areas to focus audit reviews/testing.</td>
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<tr>
<td>Data Analysis and Exception Tests:</td>
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<tr>
<td><strong>Analysis and query of historical data files to identify trends, problem areas, exceptions, etc.</strong></td>
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<tr>
<td>- Provides a more scientific and rigorous approach than scanning type procedures.</td>
<td>- Significance of exception items identified needs to be evaluated in the overall business context.</td>
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<tr>
<td>- Used effectively to quantify the significance or incidence of a certain event or non-event.</td>
<td>- Data required may not be available in a readily usable format and may become costly to &quot;manipulate.&quot;</td>
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<tr>
<td>- Data analysis can be used to understand the volume or magnitude of certain events or values, which may assist in further refining and limiting audit testing.</td>
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<td>- Sample file can be selected automatically.</td>
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<tr>
<td>- Efficient, accurate method of analyzing a large amount of data.</td>
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<td>- Ideal application for statistical sampling.</td>
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<tr>
<td>Vouching and Verifying</td>
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<tr>
<td>- May be the most efficient and effective audit procedure to verify a particular management</td>
<td>- Method and reasonableness of sample selection of items to vouch has a significant bearing on</td>
<td></td>
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</tbody>
</table>
| Tests to prove that recorded events or values took place through examination of supporting documents or systems. Detailed examination of a set of worker’s absence is an example of a vouching test. | assertion.  
- Provides "hard" audit evidence of certain infractions or errors.  
- Provides "hard" audit evidence that stated controls are operating effectively. | the appropriateness of conclusions which may be drawn. Particular consideration must be made of whether to select vouching samples based on a statistical selection of sample sizes and items or to judgmentally select items for review.  
- May be difficult to determine the proper level of detail to process map.  
- May not meet requirements if a structured detailed flowchart is required.  
- Process mapping analysis can be time consuming. |
|---|---|---|
| **Process Mapping** | Process mapping analysis may be used as a test of business practices. In particular, where the completeness of controls or logic of business procedures is being assessed, process mapping provides a tool to identify weaknesses or inefficiencies. | Provides a clear documentation trail to support an evaluation of controls or processes.  
- Provides a complete technique for assessing a process.  
- Readily understood by the client. |
| **Walk Through** | Tracing procedures beginning with original documents and following their lifecycle through process. | Process tracing may be used to verify that controls exist to ensure transactions are complete.  
- May uncover process errors not identified through other audit steps.  
- May be used to confirm process understanding gained through process mapping.  
- Workers may alter their behaviour if they know their work is being reviewed.  
- Sample selected for testing may be too subjective and not reflective of trends in the business process. |
| **Surveys** | Surveys are commonly used to gauge perceptions of a business activity. | Efficient and confidential method of obtaining information.  
- Reaches a large group in limited time.  
- Responses are quantifiable.  
- No special training needed to administer.  
- Questionnaires can be developed based on the company's procedural manuals or standards of conduct to gain comfort over management controls in certain areas.  
- Requires time and technical skills to develop an effective survey instrument.  
- Questionnaires should be cleared by management first.  
- Risk of low return rates.  
- Risk of unintended and/or inappropriate responses.  
- May not get at causes of and solutions to problems.  
- Respondents’ understanding of questions cannot be clarified.  
- Inappropriate sampling selection risks apply. |
| **Scanning**          | Cost effective method of identifying unusual items.  
A trained auditor can detect unusual items very efficiently and search for correlations or notice consistencies in the data previously unrecognised.  
May not be effective if unusual items are difficult to identify or auditor is inexperienced at spotting unusual items.  
Likelihood of not detecting errors increases with the volume of data. |
|----------------------|-------------------------------------------------|
| **Reconciliation**   | May provide valuable insight as to business issues and risks underlying the process. For example, a detailed book to physical analysis may identify problems in goods dispatch and inventory production recording and monitoring processes. It may disclose incidence of fraud.  
Time consuming.  
Root causes may not necessarily be identified. |
| **Recalculation and Valuation Tests:** | May provide the most efficient method to evaluate the outcome of a certain process.  
Important to view the calculation in terms of total audit risk - for example, recalculation of interest income may not be useful if one-third of loans will never be collected.  
Recalculation may be complex and time consuming.  
May require assistance of Consultants, particularly where a valuation is being assessed – E.g. Property value. |

A less detailed procedure which is intended to detect the unusual. The effectiveness of scanning depends on the author’s ability to identify the “unusual” items and sift through large quantities of data to flag unusual items.