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**Generic Internal Audit Manual
for Central Civil Ministries
of
Government of India**

**Ministry of Finance
Department of Expenditure
O/o Controller General of Accounts
Internal Audit Division**



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Central Civil Ministries
of
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Issued by

**Centre of Excellence
Internal Audit Division
O/o Controller General of Accounts
Department of Expenditure
Ministry of Finance**

ACRONYMS

AAO	Assistant Accounts Officer
AO	Accounts Officer
ACL	Audit Command Language
ATR	Action Taken Report
CA	Controller of Accounts
C&AG	Comptroller & Auditor General
CAAT	Computer Assisted Audit Techniques
CAE	Chief Audit Executive (refers to Pr. CCA/ CCA/ CA)
CCA	Chief Controller of Accounts
CIPFA	Chartered Institute of Public Finance and Accountancy
COSO	Committee of Sponsoring Organizations
Dy.CA	Deputy Controller of Accounts
DDO	Drawing and Disbursing Officer
IAW	Internal Audit Wing
ICAI	Institute of Chartered Accountants of India
IDEA	Interactive Data Extraction and Analysis
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
Pr.CCA	Principal Chief Controller of Accounts
Sr. AO	Senior Accounts Officer

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PREFACE

The Controller General of Accounts has been mandated to “oversee the maintenance of adequate standards of accounting by Central Civil Accounts Offices” in terms of the Allocation of Business Rules and has provided guidance for the conduct of internal audit in the civil ministries/departments since the departmentalization of accounts in 1976.

Internationally the entire internal audit function has evolved rapidly so as to now become a tool for sound financial management. The revised charter of Financial Advisors has augmented the scope of internal audit within the Government. To fulfil the role envisaged for the CCAs/CAs, the Controller General of Accounts has adopted a multi-pronged strategy which includes efforts to strengthen the institutional mechanism governing the internal audit practice in the Government of India and a road map for modernization.

This generic internal audit manual is an effort in this direction. It is intended as a tool to guide the internal audit engagements and to that extent, is extensive in its coverage of the various aspects of such engagements, from developing an appropriate internal auditing work programme, to planning, performing, reporting and following up on the audit engagements. The manual seeks not only to explain the complexities associated with the internal audit function but also facilitates the entire process by providing audit process templates, guidelines and checklists.

This document is intended to assist the central civil ministries/departments to develop their own detailed Internal Audit Manuals. I expect that the Pr. CCAs/CCAs/CAs will endeavour to complete this task expeditiously.

I would like to acknowledge the sustained effort of the Internal Audit Division in the CGA’s office. My appreciation is also due to all those officers within the Organisation who have given valuable suggestions and feedback, contributing to the shaping of this generic internal audit manual.

Dated: 30th September, 2014

New Delhi



(Jawahar Thakur)

Controller General of Accounts

Introduction

The Controller General of Accounts has the responsibility for establishing and maintaining a technically sound accounting system in the Departmentalised Accounts Offices and towards this to establish an efficient internal audit set up in the central civil ministries. The scope of Internal Audit function, prescribed by the Controller General of Accounts, is codified in the Civil Accounts Manual and the Inspection Code issued by his office. Rule 64 of the General Financial Rules 2005 designates the Secretary of the Ministry/Department as the Chief Accounting Authority who is responsible and accountable for financial management of his/her Ministry/Department. The internal audit wings in the departmentalised accounting set up, headed by Pr.CCAs/CCAs/CAs and working under the overall supervision of the Financial Adviser in the Ministry/ Department assist the Secretary in discharge of this responsibility.

As central civil ministries have expanded both in terms of their role and reach and changed in terms of institutional delivery mechanisms and increasing focus on transparency and accountability, the expectations from Internal Audit are also manifesting themselves in different ways. The constantly changing internal and external environments present internal audit with rapidly evolving requirements to which it must respond effectively.

The key objectives of ministries and departments in Government of India include:

- a. proper management of public resources and government authority while ensuring compliance with laws, regulations, policies and procedures
- b. ensuring reliability of financial reporting, and
- c. ensuring operational efficiency and effectiveness

To align the objectives of Internal Audit Wings with the these strategic objectives of the Ministries, the Ministry of Finance, Department of Expenditure O.M F.No.5(6)/L&C/2006 dated June 1, 2006 (Annexure) laying down the redefined charter for Financial Advisers detailed the roles and responsibilities the internal audit wing working under the control and supervision of CCAs/CAs and stipulated that internal audit move beyond the existing system of compliance/regulatory audit and would focus on-

- ✚ Appraisal, monitoring and evaluation of individual schemes;
- ✚ Assessment of adequacy and effectiveness of internal controls in general, and soundness of financial systems and reliability of financial and accounting reports in particular;
- ✚ Identification and monitoring of risk factors (including those contained in the Outcome Budget);
- ✚ Critical assessment of economy, efficiency and effectiveness of service delivery mechanism to ensure value for money; and
- ✚ Providing and effective monitoring system to facilitate mid-course corrections.

Hence, Internal Audit Wings are now expected to focus on efficiency and effectiveness in government operations and proper management of public resources.

Internal Audit Wings can serve as an effective tool for providing objective assurance and advice that add value, enhance governance, assist risk management and control processes and improve accountability for results.

The Internal Audit Wings in Civil Ministries work directly under the Pr.CCA / CCA / CA with the overall responsibility resting with the Financial Adviser and the Secretary of the Ministry / Department concerned. The Principal Accounts Office (Pr.AO), the Pay and Accounts Office (PAO) as well as offices of Drawing and Disbursing Offices (DDO) in Ministries / Departments, Indian Missions and other Government of India offices abroad, are within the jurisdiction of internal audit organization of the concerned Ministry / Department. In addition to these offices, internal audit is also required to audit the implementing agencies for various schemes and programmes of the Ministry / Department. The accounts of all grantee institutions or organizations are open to inspection by the sanctioning authority and audit, both by the C&AG of India and internal audit by the Principal Accounts Office of the Ministry / Department, whenever the Institution or Organization is called upon to do so and a provision to this effect should invariably be incorporated in all orders sanctioning grant in

aid.¹ The checks conducted by Internal Audit will include checking of initial accounts maintained in the executive offices to ascertain compliance with rules and regulations, systems and procedures in accounting and financial matters. The scrutiny should inter-alia cover loans and advances, disposal of confiscated stores, review of installation and operating efficiency of expensive equipment and machinery and examination of records relating to physical verification of stores, equipment / tools and plants. Assessment of adequacy and effectiveness of internal controls and a critical assessment of economy, efficiency and effectiveness of service delivery mechanism to ensure value for money so as to facilitate mid-course corrections must also be ensured.

To achieve this, it is imperative that internal audit wings working under the Pr. CCAs/ CCAs/ CAs in civil ministries are empowered both in terms of trained staff in adequate numbers and by way of standardised policies and procedures that guides internal audit practice in these Ministries.

This Generic Internal Audit Manual seeks to explore and explain the complexities of internal auditing in the changed scenario in a manner that is both easily understandable and is relevant to the current requirements. This Manual broadly covers all aspects which internal audit wings must address in the detailed internal audit manuals prepared by them. Towards this, checklists have been developed for use by Internal Audit Wings (IAW) in their internal audit engagements. The use of checklists across Ministries / Departments assures that highest standards relative to format, consistency, completeness, quality and presentation are achieved. The format that has been designed for the checklist simplifies the auditor's task and also contributes to the objectivity of internal audit process.

More specifically, this manual is intended to provide Internal Audit Wings (IAW) in central civil ministries with practical guidance, tools and information for assessing risk associated with the processes and activities in respective Ministries; developing an appropriate internal auditing work program; and planning, performing, reporting and following up on audit engagements. It is intended to facilitate the performance of audit engagements with the independence, objectivity, proficiency and professional care, as are essential for proper

¹ Rule 211 (1) of GFR

discharge of internal audit practice in the Government of India. Towards this, audit process templates (including risk matrices, transmittal communications, memos, reports, and presentations) along with related procedures and working paper content guidelines are also available in this generic manual. These guidelines are of a very broad nature and have to be supplemented by detailed instructions to be issued by each Ministry / Department. The overall purpose of this document is to assist the central civil ministries in developing their detailed Internal Audit Manuals that would specify the duties and functions of the IAWs with particular reference to the conditions prevailing in the Ministry / Department.

Theoretical Framework

A sound public financial management system necessitates that resources are valued correctly, receipts are realized in full and expenditure is incurred in an economical, efficient and effective manner. Additionally, since public funds are involved there must be a continuous assurance to all stakeholders, but most importantly to citizens of the country, that the primary objectives of ministries and departments in Government of India are clearly spelt out and strategies are in place to achieve these objectives. There must also be a reasonable assurance that risks which may adversely impact the achievement of these objectives have been identified, assessed and have been contained within acceptable levels.

It is therefore essential that there is an explicit acknowledgement of risks which may impede the ongoing efforts and activities, an appropriate response to these risks, a well designed control system and a strong and effective internal audit mechanism which constantly evaluates these controls, reports upon their adequacy and efficacy and ensures mid course corrections through an institutionalized follow up system. Since these risks can be both internal and external, it is equally important that the assurance is present even in the face of change i.e. the systems are designed to permit and facilitate regular reviews and corrective measures.

Accountability is a core principle in democratically elected governments and stakeholders wish to be assured that

- public resources are managed properly and used in compliance with laws and regulations;
- government programs are achieving their objectives and desired outcomes;
- government services are being provided ethically, efficiently, economically and effectively.

Governments have traditionally relied upon in-built controls in the governance systems, like “checks and balances” and “segregation of duties” to promote accountability in governance structures and on rules, regulations, policies and procedures like General Financial Rules, Receipt & Payment Rules etc. to promote accountability in governance processes. An allied

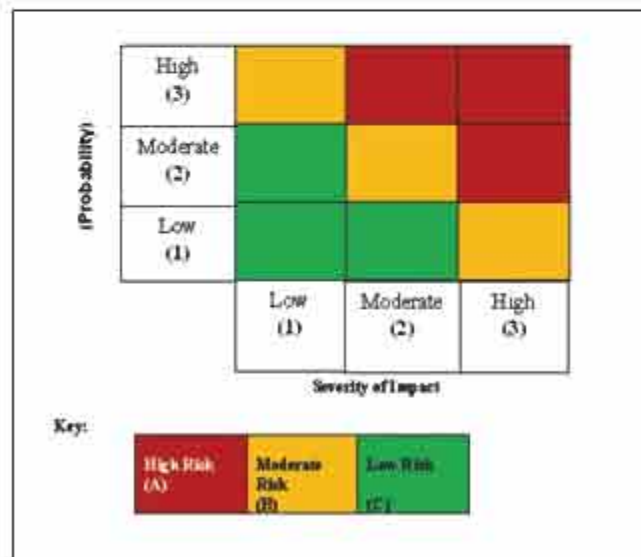
objective is to establish controls that prevent misuse and wastage of resources and facilitate achievement of objectives of Government of India. Thus, the present system of government financial management has a mechanism in place to guide departments in their day to day operations.

Audits, both external and internal, have traditionally sought to report on deviations from these controls by offices and officials in performance of their duties as part of regular work. Such audits, known as Compliance Audits or Regularity Audits have thus tried to improve governance, build up the public's trust in government and thereby strengthen democracy.

The primary difference between the traditional and modern approach to Internal Audit lies in the explicit recognition of the concepts of "risks" and "controls" in modern internal audit practice.

Risks & Controls

Risks can be understood as the possibility of an event occurring that will have an adverse impact on the achievement of objectives. For the organisation to be protected from the adverse impact of such risks, it is essential that each such risk is identified, assessed and measured in terms of impact (severity) and likelihood of occurrence (probability) and then an appropriate response is developed to address these risks.



Risk Cause Likelihood	How Likely is the Risk Cause to Occur?
High	It is highly likely to occur.
	Performance data shows evidence of an inability to meet the requirements. The process is extremely difficult to perform.
Moderate	It is probable or likely to occur.
	No data available to show the ability to meet requirements. The process is somewhat difficult to perform.
Low	It is unlikely that the risk will occur.
	Performance data shows evidence that the requirements will be met. It is a common process and not difficult to perform.

Figure 1

Some activities are inherently more prone to risk than others, e.g. procurement activities would be more prone to risks than accounting for expenditure. Similarly, in other cases a change in circumstances may affect the risk structure, e.g. year end expenditure may be driven by considerations to avoid lapse of budget and hence may necessitate closer monitoring of controls.

In analyzing risks, the following questions should be asked:

- What can go wrong?
- What is the probability of it going wrong?
- What are the consequences?

The process can also be depicted diagrammatically, as shown below:

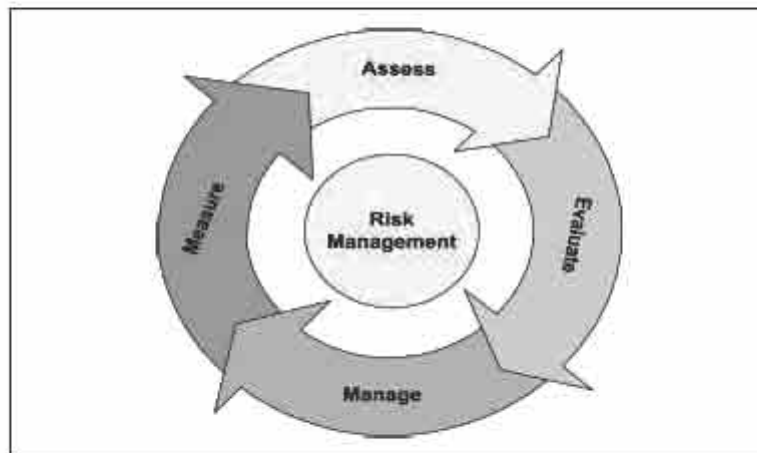
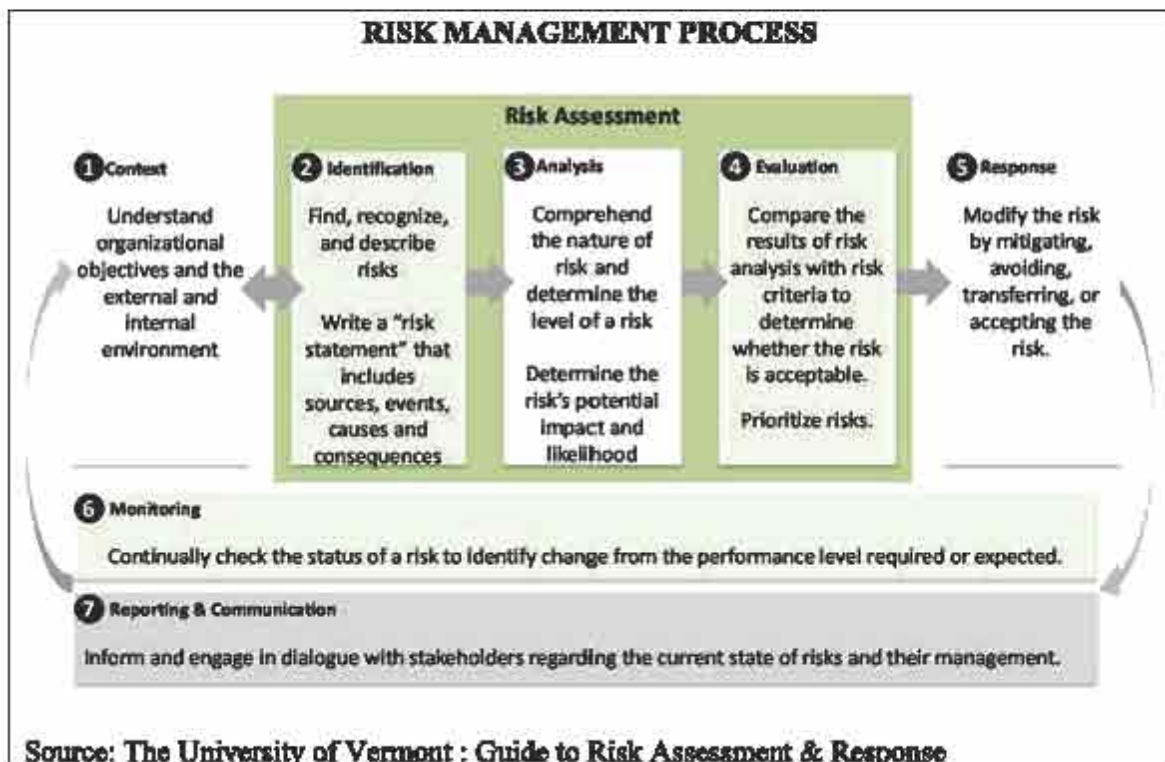


Figure 2

After having identified and evaluated the risks, Ministries/ Departments need to develop a response to either eliminate the risk or to contain it within acceptable limits. The options available at this stage are to transfer, tolerate, terminate or treat the risk.

Obtaining insurance is an example of transferring the risk. A risk may also be tolerated if the cost of appropriate control is so high as to outweigh the consequential benefits; or when the adverse outcome from the risk is inconsequential. Termination of a risk may be necessitated if there is likelihood that presence of such risk may result in grave consequences or even in complete failure of the project/ scheme. This may sometimes call for cessation of the activity itself - a decision not always possible in Governments because of the political and social sensitivities involved. Of the available options, treatment of risks through appropriate control activities is often the most obvious choice before Ministries/ Departments and hence the most relevant for the purposes of this manual.

Some risk may still remain, even after instituting necessary controls, but it may be advisable to tolerate such "residual risk" especially if the costs to eliminate these are very high and they are found to be within acceptable limits. Acceptable risk is a risk that is understood and tolerated usually because the cost or difficulty of implementing an effective countermeasure



Source: The University of Vermont : Guide to Risk Assessment & Response

Figure 3

exceeds the expectation of loss. What is “acceptable risk” is a judgement that is exercised by the Management. Since controls have associated costs, it is important to ensure that the benefits of risk reduction are greater than the cost of controls.

In formal terms Controls comprise actions taken by management, the audit committee, and other parties to manage risks and increase the likelihood that established objectives and goals will be achieved.

Internal Control Framework

Internal Control is an integral process that is operated by an organization’s management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of organization’s mission, the following general objectives are achieved:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage

Committee of Sponsoring Organizations (COSO) has developed an internal control framework that is widely accepted across organisations and countries, the world over. The key concepts of COSO framework include:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

Internal controls are thus continuous processes, and not isolated efforts or events, which provide a reasonable assurance that controls are in place to mitigate identified risks. According to the COSO Framework, everyone in an organization has responsibility for internal control to some extent. Virtually all employees produce information used in the

internal control system or take other actions needed to affect control. The commitment of people in the organisation, especially those at the top, is critical to implementation of internal controls within the organisation. This control environment sets the tone of an organisation and includes integrity, ethical values of the individuals and of the organisation as a whole.

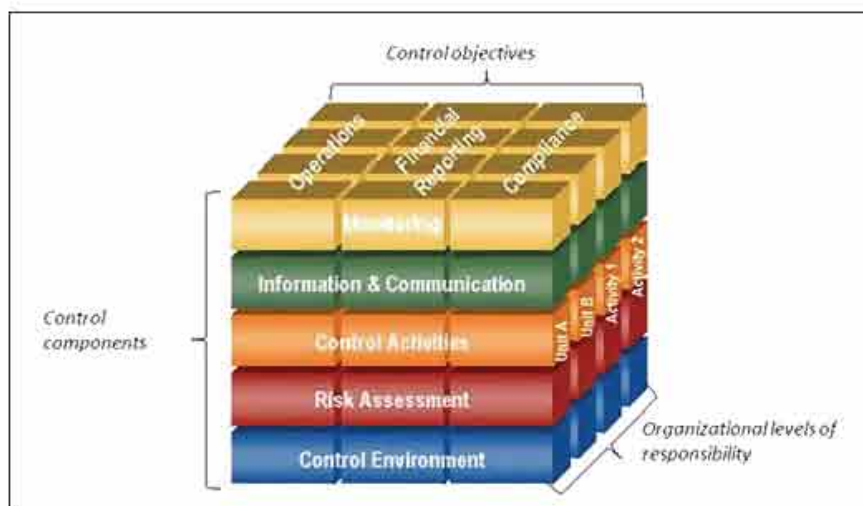


Figure 4

Risk assessment is the process of identifying and analyzing relevant risks which threaten achievements of the organisation's objectives and determining the appropriate response. Elements of risk assessment are risk identification, risk evaluation (assessing the likelihood and significance of the risk and then categorising the risk as High, Medium or Low) and risk acceptance (understanding and defining the level of risk the organisation is able to live with). This is important because control activities designed to mitigate risks have a cost and hence it may sometimes be prudent to live with a risk – since the costs of eliminating these risks may be much more than the benefits which are likely to accrue from these efforts.

Control activities are primarily of two types – preventive controls (prevent a risk from occurring – e.g. barring entry of unauthorised personnel in government offices, segregation of duties, limiting access to sensitive information) and detective controls (controls that help to discover inaccuracies, misconduct etc.– e.g. preparing bank reconciliation statements, monitoring and supervision etc.).

Some examples of control activities

- Segregation of duties – separating authorization, custody, and record keeping roles.
- Authorization of transactions – review of particular transactions by an appropriate person.
- Retention of records – maintaining documentation to substantiate transactions.
- Supervision or monitoring of operations.
- Physical safeguards – use of cameras, locks, physical barriers, etc. to protect property.
- Top-level reviews-analysis of actual results versus organizational goals or plans, periodic and regular operational reviews, metrics, and other key performance indicators.
- IT Security controls – Controls to ensure that access to systems and data is restricted to authorized personnel, such as usage of passwords and review of access logs.
- IT application controls – Controls over information processing enforced by IT applications, such as edit checks to validate data entry, accounting for transactions in numerical sequences, and comparing file totals with control accounts.

An efficient internal control system is immensely useful to the organisation in reducing misuse and waste of resources and facilitates the achievements of the stated goals and objectives of the Ministry/ Department.



Figure 5

For controls to function effectively, Management must receive feedback about control activities in a timely and reliable manner. Hence, communication should flow down, across and up the organization, through all components and the entire structure. The internal control system should also be monitored through a well designed process of review to ensure that it functions in an optimal manner. Monitoring activities normally comprise ongoing monitoring activities and /or separate evaluations. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control is most effective when controls are “built in” and not “superimposed” on the entity’s systems and operations. In built control support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

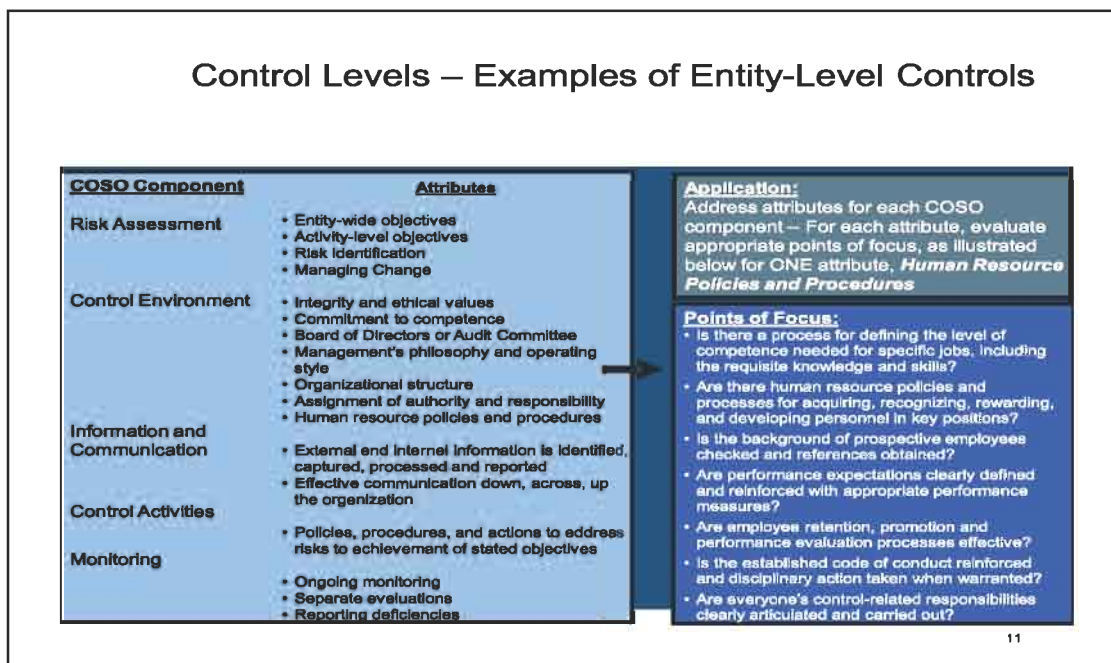


Figure 6

Internal Audit, itself a critical component of the internal control system, is entrusted with this review function. As is evident, like all controls, internal audit activities also entail costs and hence in keeping with overall objective of economy, efficiency and effectiveness of expenditure, the internal audit function must also be conducted with due regard to these principles.

Internal Audit

The need for an Internal Audit function in Ministries and Departments primarily stems from the need for feedback to Management through periodic review of internal controls. The primary function of an internal audit practice is thus “measurement and effectiveness of other controls.”² A situation where internal audit is both a part of the internal control system and is also required to comment on adequacy and effectiveness of other internal controls places it in a unique position.

Thus, internal audit aids Management by providing a periodic feedback about functioning of internal controls and suggesting measures to strengthen them.

Definitions

To design an efficient and effective internal audit function in government, it is necessary to ensure that practices meet widely accepted norms.

INTOSAI's³ standard ISSAI 1003 defines the internal audit function as “an appraisal activity established or provided as a service to an entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy of internal control.”

CIPFA⁴ defines internal audit as “Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the internal control environment as a contribution to the proper, economic, efficient and effective use of resources”.

The **Institute of Internal Auditors (IIA)**⁵ has developed the definition of internal auditing, as follows:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its

² Internal Audit is 'a managerial control which functions by measuring and evaluating the effectiveness of other controls' (The Institute of Internal Auditors, New York).

³ INTOSAI : International Organisation of Supreme Audit Institution

⁴ CIPFA

⁵ www.iaa.org

objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The **Institute of Chartered Accountants (ICAI)**⁶ of India defines internal audit as “ an independent management function, which involves a continuous critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system.”

All these definitions visualise internal audit practice as a function aimed at evaluating the adequacy and effectiveness of risk management, governance and control processes thereby adding value and improving an organisation’s operations. In the context of government and public sector functioning, it is equally important to acknowledge that serving public interest must be the overriding objective guiding these operations.

Traditionally, the focus of internal audit has been on compliance with rules, regulations, policies and procedures. As is evident from the definitions above and from the role assigned to the Internal Audit Wings in the Revised Charter of Financial Advisors issued by Ministry of Finance in June 2006, the remit of Internal Audit has been enlarged. While Compliance Audit remains important, internal auditors are now expected to focus on evaluation of controls with reference to the risks and to provide an assurance to the Management that the controls are functioning in the intended manner and hence there is a reasonable assurance that the goals and objectives of the Ministry/ Department will be achieved. Through this, Internal Audit contributes to the efforts to strengthen governance processes in Ministries/ Departments.

The definitions above also establish that Internal Auditors can and may be expected to provide a range of services to the executive authorities. These include audit activities and other value added services. However, Assurance and Consulting services are the two primary services expected from Internal Auditors.

Assurance services are the internal auditor’s objective assessment of evidence to provide an independent opinion or conclusion regarding processes, systems, or mechanisms put in place by the executive to ensure achievement of objectives and accomplishment of goals.

⁶ www.icaai.org

Consulting services, on the other hand, are advisory in nature, focussed on positive recommendations to improve performance and/ or controls and are generally performed at the specific request of the government agency. When performing consulting services the internal auditors should maintain objectivity and not assume management responsibility.

In performance of both these services, Internal Audit is expected to focus on assessing whether governance, risk management and control processes provide reasonable assurance that:

- significant financial, managerial, and operating information is accurate, reliable, and timely;
- resources are acquired economically and used efficiently;
- assets are safeguarded;
- actions of the organization are in compliance with policies, procedures, contracts, and applicable laws and regulations; and
- significant programs, plans, and business objectives will be achieved.

In the process of evaluating whether public agencies are accomplishing their objectives, auditors gather and analyze information and thereafter report on events and developments which affect adequacy and effectiveness of elements of the control systems. These comments provide an opportunity to the management to initiate necessary remedial measures and take steps for improvement in program delivery. Further, they provide a reasonable assurance that improprieties have not occurred and if they have, they will be reported and appropriate follow-up action will be taken.

Discharge of these duties therefore require not only a change from a compliance based approach to a risk based audit approach, it also necessitates a detailed knowledge of the working of the various wings of the Ministry, the risks associated with the processes employed by them, an evaluation of their performance in terms of use of public funds, the output of various activities and of the outcome in the context of stated objectives.

An efficient and effective Internal Audit practice therefore warrants that the Internal Audit Wings in Ministries are manned by trained and competent staff and supervisory officers.

Simultaneously, its independence should be ensured through an internal audit charter and a clear mandate. The quality of internal audit and performance of the internal audit wings should be assured by instituting an effective oversight mechanism in the Ministry by establishing an Audit Committee in the Ministry and through an external review conducted by the office of Controller General of Accounts. Ultimately, the utility of an Internal Audit practice rests on an adequate appreciation of its role by the Management and an effective follow up system to implement the suggestions of Internal Audit.

Types of Internal Audit

In government entities, Internal audit may be required to conduct various types of audit including regularity audit, propriety audit, performance audit, audit of autonomous bodies, IT audit, financial audit etc. Some of these are briefly discussed below.

Regularity Audit (Audit against Rules and Orders)

Regularity Audit primarily focuses on verifying that the expenditure conforms to the laws, rules, regulations and orders governing the powers to incur and sanction expenditure and the procedure to be followed by government servants in dealing with government transactions. Such audits also verify whether the rules and orders regulating the conditions of service and pay and allowances and pensions of Government servants are adhered to.

The internal auditor is expected to bring to the notice of Management instances of deviations from the rules /orders on the subject and to suggest remedial measures. The responsibility for further action in the matter rests with Management.

Propriety Audit

During Propriety Audit, the focus is on actions/ events which suggest improper expenditure or waste of resources even if such expenditure is covered under rules and no obvious irregularity may appear to have been committed. Propriety Audit, "extends beyond the formality of the expenditure to its wisdom, faithfulness and economy" (Hallam). Thus, the scope of propriety audit extends beyond regularity audit to identify cases of improper or infructuous expenditures which may have been incurred in conformity with existing rules and regulations.

Performance (Value for Money) Audit

The focus of Performance Audit is to ascertain whether the stated objectives of Ministries and Departments have been achieved with due regard to economy and efficiency in expenditure. This audit examines the relationship between inputs, outputs and outcomes in development schemes and programmes to ensure that

- the expenditure incurred was not in excess of the requirement (ECONOMY);
- the output has been achieved with the minimum amount of inputs or that for given amount of inputs, maximum possible output has been achieved (EFFICIENCY); and
- the expenditure incurred has resulted in achievement of the intended objective (EFFECTIVENESS).

Hence, Performance Audit focuses on a comprehensive review to assess and evaluate the economy, efficiency and effectiveness of development schemes, projects or organisations. Such audits provide information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Information Systems Audit

Many government departments have computerized their operations. The focus of Information Systems Audit, also referred to as IT Audit, is to determine whether IT systems have been designed to achieve organisational goals. The focus of audit is on the attributes of data (correct, consistent and reliable data stored and disseminated as per authorised procedure), assets (hardware & software) and resources (technological, physical and human resources).

Financial Audit

Financial audit provides reasonable assurance that the financial statements of the organization present a true and fair view. In case of government accounts, this audit is performed by the C&AG.

Grant or contract audits

Grant and contract audits are designed to evaluate compliance with the conditions of grants, the contracting process and third party contractual performance.

Fraud and financial irregularity audits

Fraud and financial irregularity audits are designed to verify the existence and magnitude of suspected fraud and financial irregularities. Internal audit may be requested to conduct a fraud and financial irregularity audit as a result of discovery or suspicion of a fraud or financial irregularity having taken place.

To sum up, the various kinds of audits differ in their focus, scope and approach. Internal Audit is primarily used for verification of the effectiveness of internal controls in operation and compliance with laws, rules, regulations, government orders, etc.

Risk Based Auditing

“Risk based Auditing” is an approach that focuses on the organisational response to the risks it faces in achieving its goals and objectives. The context for audits is thus provided by the Department’s objectives, the associated risks and the risk management process rather than on “controls” and deviations therefrom. The role of the internal auditor too shifts from an examination of compliance with controls to a review of the risk management processes.

In the absence of an explicit recognition of risks and of well designed and sufficiently robust risk management processes embedded within government systems, it would not be possible yet for Internal Audit to rely on the Department’s own view of risks while determining the scope of an audit engagement. A pragmatic approach requires that Internal Audit, in conjunction with management, undertakes the risk assessment exercise and accordingly draws up its audit plan. Over time, it should be possible to place greater reliance on the risk assessments done by Departments and the risk- control matrices developed by them.

Audit Sampling: Once audit areas have been identified on the basis of “exposure to risks”, audit is generally carried out by conducting a test check of some transactions. A hundred percent audit check is not necessary as the objective of audit can be well served by a test check.

'Audit sampling' means the application of audit procedures to less than 100% of the items within a class of transactions to enable the auditor to obtain and evaluate audit evidence

about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population.

One way of selecting audit areas could be internal auditors' assessment of risk of deviation from the norms. Areas where discretion is exercised by the department are normally considered more risky than where the rule is clear and permits no deviation. Further, while higher value transactions need not necessarily be more risky, internal auditors normally choose to examine many such transactions, given the material impact of such transactions. Materiality, however, is not a consideration where compliance is required by law. Past audit reports provide a good guide to control environment of an organization and internal auditors are invariably be guided by these too when selecting audit areas. Also, vouchers relating to the month of March are invariably selected based on past experience relating to the nature of "March rush" expenditures.

Often, transactions are selected by auditors based on their experience, intuition and judgement. However, in the absence of a scientific basis for selection, it becomes difficult to extrapolate the audit findings to the entire population. However, the sheer simplicity of this sampling methodology makes it popular.

Statistical Sampling: If audit findings are to be extrapolated to the entire population, it is desirable to use statistical sampling methods. Since this method ensures that all units of the population have an equal chance of selection, bias is eliminated. The theoretical underpinnings of statistical sampling also permit the auditors to assert their audit findings with a known "degree of confidence".

Sample size: Determination of the sample size and selection of the sampling technique are two important issues during statistical sampling. Sample size is influenced by various factors including the purpose of audit, population size and homogeneity, required level of precision and level of confidence.

For smaller population, the entire group can be used as a sample. However, this is not feasible with larger populations due to the cost considerations involved in the collection of the data in the form of questionnaires, etc. Past audits of the organisation also yield valuable information which can be used to determine the sample size in future audit engagements. Similarly, for homogenous population a small sample size may suffice but this would not

hold good in other situations. In general, a sample size of 10 percent or more would be considered reasonable.

Some statistical sampling techniques which are commonly used in audit include:

Random Number sampling: once all items in the population have been numbered, a random number generator can be used to select the sample.

Interval Sampling: In this method, the sample consists of all items which are placed at defined intervals. Hence, in an expenditure audit, using this method the internal auditor may select every tenth or fifteenth voucher or thirty fifth voucher for examination. The interval would be decided by the size of the population and the number of vouchers required for examination.

Stratified Sampling method: is used when the population can be divided into discrete homogenous groups and then a pre-decided number of items are selected from each group for examination.

Attribute sampling: is a sampling technique used to select items from a population for audit testing purposes based on selecting all those items that have certain attributes or characteristics. This type of sampling will help the auditor evaluate internal controls over a large number of similarly characterized transactions. It is more objective in nature and depending upon the compliance (yes) or non-compliance (no) of the transactions with policy and procedures and set standards the item can be chosen.

Computer Assisted Audit Techniques (CAATs)

With increasing computerization of government operations, information is widely available in the digitised form. Thus, over a period of time, large volumes of electronic data and databases are present in government ministries and departments. The large databases however pose a formidable challenge if relevant data has to be manually extracted from this data. Manual Audit limits the amount of data that can be audited especially in the given time frame. Computer Assisted Audit Techniques (CAATs) are computer based tools which can help auditors in carrying out various tests on Data or IT System. They are especially useful when significant volume of data is available electronically.

CAATs facilitate an examination and analysis of electronic records and permit 100% testing of data in a short span of time, repeated tests on different files/data and standardisation of audit activity. Many varieties of Tools are available for Computer Aided Audit. These products exist in two broad categories- Computer Aided Audit Tools which can be used as “Add On” to already installed programme like Excel, MS Access. The other category is of General Purpose Audit Software which is ready built and available off-the-shelf. These are developed to meet the specific requirements of Auditors. Commonly used General Purpose Audit Software includes IDEA (Interactive Data Extraction and Analysis) and ACL (Audit Command Language). It is desirable that Internal Audit Wings should train the internal audit staff to use these tools in conduct of audit engagements.

Computer Assisted Audit Techniques

Auditors are under increasing pressure, whether internal or external, to deliver better quality services. In the beginning there were 'tick and check' audits where the auditor had a green pen and ticked transactions as he/she tested them. Then there was a systems-based audit, which moved away from 'tick and check' and looked at the key controls surrounding the system. With the arrival of cheap computer hardware and the extensive use of computer systems we now have CAATs. What we don't yet have is extensive use of CAATs by generalist auditors. In the old days we, as auditors, would take the books of account from the client in order to audit them. Why then because it's in electronic format would we not take the data in the same way now? The principles have not changed, it's the practices that should change in line with the times. Auditors must be able to improve the quality of the service at all times if they are to maintain and strengthen their role within organizations. It is worth remembering that a strong internal audit department is a strong control mechanism and this will enhance and improve the organization's long-term standing.

Auditors themselves must think data. Once you have good data and you know how to manipulate them you can apply that skill routinely across any database. The essence of the 'Big Brother' society that we all now live in is based in principle on CAATs or its equivalent to conduct data matching, so whether we like it or not it's here, and as auditors we had better get with it. Auditors who fail to embrace new techniques will in future find themselves surplus to requirements, as younger auditors who know very little of the past will embrace new technological skills as second nature. The quality of the audit product is what will provide longevity for the auditor while elevating the audit service within the organization in which the service operates.

Source: THE INTERNAL AUDITING HANDBOOK (Second edition)
K. H. Spencer Pickett

Management of Internal Audit in Government

Purpose and Scope

Organizational Setup of Ministries/Department: The Internal Audit Wing in a Ministry/ Department must meet the needs of the Ministry. Therefore, the Ministry's objectives and structure must be understood for an effective discharge of internal audit functions. In the detailed Internal Audit Manual drawn up by the Ministries, this section of the manual should detail the structure and organizational setup of the Ministries/Department. The section should contain details of departments, divisions within the Ministry along with appropriate details of reporting channels. The focus areas of the Ministry and major schemes implemented by the Ministry may also be mentioned in this section. A brief description of structure and function of the Ministry would help the internal auditors in understanding the context of Internal Audit function as well.

Mandate of Internal Audit: The requirements for Internal Audit should be detailed in a clearly defined audit mandate. The Internal Audit Charter formally documents the audit mandate and the powers granted to it to achieve the stated objectives. The charter defines the framework within which internal audit operates, establishes the functional and administrative reporting lines of internal audit, establishes the position of internal audit within the organization and serves as the foundation for the annual audit plan. A carefully developed audit mandate and charter are critical for establishing an effective internal audit function and defining its duties.

To provide an effective oversight mechanism for functioning of the Internal Audit Wings in individual ministries, an Audit Committee should be constituted in each Ministry. Secretary of the Ministry/ Department would chair the Audit Committee, the other members of which would include Financial Advisor (Vice Chairperson), Chief Controller of Accounts/ Controller of Accounts (Convener/ Member Secretary) and Program Division Heads as members. Subject experts may also be associated wherever necessary. The alternative could be to enlarge the mandate of existing Standing Audit Committees to include oversight and stewardship of the Internal Audit function as one of its responsibilities. Internal audit contributes to improved governance by reporting critical internal control problems,

suggesting questions or topics for the Audit Committee's meeting agendas, and coordinating carefully with the external auditor and management to ensure the Committee receives effective information.

The terms of reference of the Audit Committee should include:

- Ensure development of an effective system of Risk Management within the Ministry and ensure that this system supports the controls which, in turn provide a reasonable expectation of achieving the organizations objectives.
- Supervise the overall functioning of Internal Audit Wing of the Ministry and establish priorities for its functioning;
- Provide the strategic direction and facilitate availability of resources for effective discharge of responsibilities of the Internal Audit Wing of the Ministry;
- Approve the internal audit charter and establish the role, responsibility and structure of Internal Audit function within the Ministry.
- Approve the annual internal audit plan;
- Evaluate performance of the Internal Audit Wing of the Ministry and offer guidance, as may be necessary, to improve its functioning and effectiveness;
- Ensure that internal audit observations and suggestions are implemented by audited units to improve efficiency in operations and compliance with rules & procedures;
- Determine modalities to resolve key audit issues brought out by the Internal Audit Wing of the Ministry.

The internal audit function should have a formal reporting relationship with the Audit Committee. The Chief Audit Executive (Pr. CCA/ CCA/ CA) should put up a quarterly review of the Internal Audit function before the Audit Committee which would take up significant issues with the concerned divisions both in writing and in review meetings organized for this purpose. Audit Committee may also assign special audits to the Chief Audit Executive (CAE) of the Ministry and may direct that for such audits CAE would report directly to the Audit Committee within a prescribed time-frame.

Internal Audit Charter: Rule 64 of the GFR (2005) delineates the responsibility for sound financial management to the Secretary of the Ministry/ Department and states that being the Chief Accounting Authority he shall ensure that his Ministry or Department maintains full and proper records of financial transactions and adopt systems and procedures that will at all times afford better internal controls. In pursuance of these changes, the charter of Financial Advisors has also been revised in 2006. The revised charter stipulates that Internal Audit Wings working under the control and supervision of CCAs/ CAs would move beyond compliance/regulatory audit and focus on:-

- i) Assessment of adequacy and effectiveness of internal controls in general, and soundness of financial systems and reliability of financial and accounting reports in particular;
- ii) Identification and monitoring of risk factors (including those contained in the Outcome Budget);
- iii) Critical assessment of economy, efficiency and effectiveness of service delivery mechanism to ensure value for money; and
- iv) Providing and effective monitoring system to facilitate mid course corrections.

The revised charter has augmented the scope of internal audit, from merely ascertaining whether the rules and regulations have been followed and procedures in accounting and financial matters complied with to include appraisal and evaluation of individual schemes, assessment of adequacy of internal control, monitoring of risk factors, efficiency etc.

The detailed manual of each Ministry/ Department should have an internal audit charter, which is approved by the Audit Committee.

A model internal audit charter could be as follows:

Role of Internal Audit Function: Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Ministry's operations. It would facilitate achievement of Ministry's objectives by evaluating and improving the effectiveness of risk management, control and governance processes. Internal audit is concerned with controls that ensure:

* Reliability and integrity of financial and operating information

- * Effectiveness and efficiency of operations
- * Safeguarding of assets.
- * Compliance with laws, regulations and contracts.

The Internal Audit function in Ministry of _____ would aim at improving the overall operating effectiveness of the programmes by conducting an independent evaluation of operations with respect to policy guidelines, scheme provisions and objectives and make suggestions to improve performance of the implementing units. While evaluating performance of spending units, audit would look into planning, execution and monitoring mechanisms focus on control weaknesses and suggest ways to improve the control mechanisms. Internal Audit would also comment on risks which may exist and impede achievement of intended objectives.

Internal Audit function would also comment on compliance by various field formations with rules, policies and procedures established by the Government of India in general and Ministry of _____ in particular. Internal Audit would also check the accuracy of accounting and financial records maintained by various executive offices of the Ministry of _____ and would focus on compliance with rules and regulations to be followed in this regard.

The mandate of internal audit would include examination and evaluation of all aspects of functioning of the spending units and would not be limited to compliance audit only. It would help in identification and monitoring of risk factors and carry out a critical assessment of economy, efficiency and effectiveness of service delivery mechanism to ensure value for money and assist Financial Advisers in the appraisal, monitoring and evaluation of individual schemes.

The audit plan would concentrate on extensive coverage of the high risk areas and would set up its audit priorities and coverage based on risk assessment and available resources. Internal Audit would thus provide an effective monitoring system to facilitate mid course corrections.

Responsibilities: Programme divisions are responsible for maintaining an adequate system of internal controls to manage risks which may adversely impact achievement of objectives. Internal audit would provide assurance services to the spending units, the programme

divisions and the audit committee in terms of reviewing the adequacy of these systems of internal control. Internal audit may also provide a consulting role in facilitating the development of effective systems of risk management and internal control, but ensure that it does not assume the role of management. In addition, and subject to the availability of resources, audit would seek to respond to programme divisions' requests for special audits which may have a specific and defined objective.

Annual Audit Programme: By 15th of January every year, Internal Audit Wing would submit an Annual Audit Programme, for the next financial year, through the Financial Advisor to the Audit Committee and thereafter perform the audits approved by the Audit Committee, in the manner defined in the audit manual. Annual Audit Programmes would be based on the risk assessments carried out by the Divisions and take into account issues derived from the current audit strategy that is approved by the audit committee. Wherever the Divisions have not completed the risk identification and categorisation exercise, the Chief Audit Executive may make his/ her own assessment in this regard and explain the same in the annual audit plan.

Reports: All audit reports will be issued within one week of the approval of report by Chief Audit Executive of the Ministry. Reports which have significant issues would be circulated with the approval of Vice Chairman of the Audit Committee. Also summary of major observations on the basis of work done by the Internal Audit parties during a financial year would be brought out in the Annual Audit Review for the Ministry and would be submitted to the Chairperson of the Audit Committee. This Annual Audit review should also be submitted to the Office of Controller General of Accounts in the prescribed format by 31st May (Annexure I). The programme divisions would be required to take follow up actions on the audit report and significant non compliance would be brought to the notice of the Audit Committee for adequate action. Reports would be addressed to Secretary of the Ministry and be circulated only to such other officials/ institutions as may be approved by the Audit Committee.

Access: Internal Audit would have unfettered access to all officers, buildings, information, explanations and documentation required to discharge the audit responsibilities in a comprehensive and effective manner.

Independence: Internal audit would be required to provide an objective audit service in line with the Guidelines and Code of Ethics issued by the office of Controller General of Accounts. Independence of Internal Audit Wing of the Ministry would be ensured by providing a clear mandate to it. The performance of Internal Audit with respect to Guidelines and Code of Ethics would also be periodically reviewed by the office of Controller General of Accounts. Results of this assessment will be shared by Chief Audit Executive with the Audit Committee in the Ministry.

Organization Structure of Internal Audit Wing: The internal audit function would be headed by a Principal Chief Controller of Accounts/Chief Controller of Accounts/Controller of Accounts who will function as a Chief Audit Executive (CAE) in the Ministry. Chief Audit Executive would report to the Secretary of the Ministry through Financial Advisor of the Ministry. Functionally, Internal Audit would report to an Audit Committee chaired by Secretary of the Ministry, with Financial Advisor of the Ministry being its Vice Chairman and Chief Audit Executive (or an officer nominated by him) as its Member Secretary. Audit Committee would also have other division heads/ members from Finance Wing to provide inputs for the function. The composition would be decided in consultation with the Chairman of the Audit Committee.

Role of Audit Committee: Audit Committee would supervise the overall functioning of Internal Audit Wing of the Ministry and establish priorities for its functioning. It would approve the Internal Audit Charter, provide the strategic direction and facilitate availability of resources for effective discharge of responsibilities of the internal audit practice in the ministry. It would specify the areas which may be taken up for audit as part of work program of the relevant financial year. Audit Committee would have an oversight over the functioning of internal audit of the Ministry and all the major and significant audit observations would be presented to the Committee. It would deliberate on modalities to resolve key audit issues brought out by the Internal Audit Wing of the Ministry. The Committee would also evaluate performance of Internal Audit Wing and offer guidance, as may be necessary, to improve its functioning and effectiveness.

Internal Audit Management Team: Each Ministry should also have an Internal Audit Management Team for a closer supervision of the Internal Audit function of the Ministry and to ensure quality assurance in audit engagements. The management team would be headed by Chief Audit Executive and would comprise key functionaries of the Accounts and Audit wings of the Ministry. This would also serve as a forum for discussion and cross-fertilization of ideas to improve the quality of internal audit. The Management Team would meet regularly to discuss execution of approved annual audit plan of the Ministry, coordinate the work program of different audit teams and also to decide upon the approach to various audits. Guidance and Advisories to the audit teams would be issued by the Management Team as may be required. The Management Team may also discuss and decide upon ways to improve performance of internal auditors in the individual audit engagements.

Audit Teams and Staff: The audit teams would comprise regular internal audit staff posted in the Internal Audit Wing of the Ministry, staff from Pay and Accounts Offices not directly involved with payment and accounting of the auditee unit, such other officials of the Ministry who may be considered necessary and Consultants who may be hired as appropriate and necessary to deliver the audit program. Teams would conduct internal audit as per the approved program. No auditor should audit his own decision nor should he be involved in audit of a unit where he may have worked within the past one year.

Types of Audit Services: The Internal Audit Wing of the Ministry of _____ would undertake Assurance Engagements and Consulting Engagements as per the overall directions of the Audit Committee. Besides, the Internal Audit Wing of the Ministry would take special audit engagements with defined Terms of Reference given by the executive wing of the Ministry. These special engagements would be intimated to the audit committee in the next meeting of the committee.

Internal Audit Process

The internal audit process comprises five main phases:

- Planning the audit engagement;
- Preparing for Audit;
- Performing the audit engagement;
- Reporting upon the audit engagement; and
- Follow up Action

These phases can be seen at the level of the individual audit engagement as also for the internal audit function for the Ministry. At the individual audit engagement level, the internal auditor establishes what is going to be audited (planning), gathers relevant information from internal & external sources and prepares a work programme (preparation), implements the approved plan (performing), communicates the results achieved (reporting) and reports on implementation of agreed improvement measures (follow up). It should also be noted that while internal auditing consists of the above-noted phases, detailed methodology including audit programs and relevant testing may need to be tailored to a specific internal audit, e.g. information technology, finance, operations, etc. For ease of understanding, these phases can be compressed into the planning, execution and reporting phase. Further, if the primary focus of the internal auditing engagement is advice rather than assurance, the process may be amended in consultation with the Chief Audit Executive of the Ministry.

Planning of the audit engagements should include preliminary survey and research about the auditee unit. The input of senior management and the Board is typically included in this process. Background study about the scheme/operations/activity of the auditee unit will give an idea about the activities undertaken and controls present in the system and would help in deciding the focus and approach of the audit engagement. The appropriate level of testing and evaluation of Controls would be decided upon depending on time and resources available. Some basis for this testing exercise must also be considered and documented (Random sampling, judgmental sampling etc.).

The audit report or the final engagement communication should be issued mentioning the key findings of audit. The report should be concise and bring out all significant and material observations. The findings should be supported by audit evidence which should form a part of the working papers. There should be proper indexing of working papers given as annexures to the report. Also, the audit observations included in the main body of the report and evidence mentioned in the annexures should be appropriately referenced and cross-referenced.

A typical internal audit assignment involves the following steps:

1. Establish and communicate the scope and objectives for the audit to appropriate management.
2. Develop an understanding of the operational area under review. This includes objectives, measurements, and key transaction types. This involves review of documents and interviews. Flowcharts and narratives may be created if necessary.
3. Describe the key risks facing the business activities within the scope of the audit.
4. Identify control procedures used to ensure each key risk and transaction type is properly controlled and monitored.
5. Develop and execute a risk-based sampling and testing approach to determine whether the most important controls are operating as intended.
6. Report problems identified and negotiate action plans with management to address the problems.
7. Follow-up on reported findings at appropriate intervals. Internal audit departments maintain a follow-up database for this purpose.

Duration of audit assignments vary based on the complexity of the activity being audited and Internal Audit resources available. Many of the above steps are iterative and may not all occur in the sequence indicated. By analysing and recommending business improvements in critical areas, auditors help the organization to meet its objectives. In addition to assessing business processes, Information Technology (IT) Auditors also review information technology controls.

Planning and preparing for Audit Engagements

Audit planning comprises both development of a macro plan (Annual Audit Programme) and audit plans for specific audit assignments. The plan establishes the priorities of the internal audit activity, consistent with the organization's goals and objectives.

Annual Audit Programme

The Annual Audit Programme is developed in consultation with Management after factoring in the changes in external and internal environment. To facilitate smooth conduct of audit engagements, annual audit programmes should be finalised by 15th January every year and communicated to various auditee units and other stakeholders giving sufficient notice. A copy of the annual plan should also be sent to the O/o CGA. Since it would not be possible for the Internal Audit Wings to audit all units every year, prioritisation is necessary. Risk analysis and availability of audit resources are important considerations while deciding audit priorities. Efforts should be made however to audit key activities or units every year while ensuring that other units are also covered within a defined period.

While preparing the Annual Audit Programme, it would be safe to plan for about 210 working days (after deducting weekly holidays, public holidays, eligible leave, time required for travel, preparation of reports, follow up activities, training etc). If previous experience suggests that special audits may also need to be undertaken, then the requirements thereof should also be factored in. An average of 10 working days may be kept for regular audits and 15 – 23 days for special audits. Given the number of audit teams (1 Sr. AO/ AO, 2 AAOs, 2 Accountants) available in the Ministry, the number of units to be audited can be decided. The parameters mentioned earlier could be used to select the units to be audited in the audit cycle covered by the Annual Audit Programme.

Development of Annual Audit Programme: The annual work program outlines a prioritized list of proposed audit engagements, including the indicative audit scope for each engagement and an estimate of required resources.

Review and Updating of Audit Universe: The audit universe is the aggregate of all areas that are available to be audited within the Ministry/ Department. To define the universe, the

organization can be organized/ segregated into auditable activities/ units, which may be defined by function or activity, by organizational unit or division, or by project or program etc. Some examples of auditable activities include information systems, major contracts and functions such as procurement, payment and accounting. The budgetary allocations to the units/schemes/organizations etc. are also a consideration in deciding upon the audit universe. The audit universe should be carefully selected and emphasis should be on Risk Assessment and critical areas of operations of the Ministry. The annual assessment of risks within the audit universe and the identification of manageable audit engagement entities establish the internal audit priorities.



Figure 7

Risk Assessment and Prioritization: The Risk Assessment process should be an elaborate exercise conducted in coordination with various executive authorities of the Ministry. This should decide upon the processes/units/ activities/schemes which should be audited. The

priorities should be on the basis of risk perception and rating of the organization. While selecting the number of units of similar types to be audited, a Random Sampling technique should be used so that the selected sample is representative of the actual population. A part of judgmental sampling may also be used for selecting areas, states and/ or districts for auditing. The risk assessment and work program preparation process should be reviewed regularly and refined as necessary to ensure that it remains efficient and comprehensive and provides adequate documentation of key decisions. This should be decided in consultation with the Audit Committee. A broad scope of annual audit plan should also be approved by the Audit Committee. The detailed audit program assigning resources for the individual audits would be decided by the Chief Audit Executive of the Ministry.

Identification of Organizations/Processes and Areas with High Risk Rating: Based on the risk rating exercise the work program of internal audit could be finally developed. In the initial stages, this exercise would involve substantial judgment of the auditors and executive authorities. The process would mature once Risk Registers are developed in the Ministries and Risk Committees are put into place and become functional and active.

Inclusion of Special Audit Engagements into Work Programs: Special audits, as and when assigned by the Ministry, would be undertaken by the Internal Audit Wing as per Terms of Reference given by the Ministry. The Audit Committee should be informed about these engagements subsequently.

Planning Individual Audits

Internal Audit activities involve expenditure of public funds. Hence, it is important that each audit engagement is conducted in an economical, efficient and effective manner. Developing an audit plan for each audit engagement is the first step in this direction.

Planning the Audit Engagements: During this phase of the engagement, the Supervisor and team members develop a good working knowledge and understanding of the business objectives, processes, operations, and associated risks of the subject of the audit engagement, including recent changes in major systems. On completion of this phase, the audit team would have identified and documented the significant risks and key controls at the audit engagement level, evaluated the effectiveness of design of these controls, and developed plans to test their operating effectiveness.

Background study and research by the audit team about the Audit Unit/Organization to understand its business operations and critical priority areas: The objectives of organization/scheme/activity of the government should be understood well so that the focus of audit is aligned to achievement of objectives of the organization/scheme/activity. Audit team members should initiate an in-depth review of the subject of the engagement so as to develop a sound understanding of its management and business processes and practices, policies and procedures, and external and internal environment. It is important to keep in mind any significant and recent or proposed changes to the subject of the engagement, and any issues of management concern. Knowledge gained through audit engagements and other sources should be used to update this information and to develop an improved understanding, particularly in respect of schemes being implemented by the Department.

Preliminary analysis of key controls and risks faced by the organization: Risks involved in running a department depend upon operations of the department. It is important to consider information obtained from the assessment of risks and key controls at the institutional level when assessing risks and related controls at the audit unit level. In this respect, the auditors determine whether significant entity-wide risks were identified at the institutional level that must be assessed at the audit engagement level. If such entity-wide risks have been identified, the auditor documents the key controls established at the audit engagement level to address the risks and evaluates the design effectiveness of those key controls. To do so, the auditor identifies the control objectives for the relevant key activities, processes or systems to be reviewed at the audit engagement level. For each activity, process or system under review, the auditor assesses whether the significant entity-wide risks could impact on the achievement of the identified control objectives. If so, then the auditor reviews the internal control design and identifies the corresponding key controls designed to mitigate the risks to achieving the control objectives. Evaluation of compliance to the controls specified in the various codes, manuals and government orders is then carried out to assure effectiveness of controls in fulfilling the objectives

Development of engagement objectives along with scope, criteria and approach: Once a good understanding of the subject of the engagement has been acquired, risks have been identified, key controls have been documented and the design effectiveness of controls have been evaluated, the audit team confirms the engagement's objectives and identifies the

detailed scope for the next phase of the audit, taking into consideration the objectives and scope of the audit. The objectives address whether the governance, risk management and control processes of the subject of the engagement provide reasonable assurance that:

- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Resources are acquired economically and used efficiently;
- Assets are safeguarded;
- Actions of the organization are in compliance with policies, procedures, contracts, and applicable laws and regulations; and
- Significant programs, plans, and business objectives will be achieved.

The engagement objective is a broad statement that is often thought of as a question that the auditor seeks to answer. The auditor is expected to draw a conclusion with respect to each objective. In planning the detailed audit work to be performed, the auditor must ensure that the work will result in sufficient evidence to meet the objectives of the audit engagement.

Finalization of Audit Plan: It is important that the auditor reviews each identified audit objective, and determines whether after completion of the audit engagement and after sufficient evidence has been obtained, a conclusion can be arrived at. To do so, the auditor must take into consideration the extent to which significant activities, processes or systems are identified to test operating effectiveness of key controls at the audit engagement level. The detailed scope statement clearly describes the areas, processes, activities, or systems that will be the subject of the audit engagement and to which conclusions will apply. It also addresses the time period and locations, particularly if there are geographical limitations to the audit. The statement also indicates any issues or areas that have been excluded from the scope of the audit.

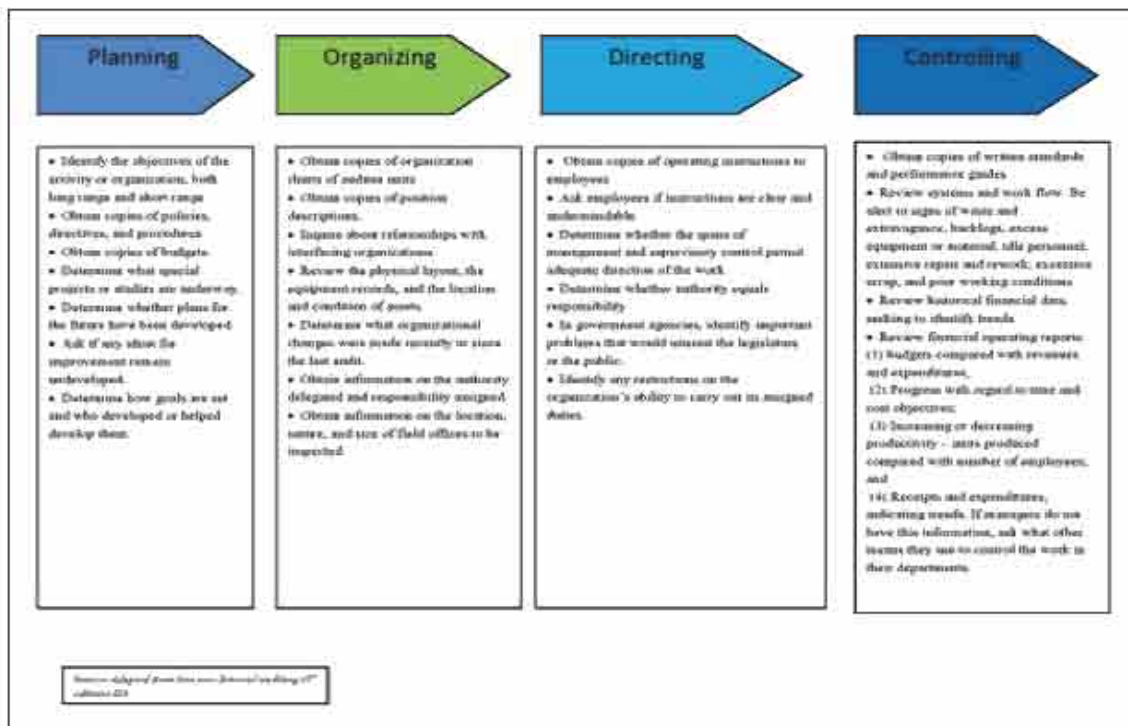


Figure 8

Development of Sample Audit Work Program for a Few Schemes: The detailed Internal Audit Manual should identify some key schemes in the Ministry and develop standard testing and working methodology for audit of these schemes. A checklist approach may be used in developing an illustrative work program. This will facilitate an efficient audit of the selected scheme and other schemes being implemented by the ministry.

To sum up, for any project good planning is half the job done. Internal Audit is no exception but it is generally given a low priority because auditors are in a hurry to get on with the job. Audit plan ensures high quality of audit and provides evidence of internal audit's due diligence. The importance of audit plan cannot be overemphasized and internal audit wings in ministries/ departments would do well to make this a standard practice. Moreover, although an initial audit plan is prepared, audit planning continues throughout the audit period as additional information is gathered.

Performing the Audit Engagement

Once the audit program has been finalized, the same should be communicated to the auditee units 30 days before the commencement of audit so that they are ready with records and are prepared for audit. The audit team may also send a questionnaire along with the communication.

Intimation of Audit

Before the commencement of any audit, the concerned unit should be informed about the schedule of the audit. For this purpose, a commencement letter should be sent to the Head of the auditee department at least a month before the audit is to be initiated so as to provide sufficient time to arrange the necessary records and resources for a smooth conduct of the audit.

The Commencement Letter should be addressed to the highest individual responsible for the function/department and at least include the following details:

- ✚ Objective of audit
- ✚ Scope of the audit and period it shall cover
- ✚ Estimated duration of the audit
- ✚ Names of Auditors especially indicating name of the Team Leader.
- ✚ Information regarding entry and exit conferences.
- ✚ Request for necessary information and documents

Opening meeting (Entry Conference)

Internal Audit engagements normally start with an entry conference, a meeting between the internal auditors and the Head of Department / Head of Office of the organisation being audited. The primary purpose of this meeting is to establish an appropriate environment for the audit. In this meeting, internal auditors communicate the proposed objectives and scope of the audit engagement and seek to understand the objectives and risk management practices in the organisation. Issues or areas of special concern that the management/ auditee would like audit to address and logistical details (nodal officer to coordinate audit requirements of space, records, meetings etc.) are also discussed in the entry conference. Thus, the audit

objectives, detailed scope, approach and testing plan for performing the audit, communication and reporting strategy are identified alongwith the organisation's representative who would be responsible for coordinating management action plans and monitoring the status of implementation of recommendations.

The entry conference sets the tone for effective audit by establishing effective communication lines with the auditee organization. It also helps the internal auditor to validate the information he had gathered during the planning stage and assess the attitude and perception of the key personnel towards controls.

Audits with an element of surprise do not have any entry conference.

Documentation of meetings: All the meetings with the audit client should be appropriately documented and minuted. These minutes should form a part of working papers relating to the audit engagement.

Requisitioning appropriate record and methodology followed for testing of Controls: The audit team should requisition appropriate records from the audit client well in advance. The audit memos should clearly mention the list of records called by the audit team along with date and also give details of any statement required to be prepared by the client. If the data is present in the soft form, a copy of database may be taken for preliminary analysis. The auditor now tests the operating effectiveness of key controls identified at the audit engagement level, including those controls designed to address the significant entity-wide risks (identified at the institutional level in the relevant governance audit/s) that impact on achievement of objectives at the audit engagement level.

The detailed testing and sampling plan, audit work performed, and results from assessments of the operating effectiveness of the activities, processes or systems under review are documented. Operating effectiveness refers to the effectiveness of the operation of an internal control activity. The operation is not effective when a properly designed key control is not operating as designed (or as planned) or the person performing the control does not possess the necessary authority or qualifications to perform the key control effectively.

Because the results of several audit tests will likely be summarized to form a conclusion with respect to one or more audit criteria or objectives, results of each audit test and the evidence

gathered is documented on the applicable matrix (or referenced to supporting documentation) to ensure that the following information is evident:

- engagement objective and criterion to which the test is linked;
- sources of information used to design the test;
- means by which the test was conducted;
- test results and their analysis; and
- Observations and recommendations made.

Audit Evidence: is the information collected, analyzed, and evaluated by the auditor to support an audit observation. Audit evidence relates both to the quantity and quality (or reliability) of evidence to be obtained by auditors. It is important for auditors to obtain *sufficient, appropriate and reliable* audit evidence to enable them to draw reasonable conclusions on which to base their audit opinions. Sufficiency is the measure of quantity of audit evidence while appropriateness refers to reliability of the audit evidence and its relevance to a particular assertion. Evidence is considered appropriate when it is both relevant and reliable.

Reliability of Audit Evidence

The reliability of audit evidence is influenced by its **source** which may either be internal or external; and by its **nature** which may be visual, documentary or oral. The auditor must be aware of the following matters in assessing the reliability of audit evidence:

- (a) Audit evidence from external sources (for example, confirmation received from a third party) is more reliable than that obtained from the entity's records;
- (b) Audit evidence obtained from the entity's records is more reliable when the related accounting and internal control systems operate effectively;
- (c) Audit evidence obtained directly by auditors is more reliable than that obtained by or from the entity;
- (d) Audit evidence in the form of documents and written representations are more reliable than oral representations; and

(e) Original documents are more reliable than photocopies, telexes or facsimiles.

(f) Large samples are more reliable than smaller ones and statistical samples more persuasive than non statistical samples.

Evidence collected during the process of audit should be carefully documented. When the audit evidence obtained from different sources are consistent with one another, they become persuasive to the auditor. However, when the auditor's evaluation of audit evidence suggests that evidence from one source is inconsistent with that from another, it is the responsibility of the auditor to determine what additional procedures must be undertaken to resolve the inconsistency. Decisions regarding the type of evidence to seek, the audit approach used to obtain it, and how much evidence is sufficient require both due diligence and professional judgment.

Development of Working Paper for the engagement: Working papers are the supporting documents for the entire audit engagement. They provide a complete audit trail and demonstrate, in detail, how the audit engagement was performed. Working papers also contain the evidence to support the final Summary of Observations and the final Audit Report. More specifically, working papers support the observations, recommendations and audit engagement rating and provide a demonstrable link between reports issued and the work performed. In addition, working papers can be used to:

- justify and provide proof of work performed, and help auditors respond to questions about coverage or results;
- document reasons for removing observations and/or recommendations that were included in earlier versions of reports;
- facilitate supervisory quality assurance reviews;
- provide supporting evidence when external auditors or other reviewers want to rely on the results;

The working papers should be appropriately indexed and should have the requisite evidence to support the audit observation. There should be referencing and cross-referencing of the working papers with the relevant audit observations to make it more meaningful and useful for stakeholders.

Development of Audit observations: Audit observations emerge through a process of comparing “what should exist” (the audit criteria) with “what exists” (the audit evidence). When there is a difference between “what exists” and “what should exist,” the auditor assesses the effect, impact and cause associated with the variance and documents it as an observation. The accumulation of observations provides the auditor with the necessary foundation on which to develop the audit engagement conclusions, recommendations and audit report.

Audit work papers are documents either created by the auditor or gathered by him during the audit engagement. They record information to support the conclusions and audit results and hence reflect on the quality of audit conducted. The working papers aid internal auditors in planning, performing and supervising audit work. Working papers are also a good source of evaluation of the internal auditor’s work by external auditors and for peer review.

Working papers are contained in two types of files: permanent audit file and the current audit file.

Permanent Audit File contains information that is relevant to current and future audits as it consolidates all important documents at one place. It also provides a basis for consistency in testing and allows comparison of key performance indicators over time. Permanent audit files typically include (i) organizational chart; (ii) description of schemes, programs, systems, procedures and business plans; (iii) corrective action plans; (iv) legal and regulatory issues impacting the organization; (v) risk assessment; (vi) correspondence of continuing interest to future audit; (vii) updated audit programmes.

Current Audit Files contains record of all the audit work schedules and documents relevant to the current audit. These should represent a clear record of the audit process, procedures, findings, conclusions and reports. Current audit files typically include (i) copies of the draft and final audit reports; (ii) significant findings and issues identified during the audit and how they were resolved; (iii) audit planning documentation; (iv) administration / correspondence documents; (v) follow-up of previous audit reports; (vi) updated audit programmes; (vii) supporting documentation for the audit conclusions; (viii) minutes of entry and exit meeting.

Conducting Exit Meeting with the audit client: Monitoring the quality of audit work is imperative for an efficient and effective audit. The supervisor must discharge this duty with due care and especially review the documentation; evidence gathered by individual auditors and the audit conclusions. Once the supervisor has satisfied himself that audit has been completed, in accordance with the audit plan he should review all working papers, check

supporting evidence for audit observations and prepare a draft report highlighting the weaknesses in design and implementation of the internal control system, instances of non-compliance with policies, prescribed procedures, rule and regulations and transactions which do not measure up to standards of propriety. The draft report should be sent to the Head of Department/ Head of Office for obtaining Department's views on audit observations.

Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors to develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take makes the report more meaningful.

An exit meeting should be held with key officials of the organisation being audited to discuss the draft internal audit report. This meeting should aim to obtain the views of the officials on each audit observation including additional facts that the organisation may wish to provide, which would then be analysed and the auditor may agree to reconsider his conclusions in the light of the information provided by the management. Evaluation of the comments should also be included in the report, as appropriate. If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.

In case of disagreement, views of the Department and reasons for disagreement should be taken on record. It is expected that upon conclusion of this meeting, the draft internal audit report becomes an agreed document between the department and the internal audit.

Discussions during the exit conference should be minuted and form part of the audit working papers. A copy of the minutes should also be given to the department for their information.

Reporting and follow-up

Audit reports are the end products of audit engagements. Hence, the auditor should take utmost care in drafting the report. The Audit Reports must be accurate, objective, clear, concise and complete and should be issued in a timely manner (normally within a fortnight of

completion of the audit engagement) to facilitate initiation of appropriate remedial action. The Reports must satisfy audit objectives and measure up to the expectations of senior management and audit committee. Satisfactory performance of the auditee unit, wherever evident, should also be acknowledged in the Reports.

Audit Reports should carry the legend “Internal Audit Report of ___name of organisation___ for the period ___” on the cover page and should also mention the date of issue of the audit report. Further it should clearly mention that establishing appropriate internal controls and preparation of financial statement are the responsibilities of management and responsibility of auditor is to express opinion on efficiency of internal controls in achieving management objectives. Each Audit Report must be approved by the competent authority, signed by the authority designated for this purpose and addressed to the authority as mentioned in the internal audit charter.

It is desirable that audit reports have an executive summary which contains details of audit objectives, scope of audit, summary of audit observations and highlight the significant observations which require immediate action on part of senior management.

Report drafted using 5C framework: The audit observations should be developed by using 5C framework with reference to engagement objectives:

Criteria: What should exist? The benchmarks or expectations identified as the basis against which audit evidence is compared.

Condition: What exists? The factual evidence found in the course of the audit. The condition identifies the nature and the extent of the observation. A clear and accurate statement of condition evolves from the auditor’s comparison of actual evidence with appropriate criteria.

Consequence/Effect/Impact: What effect did it have? The risk or exposure to the institution and/or others as a result of the difference between the criteria and the condition should be recorded. The effect establishes the actual or potential impact of the condition. The significance of a condition is usually judged by its effect. It can be expressed in quantitative terms. To warrant reporting, an effect should be sufficiently serious to justify the action (and related cost) to correct the difference (the deficiency).

Cause: Why did it happen? The possible or likely reason for the difference between the expected and actual condition should be explored. The cause may be obvious or may be

identified by deductive reasoning. The identification of similar causes for a number of observations may highlight an underlying theme to which an audit recommendation should be addressed. Identification of the cause of an unsatisfactory condition is a prerequisite to making a meaningful recommendation for corrective action.

Corrective Action/Recommendation: What should be done? The actions suggested or required to correct the situation and prevent future occurrences. The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. In developing sound recommendations, the internal auditor ensures that the recommended action is within the scope of the client, addresses the cause and not just the symptoms, and is at least intuitively viable.

Audit Findings should be grouped together depending on the severity of risk. High risk areas would be those where absence of immediate corrective action may have a major negative impact on achievement of objectives. Medium risks may be those areas where failure to take action could result in significant consequences. Low risk areas are those where suggested action would bring in greater efficiency or enhanced controls at minimal additional costs.

Issue of Report to stakeholders: The audit reports should be issued to all the stakeholders who are required to take action on the report and who are included in the distribution list approved by the Audit Committee. This would necessarily include the head of the organization of the audit unit and head of the concerned administrative division.

Quality check of Audit Report:

Internal Audit Reports should be issued in the format prescribed by the O/o Controller General of Accounts (Annexure II). To ensure that these reports are effective, they should be complete, concise, accurate and objective and should be issued in a timely manner. The Reports should be based on facts and free from any personal criticism. The audit findings should be worded constructively and the recommendations should focus on achievement of objectives.

Other details which should be kept in mind include:

- The Reports should have proper spelling, grammar, and punctuation.
- Fonts and formatting should be proper and consistent.

- Report addressee name and title should be proper and spelt correctly.
- Report number and subject title should be included correctly on the report.

Follow-up Actions: The true achievement of an audit engagement is reflected in implementation of the recommendations and an improved control system. The importance of this phase should therefore not be underestimated. The detailed manual should bring out a procedure for developing and monitoring of significant internal audit observations and issues raised. Clearly defined systems should be laid out.

System of monitoring and resolution of audit issues needs to be established: There should be a defined time-frame for submission of Action Taken Reports on the audit observations made by the Internal Audit Wing of the Ministry. These ATRs should be examined and IAWs should offer its comments/ recommendations to the administrative division of the Ministry for taking it up further. The monitoring of Audit paras should also aim to resolve old audit paras and the progress in their settlement should be closely watched by the Pr.CCA/CCA/CA.

Review of pending audit issues in Audit Committee Meetings: Issues which could not be resolved within a period of six months through communication with the administrative division/ audit client should be reported to the Audit Committee. Chairman of the Audit Committee would issue further directions on the issue.

Ten Things Not to Say in an Internal Audit Report

Richard Chambers, CIA, CGAP, CCSA, shares his personal reflections and insights on the internal audit reports.

1. Don't say, "Management should consider..."

Audit reports should offer solid recommendations for specific actions. When our recommendation is merely to "consider" something, even the most urgent call to action can become nebulous. No auditor wants a management response that says merely, "Okay, we'll consider it."

2. Don't use "weasel words."

It's tempting to hedge our words with phrases such as "it seems that" or "our impression is" or "there appears to be." It may feel safer to avoid being specific, but when you have too many hedges, particularly in the same sentence, there's a danger that you are not presenting well-supported facts. Report readers need to know they can rely on our facts, and over-use of weasel words can make solid recommendations sound a little too much like hunches.

3. Use "intensifiers" sparingly.

Because they can add emphasis, words such as "clearly," "special," "well," or "very" might seem to be the opposite of weasel words. In actuality, these intensifiers are so non-specific that they can be another type of "weaseling." Intensifiers raise questions such as "Significant compared to what?" and "Clearly according to whose criteria?" If you use intensifiers freely, two readers of the same report may be left with very different impressions: Numbers such as 23 percent or \$3 billion tell a story, but just what does "very large" mean?

4. The problem is rarely universal.

It's good to be specific, but there's a danger in words such as "everything," "nothing," "never," or "always." "You always" and "you never" can be fighting words that can distract readers into looking for exceptions to the rule rather than examining the real issue. It's safe to say you tested 10 transactions and none were approved — less safe to say transactions are never approved.

5. Avoid the "blame game."

The purpose of internal audit reports is to bring about positive change, not to assign blame. We're more likely to achieve buy-in when our reports come across as neutral rather than confrontational. The goal is to get to the root cause rather than to call out the name of the guilty party. It's fine for a report to identify the party responsible for taking action on a recommendation — not so fine to say, "It was Fred's fault."

6. Don't say "management failed."

Making statements such as "Management failed to implement adequate controls" will invariably annoy those to whom we are looking to implement corrective actions. Simply stating the condition without assigning blame through words like "fail" is much more likely to result in the needed corrective actions and help preserve our relationship with management for the next time we conduct an audit of their area.

7. "Auditee" is old-school.

A few years back, people undergoing an audit were most often referred to as "auditees." Today, many experts believe that the phrase has negative connotations and that "auditee" implies someone who has something done *to* them by an auditor. Internal audit has become a collaborative process, and terms such as "audit client" and "audit customer" indicate that we are working with management, not working *on* them

8. Avoid unnecessary technical jargon.

Every profession needs a certain amount of technical jargon, but the more we can avoid audit-speak, the more we can be sure that the message is clear. If you use more than one phrase such as "transactional controls," "stratified sampling methodology," or "asynchronous transfer mode" on a single page of an audit report, don't be surprised when some of your readers check out without reading to the end of the report.

9. Avoid taking all the credit

It is tempting in audit reports to use phrases such as "internal audit found" or "we found." Management will often bristle that you are taking credit for identifying something that wasn't all that well concealed. It comes off like you threw them under the bus, and then backed over them.

10. If it sounds impressive, you probably need a re-write.

Work to get readers to remember your recommendations and take action — not to impress with pompous words or bloated phrases. Avoiding jargon is only the beginning: Try substituting "by" for "by means of," "now" for "at the present time," and "so" for "so as to," for example.

I like to use the fifth-grader test: If an intelligent middle-school student couldn't understand your report, it may be needlessly complicated.

Enough said. And then some.

Lists like these are often very personal. I am sure my list will generate some controversy — both for the things I included and the things I didn't. So, let's get the dialogue started. What else is on your list of the top things never to say in an audit report?

Quality Assurance in Internal Audit

As has been mentioned before, audit engagements result in use of public money. It is therefore imperative that these be conducted with due regard for economy, efficiency and effectiveness. Quality assurance and improvement programme supports the achievement of quality internal audits that effectively and consistently result in value-addition to the organization's operations. Quality assurance programme is also necessary to provide assurance that the internal audit activity conforms to prescribed guidance. Understanding the expectations of senior management and the audit committee represent important steps in developing a performance measurement process, which in turn help to align the audit function with organizational priorities.

The benefits of a quality assurance program include consistent application of processes, standardisation and completeness of documentation, adequate linkage of audit recommendations to working papers and enhanced credibility. It increases the effectiveness of supervisory function and thereby the reliability of reports.



Source: KPMG

Figure 9

The quality assurance function can be summarized as shown below:

Hierarchy of Quality Assurance Elements

Control Element	Control Objective	Source	Assurance Level
Professionalism (Due Care)	Individual Auditor's Work	Individual	Individual Auditor
Supervisory Review	Engagement	Supervisor within Line of responsibility	Audit Function Management
Internal Review	Aggregate of Engagements or Divisional Offices or Autonomous Audit Units	Supervisor/Peer Outside Line of Responsibility	Chief Audit Executive
External Review	Audit Function as a whole	Qualified persons from Outside the Organization	Audit Committee and Senior Management

The primary quality assurance activities include training, workshops and seminars, feedback from users of audit services, peer review and external reviews. The main objective of self assessment, peer review and external reviews is to improve audit quality as a whole. It is a good way of evaluating, documenting and reporting on the effectiveness and quality of internal audit.

Key areas on which the performance of internal audit function could be evaluated include:

Plan completion: This is a measure of the degree to which the annual plan of engagements is completed.

Report issuance: This is a measure of the time elapsed from completion of testing to issuance of the final audit report.

Issue closure: This would be a measure of audit findings which have been acted upon and resolved

Staff qualifications: This can be measured through the percentage of staff with professional certifications, graduate degrees, and overall years of experience.

Staff utilization rate: This is measured as the percentage of time spent on audit engagements, as opposed to administrative time such as training or vacation. Many internal audit departments track time by audit engagement. This is typically captured in a database or spreadsheet.

Staffing level: The number of positions filled relative to the authorized staffing level. Due to the challenge of finding qualified staff, departments may have rotational programs to bring in management to complete tours in the function or be "guest" auditors. Audit departments also "co-source," meaning they obtain contract auditors from service providers.

While self assessment would be the responsibility of the Chief Audit Executive, peer reviews would be conducted by members of IAWs of other Ministries/ Departments. External reviews would be done by O/o CGA and would comprise an examination of the audit plan, working papers, related audit report and follow up activities and may be performed either prior to reports being finalized or at any time after they have been finalized. The deficiencies noted should be rectified in a time bound manner.

Measuring the internal audit function

The measurement of the internal audit function can involve a balanced scorecard approach. Internal audit functions are primarily evaluated based on the quality of advice and information provided to the Audit Committee and top management. However, this is primarily qualitative and therefore difficult to measure. "Customer surveys" sent to key managers after each audit engagement or report can be used to measure performance, with an annual survey to the Audit Committee. Scoring on dimensions such as professionalism, quality of advice, timeliness of work product, utility of meetings, and quality of status updates are typical with such surveys.

INTERNAL AUDITING FUNCTION EFFECTIVENESS

- ✦ Does internal auditing have the support of top management, the audit committee and the board of directors?
- ✦ Is the organizational relationship between internal auditing and senior executives appropriate?
- ✦ Does internal auditing have and use open lines of communication and private access to all senior officers and the audit committee?
- ✦ Is there an internal audit plan (reviewed by the audit committee) describing internal audit responsibility?

Source: Internal Control — Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission, 1993.

Human Resource Development: It is at once obvious that Staffing level, Staff qualifications and Staff utilization rates are critical parameters for evaluation of the performance of internal audit function in a Ministry/ Department. The adequacy and quality of human resources must therefore be an important consideration when designing an internal audit system which is both efficient and effective. The success of any plan or strategy will ultimately determined by the quality of personnel responsible for its execution.

As the first step, each Department must have a dedicated Internal Audit Wing staffed by auditors and supervisors (Group A, B & C level officials) in adequate numbers. While working out the strength of the internal audit wing, it is necessary that the assessment of work at hand is done in a rational and scientific manner.

It is therefore suggested that the following parameters should be considered when deciding upon the staffing requirements of Internal Audit Wings - (a) number of audit units, (b) number of employees in each audit unit (c) budget of each audit unit, (d) inherent risks in functioning of each audit unit, (e) time required by internal audit team to complete an audit engagement (including travel time), (f) time required for report writing, (g) amount of time reserved for training and continuous professional education and (h) period that may be spent on leave etc. Additionally, the nature and breadth of consulting assignments should be factored in as also additional special audits that may be required to be undertaken. Assessment of staff requirement must be done at periodic intervals to ensure that the number of audit personnel is commensurate with the work at hand.

The requirement of manpower for internal audit can be worked out by using these parameters, the number of auditee units identified for annual audit, biennial audit and

triennial audit, the audit man-days required and the available working days in a calendar year (Annexure III). Since the numbers would vary from one Department/ Ministry to another, generic parameters have been indicated herein and it would be the responsibility of the Pr. CCA/ CCA/ CA i.e. the Chief Audit Executive (CAE) to work out the exact numbers in consultation with the Audit Committee.

Additionally, it needs to be acknowledged that with increasing complexity of government operations, internal audit may not have specialized knowledge in all areas. To meet the challenge of complexities & specialization, the CAE should have the authority and resources to hire individuals and firms having requisite skills sets and expertise to handle various types of internal audit assignments, as is being done by the C&AG of India. The CAE should assess the competency, independence and objectivity of such Consultants with reference to factors like Experience, Education, Training and Membership in professional organizations etc. The Consultants shall work under the overall control of the CAE and responsibility for the quality and timely delivery of audit shall lie only with the CAE.

Hitherto, internal audit in Government has largely been confined to compliance audit. Introduction of a risk based internal audit approach in Ministries would therefore bring with it its own set of challenges. To ensure that internal audit function is discharged with due care and proficiency, it is essential that internal auditors are trained extensively both in theoretical construct of risk based audit, application of standards and in practical auditing skills.

The training modules should focus on risk assessment, design and development of risk matrix after a careful analysis of processes, mapping risks with controls and on evaluation of internal controls by the internal auditors. The auditors would also need to be trained in planning and conducting the field work, developing testing plans using sampling techniques and in the area of auditing in computerized environment. The auditors should be able to audit controls in the IT systems as well as use IT systems for evaluating controls. This is particularly significant in the light of present focus of government in computerizing different functions and therefore, knowledge of these IT skills would become a pre-requisite for auditing in future. These Computer Assisted Audit Techniques (CAATs) would help in enhancing the effectiveness of internal audit in delivering the audit objectives

Presentation of audit findings is a priority area and internal auditors would require intensive training in report writing techniques. Exposure to theoretical framework of risk based internal

audit followed by practical sessions on report writing techniques and use of IT in audit would help in grounding the concepts in a context that is easily understood by auditors. This would not only help them to develop a holistic understanding of the internal control and risk management frameworks but also facilitate more efficient audits and effective communication of audit findings.

Internal Audit has to demonstrate professionalism in its functioning to perform its role as an important pillar in the public financial administration of the country and internal audit professionals must continuously strive towards this end. The internal audit management should encourage internal auditors to continuously update their knowledge and skills. Obtaining membership of professional bodies would facilitate this and the entire organization would then be aware of latest developments in the profession. Internal Auditors should try to acquire professional certifications related with internal audit, IT audit, fraud investigations etc. from professional bodies such as IIA, ISACA etc. The CAEs should encourage their officers and staff to acquire these professional qualifications by providing reimbursement of fees and study material etc. for these courses. In addition, internal auditors are expected to set and maintain high standards in their conduct of duty.

Internal Auditors should be committed to the following principles and set of behavioural expectations in the conduct of internal audit activity.

Integrity: Integrity helps in establishing trust and is the reason why the judgement of Internal Auditors is relied and accepted. It is expected that Internal Auditors shall perform their duty with honesty, diligence and responsibility and in conformity to the law. They shall not be a party to any illegal activity or indulge in acts that discredit the internal audit organization.

Objectivity: Internal Audit is an independent and objective activity to be carried out in an impartial and transparent manner. Internal Auditors should not participate in any activity or relationship that can adversely affect their balanced assessment. They should not accept anything that may influence or be presumed to influence their professional judgement.

Confidentiality: Internal Audit should respect the value and ownership of information they receive during the course of their duties. They should not disclose the same without appropriate authority unless there is a legal or professional obligation to do so.

Competency: Internal Auditors should engage only in those services for which they have the necessary knowledge, skills and experience. In addition they should continuously improve their proficiency, effectiveness and quality of their services.

Developing and retaining quality professionals is a key concern and some time tested and effective methods for developing and retaining internal audit staff personnel include:

- Providing challenging, varied assignments;
- Ensuring quality supervision;
- Ensuring staff participation in various phases of the audit process;
- Providing opportunities to lead (in-charge) assignments, starting with more structured engagements;
- Participating on departmental improvement task forces, such as preparation for quality assurance review;
- Rotating through various audit teams (in larger departments) or audits of various businesses
- Participation in annual risk assessment activities

Interface with Statutory Audits: The internal audit should develop a synergy with the statutory audit and both the audits should aim at complementing each other to bring focused improvements in the working of the Ministry. The Audit Committee constituted in the Ministry should undertake the review of statutory audit observations as well. In order to keep a watch over the settlement of audits objections included in the Test Audit Notes issued by Statutory Audit officers, the Internal Audit Wing should maintain a DDO-wise count of outstanding objections and monitor the progress made towards their settlement. In addition the observations made by statutory and internal audits should guide the risk assessment process and developing work program for the internal audit.

Confidentiality of Audit Information: Auditors must respect the confidentiality of information received/ acquired from the auditee units. Information collected during the audit process should be used only for the purposes for which it was obtained and not disclosed to unrelated persons. Further, disclosure of information to anyone should only be done with proper authorisation.

GLOSSARY

Add Value - Facilitate achievement of organizational objectives by identifying areas and recommending measures for reduction in risk and/ or improving operations.

Audit Observation - Any identified and validated gap between the current and desired state arising from an audit engagement.

Audit Sampling - Auditing a part of population to draw an inference about the entire population.

Auditee - Government Ministry/ Department/ Unit which is the subject of an audit engagement. Same as *audit client*.

Cause - The reason (s) for the difference between the expected and actual conditions.

Chief Audit Executive - The senior most officer (Pr. CCA/ CCA/ CA) in the departmentalised accounting set up in central civil ministries/ departments responsible for internal audit activities.

Compliance - Conformity and adherence to applicable laws and regulations(COSO definition).

Condition - The factual evidence that the internal auditor found in the course of the examination (what does exist).

Conflict of Interest - Any relationship that may prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Control Activities - Any action taken by the administrative divisions/ wings/ units to manage risk and increase the likelihood that stated objectives and goals of the Ministry/ Department/ Unit will be achieved.

Control Environment - The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- **Integrity and ethical values.**
- **Management's philosophy and operating style**
- **Organizational structure.**
- **Assignment of authority and responsibility**
- **Human Resource Policies and practices**
- **Competence of personnel**

Criteria - The standards or measures used in making an evaluation and/or verification of an observation (what should exist).

Effect - The risk or exposure the organization and/or other encounter because there exists a variance between the condition and the criteria. Also referred to as the consequence.

Engagement - An internal audit assignment, task, or review activity designed to accomplish a specific set of related objectives.

Engagement Work Program - A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

Fraud - Any illegal act perpetrated by an individual parties and organization to obtain money, property, or services, to avoid payment or loss of services, or to secure personal or business advantage.

Governance - The rules, procedures and processes which authorize, direct, and oversee management efforts to ensure achievement of the organization's objectives.

Impairments to Independence or Objectivity – Actions which limit an internal auditor's ability to perform the assignment without bias or interference.

Individual Objectivity - An attitude free from bias and any conflict of interest, allowing internal auditors to perform assigned tasks with honesty of purpose.

Internal Audit Charter - A formal written document that defines the internal audit function's purpose, authority, and responsibility.

Internal Control - A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- **Effectiveness and efficiency of operations**
- **Reliability of financial reporting**
- **Compliance with applicable laws and regulations**

Monitoring - A process designed to assess the functioning of governance, risk management, and control component.

Observation - A finding based on examination of evidence obtained during an audit engagement.

Reasonable Assurance - A level of assurance that is supported by generally accepted auditing procedure and judgments.

Residual Risk - The portion of inherent risk that remains after management executes its risk management process.

Risk Management - The process conducted by the executive wings to understand and deal with risks that could affect the organization's ability to achieve its objectives.

Risk Response (Mitigation) - An action or set of actions taken by management to achieve a desired risk management strategy. Risk responses can be categorized as risk avoidance, reduction, sharing or acceptance.

Annexure: I

ANNUAL REVIEW FORMAT FOR INTERNAL AUDIT WING

D.O.No. G-25014/ 94/13/ AR-12-13/MF.CGA/IAD/

Dated:

Dear

Please refer to this office d.o. letter No. G-25014/62/93/MF.CGA/Insp/116 dated 08.05.1995 (Copy enclosed).

In view of the modern concepts and practices of Internal Audit, the Annual Review on the performance of Internal Audit may be prepared as detailed below:

- | | | |
|----|-----------|--|
| 1. | | Contents |
| 2. | Chapter-1 | Executive Summary |
| 3. | Chapter-2 | Consolidated report of audit findings. |
| 4. | Chapter-3 | Important audit findings (to be quantitative wherever possible). |
| 5. | Chapter-4 | Annexure |

The details of individual irregularities may be explained in brief under the specified ten categories (Chapter-3) with a summary under each category. The financial implication against the particular category of audit observations should tally with the figure mentioned in the consolidated report (Chapter-2) of your ministry.

The Annual Review on the performance of Internal Audit Wing for the year 2012-13 should be submitted to this office by 31st May' 2013 positively. In view of the fact that few, if any, audits would be scheduled in the remaining part of the current year and in April'2013, an early start would facilitate meeting the deadline. A copy of the Annual Review should be submitted to Secretary/Financial Adviser of your Ministry/Department.

Yours sincerely

Sd/-

Encl: Chapter 1, 2, 3, 4
To All Pr. CCAs./CCAs/CAs/FC (holding independent charge)

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Particulars	Para No.	Page No.
Chapter-1		
Executive Summary		
Chapter-2		
Summary report of paras		
Chapter-3		
Important audit findings		
Annexure-I		
Annexure-II		
Annexure-III		

Chapter-1

Executive Summary

- 1 Introduction of Ministry/Department i.e. their Vision, Mission and activities.
- 2 Brief description of Schemes audited during the year. No. of Scheme running under the Ministry/Department (detail in Annexure-II.)
- 3 Public Sector Undertakings, Grantee Institutions and Banks etc. audited during the year. (Details of Public Sector Undertakings, Grantee Institutions and Banks in Annexure-III)
- 4 **Internal Audit**
 - 4.1 Duties entrusted to the Internal Audit.
 - 4.2 Total Number of units and their periodicity. (Detail in Annexure-I)

Periodicity	No. of units
Annual	
Biennial	
Triennial	

- 4.3 Targets fixed for audit and achievements.

Units due for audit during the year	Target for the year	Units audited during the year	Arrear. if any	Reasons for arrear

- 4.4 Steps taken to clear the arrears.
- 4.5 Constraints, if any and suggestions to improve internal audit in the Ministry.

- 5 Details of schematic review, if any, made by the Internal Audit.
- 6 General conditions of maintenance of records. Areas in which distinct improvement have been noticed as a result of Internal Audit.
- 7 Broad reasons for above and remedial measures, if any, taken or proposed to be taken.
- 8 Whether any merged DDO system is working under the Ministry and if so, how is its performance.
- 9 Status of Audit paras

	Number of paras outstanding at the beginning of the year	Number of paras settled during the year	Number of paras raised during the year	Number of paras outstanding at the end of the year.
Internal Audit Paras				
Statutory Audit paras				
CGA's Audit paras (Pr.AO/PAO)				

10 Sanctioned and working strength of Internal Audit Wing as on 01.04.2012.

	Sanctioned strength	In position
Group 'A'		
Group 'B'		
Group 'C'		

11 Objectives and Scope of Audit.

12 Methodology

13 Key risks

14 Special Achievements

15 Suggestions, if any, made by Internal Audit leading to economy in expenditure and/or recovery of over-payments.

16 Any other observations

17 Conclusion.

Chapter-2

Summary report of paras shown in Chapter-3

A summary of paras of important irregularities and total amount involved therein should be shown under the following distinct headings.

Sr. No	Nature of irregularities	No. of Paras	Total amount involved (Rs. In lakh)
1	Non-recovery of Govt. dues from Central Govt. Departments/State Govt./ Govt. bodies/Private parties.		
2	Over payments		
3	Idle machinery/surplus stores		
4	Loss/in fructuous expenditure		
5	Irregular expenditure		
6	Irregular purchase		
7	Non-adjustment of advances- Contingency Advance- T.A. Advance- LTC Advance-		
8	Blocking of Govt. money		
9	Non-accounted of costly stores/Govt. money		
10	Any other items of special nature		

Chapter-3

List of important irregularities (Amount not less than Rs. One lakh)

The details of individual irregularities should be explained in brief under each heading (to be quantified wherever possible) and the total of the individual items under a heading should tally with the consolidated amount indicated against the particular heading in Chapter -2. Acronyms should not be used.

1. Cases of non-recovery of Government dues from Central Govt. Departments/State Govt./ Govt. bodies/Private parties.

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

2. Cases of Overpayments

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

3. Cases of idle machinery/surplus stores

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

4. Cases of loss/in fructuous expenditure

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

5 Cases of irregular expenditure

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

6 Cases of irregular purchase

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				

7 Cases of non-adjustment of advances**(i) Contingent Advances**

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

(ii) Travelling Advances

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

(iii) Leave Travel Concession Advances

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

8 Cases of blocking of Govt. money

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

9. Cases of non-accountal of costly stores/Govt. money

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

10 Any other items of special nature

Sr. No	Name of office	Para No. of Report	Amount in Rs.	Detail of para in brief
1				
2				
3				

Annexure-I

Detail of auditable units under the Ministry/Department and their periodicity.
Annual

Sr. No	Name of Unit
1	
2	
3	

Biennial

Sr. No	Name of Unit
1	
2	
3	

Triennial

Sr. No	Name of Unit
1	
2	
3	

Annexure-II

List of Plan Schemes in the Ministry/Department.

Sr. No	Name of Scheme	Budget (BE) 2012-13 Rs in Crore
1		
2		
3		

Annexure-III

List of Public Sector Undertakings, Grantee Institutions and Banks etc. under the jurisdiction of IAW of the Ministry/Department.

Sr. No	Name of PSU, Grantee Institution, Bank	Budgetary Provision (BE) 2012-13 Rs in Crore	
		Plan	Non-Plan
1			
2			



Controller General of Accounts

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
7th Floor, Lok Nayak Bhawan,
Khan Market, New Delhi-110003

Dated : 08.05.1995

Dear

Please refer to this office d.o letter No. G-25014/1/79/Insp/586 dated 15.2.1979 regarding Annual Review on the performance of Internal Audit of Departmentalized Accounting Organisation and its submission to this office by 31st of May every year.

2. Review of the report for the last year i.e for 1993-94 revealed that the submission of these reports in many cases are not in accordance with the desired standards. The reports in many cases are very bulky and appear to be only a mere consolidation of various internal audit paras of the individual Ministries/Departments during the year and that too not in an organized manner. The information on various item of works/observations are found to be scattered in the reports and it becomes difficult for us to compile and consolidate the requisite information. In some cases audit observations for petty amounts are also being included.

3. With a view to improving the quality, the report may be furnished in two parts, as detailed below.

PART – I –GENERAL

- i) Duties entrusted to the Internal Audit: - How far the duties entrusted to the Internal Audit are carried out/completed? Constraints and suggestions to extend the scope of Internal Audit, if any;
- ii) Arrears, if any and steps taken to clear the same;
- iii) General conditions of maintenance of Internal Accounts records. Areas in which distinct improvement has been noticed as a result of Internal Audit, should be clearly indicated;
- iv) Broad reasons responsible for (iii) above and remedial measures, if any, taken or proposed to be taken;
- v) Details of schematic review, if any, made by the Internal Audit;
- vi) Audit of Public Sector Undertaking:- As per correction slip issued to para 12.2.1 of the CAM, audit of institutions which get less than Rs. 25 lakhs by way of grant has to be taken up by

Internal Audit Wing of the respective Ministries. A list of such Institutions, Institutions audited/pending for audit, if any, may be furnished;

- vii) Whether any merged DDO system is working under the Ministry and if so, how is its performance;
- viii) Suggestions, if any, made by Internal Audit leading to economy in expenditure or recovery or over-payments;
- ix) Special or important features of the report;
- x) Any other observations.

PART-II-IMPORTANT IRREGULARITIES

(Important irregularities which involve amounts of not less than Rs. One lakh in individual cases may be highlighted under the following distinct headings)

- i) Cases of Non-recovery Govt. dues from Central Govt. Departments/State Governments/ Governments bodies/Private parties ;
- ii) Cases of overpayments;
- iii) Idle machinery/surplus stores;
- iv) Loss/infructuous expenditure;
- v) Irregular expenditure;
- vi) Irregular purchase
- vii) Cases of Non-adjustment of advances;
- viii) Cases of blocking of Government money;
- ix) Non-accountal of costly stores/Government money;
- x) Any other item of special nature.

4. The details of individual irregularities may be fully explained in brief under each heading, and the total of the individual items under a heading should be tallied with the consolidated amount indicated against the particular heading. Also, it is requested that abbreviations are not used.

5. We shall be grateful if the above review is submitted to this office duly complete in all respect by 31.5.95.

Yours sincerely,

The concerned Pr CCAs/CCAs/CAs/FCs/AFAs by name

Sd/-

Annexure: II

INTERNAL AUDIT REPORT TEMPLATE



सत्यमेव जयते

**Government of India
Ministry of Finance
O/o Chief Controller of Accounts
Internal Audit Wing
New Delhi**

IAR No. MoF/01/2012

**Internal Audit Report
of (Name of Unit / Scheme audited),
Department of _____,
Ministry of _____, New Delhi
for the period _____ to _____**

Internal Audit conducted by

(Write names of Auditors)

From _____ to _____

Report Issued on _____

Executive Summary

1. Introduction

- 1.1 Name of the Auditee (unit audited)
- 1.2 Period covered under current audit
- 1.3 Brief description of duties/functions of Auditee
- 1.4 Sanctioned strength and working strength
- 1.5 Budget / Expenditure of the auditee unit

2. Objective and Scope

The objectives of this internal audit engagement were:

- i.
- ii.
- iii.

The scope of this Internal Audit engagement included:

- i.
- ii.
- iii.

Individual audit engagement(s) should identify the key risks of audit units and evaluate the adequacy and effectiveness of controls designed to mitigate these risks. The audit engagement should detail the strengths and weaknesses in design and operation of the internal control systems and provide guidance for removing deficiencies noted during audit.

3. Methodology

This section should refer to the methodology adopted for conduct of internal audit engagement viz. Interview, Observation, Sampling, Sample size used for checking records, the number of records checked, type of records checked. It should also include checklists (if any) used during the engagement.

4. Results and Findings

4.1 Strengths observed during the audit engagement.

4.2 Weaknesses observed in the functioning of office, maintenance of records etc.

observed during the audit engagement.

The comments under these two categories should summarize each significant Audit observation in the order of materiality. The summary should be as brief as possible and draw on the observations under the Para on Consequence / Effect / Impact of each Audit observation. It should also include a summation of outstanding statutory and internal audit observations.

5. Opinion

Overall opinion of Audit Team about the functioning of Auditee Unit.

6. Audit Recommendations

The recommendations of Audit Team on the observed weaknesses.

This could be presented in a box of highlighted print.

7. Acknowledgement

This section could acknowledge in brief the cooperation, acceptance of the criteria / findings and recommendations by the auditee (or otherwise). The observations should be stated in a factual and not in the form of an opinion (praise / accusation).

Detailed Audit Report

1. Introduction

- 1.1 Name of the Auditee (unit audited)
- 1.2 Period covered under current audit
- 1.3 Duration of Internal Audit (*Indicate dates*)
- 1.4 Brief description of duties/functions of Auditee
- 1.5 Sanctioned strength and working strength
- 1.6 Budget / Expenditure of the auditee unit
- 1.7 Status of outstanding Statutory Audit observations
- 1.8 Status of outstanding Internal Audit Observations

2 Objective and Scope

Elaborate on the objective and scope of the audit engagement

3 Methodology

Elaborate on the methodology employed during the audit engagement.

4 Audit Observations

Each Audit Observation may be structured as described below

Audit Objective: *To which Audit Engagement objective does this observation relate?*

Criteria: *What should exist? The rules / regulations / procedures / expectations are the basis against which Audit evidence is compared.*

Condition: *What exists? The condition identifies the nature and extent of deviation from the criteria i.e. deviation from what should exist. This should be supported by factual evidence. A statement of condition would be formed on the basis of Auditor's comparison of actual evidence against the appropriate criteria.*

Consequence / Effect / Impact: *What effect did it have? The effect establishes the actual or potential impact of the condition and can be both quantitative and qualitative. It is the likely effect/ impact which would determine the significance of the condition.*

Cause: *Why did it happen? The possible or likely reason for the difference between the expected and actual condition.*

Corrective Action / Recommendation: *What should be done? The actions suggested or required to correct the situation and prevent future occurrences.*

Wherever possible, the audit findings should be accompanied by graphs and charts to improve the visibility of the analysis and findings. Photographs could also be used as corroborative evidence.

5 Recommendations

This section will have general recommendations if any which are not covered as part of recommendations in the specific Audit Observations

6 Conclusion

This would constitute the auditors' overall opinion about functioning of the Auditee Unit. The strengths of the Auditee Unit may be highlighted in this section along with areas needing attention and corrective action.

7 Glossary

This section would have a Glossary of terms explaining technical and uncommon terms used in the Internal Audit Report.

8 References

This section should list all published material utilized and referred to in developing the Internal Audit Report.

9 Action Taken Report

This is to be completed by the auditee unit and forwarded to Internal Audit Wing of the Ministry/Department within 4 weeks of receipt of the Audit Report.

Suggested format of the Action Taken Report is given below

S. No	Areas needing improvement	Time proposed by Internal Audit to bring about necessary improvements	Time frame accepted by Auditee Unit for effecting required changes	Remarks of Audit (on receipt of completed ATR)
1.				
2.				
3.				
4.				

Guidance Notes

- i. The Executive Summary should be restricted to a few (2-3) pages. Considering that brevity in presentation is desirable, the entire Internal Audit Report should ideally not be more than 10 pages. However, there may be cases which may necessitate a longer report for some audit engagements. Final decision in this regard may be taken by the Head of the Internal Audit Wing in each Ministry.*
- ii. The detailed Audit evidence (all data / information / documents in support of Audit observations) form part of the working papers for each audit engagement and should **not** be annexed to the Internal Audit Report. These however, should be linked / indexed properly and kept in safe custody for any future reference and examination.*
- iii. Each Internal Audit report should follow the numbering format indicated on the cover page of the draft report template. Audit observations should be so numbered as to facilitate simple referencing subsequently.*

Annexure III

NORMS FOR ASSESSMENT OF STAFF REQUIREMENT FOR INTERNAL AUDIT

A-32014/1/2010/MF.CGA(A)/Gr.B/Cadre Review/1715

**GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
CONTROLLER GENERAL OF ACCOUNTS**

**7th Floor, Lok Nayak Bhawan,
Khan Market, New Delhi.**

Dated: March 21st, 2011

OFFICE MEMORANDUM

In the context of Cadre Review for creation of Group (B) and Group (C) posts in the Pay & Accounts Offices of Central Civil Ministries, the offices of Principal CCAs/CCAs/CAs of the Ministries have been projecting their staff requirements and sending proposals to this office for cadre clearance as per the requirement. The matter has been considered in light of Ministry of Finance, Department of expenditure OM No5(6)/L&C/2006 dated 1.6.2006 and it is advised that the assessment of staff requirement in Internal Audit Wings of each Ministry should be based on the following parameters:

1. Number of Auditee units
2. Importance of the Auditee Unit (based on number of employees, budget, and inherent risk in functioning).
3. Periodicity of audit based on Sr. 2, above
4. Time required for audit engagement of these units (including travel time) depending on nature of the audit engagement – compliance or performance audit.
5. Time required for report writing and follow up.
6. Additional special audit that may be required to be undertaken.
7. Performance Audits planned during the year.
8. Staff required at HQ for coordination function
9. Requirement of secretarial assistance from Accountants' Grade
10. Available days for audit in a year (after deducting the number of Saturdays and Sundays (104) / Leave taken by officials (30) / time reserved for training and continuous professional education (15).

An illustrative example, based on the above parameters is given overleaf.

While considering the proposals for cadre review of Group B & C posts in the CCAs, Department of Expenditure vide their OM No. 19766 / E.Cord.1/12 dated 22.2.2012 have asked for a consolidated proposal to be submitted by this office.

All Pr.CCA / CCA / CA may keep in view the above parameters while projecting additional posts for their Internal Audit Wings before sending the same to this office. The proposals will be consolidated in this office and sent to Department of Expenditure for approval.

Sd/-

Jt. Controller General of Accounts

All Pr.CCAs/CCAs/CAs

ILLUSTRATION FOR ASSESSING THE STAFF REQUIREMENT FOR INTERNAL AUDIT IN
MINISTRIES

I. Typical Audit party	
AO	1
AAO	2
Acctt	2

II. Days available in a calendar year- 365	
Weekends and Holidays	110
Leave	30
Training and CPE	15
Total	155
Days available for audit:	210

III. No. of audits in a Ministry – 100	
<u>Periodicity*</u>	
Annual	15
Biennial	30
Triennial	55
*Based on No. of employees, budget and inherent risk of activities being performed by the auditee.	

IV. Units due for audit for every year	
Annual	15
Biennial	15
Triennial	18
Total	48

Assessment of man days

Time required for Regular audits	48 x 18*	864
Time required for Special audits	3 x 23**	69
Time required for Performance audits	1 x 31***	31
	Total	<u>964</u>

*10 days for audit, 3 days for travel and five days for report writing and follow-up

**15 days for audit, 3 days for travel and 5 days for report writing

***23 days for audit, 3 days for travel and 5 days for report writing

Note: The number of special audit/performance audit and days required for each audit would vary depending upon Scheme/Programme and nature of audit.
--

Days available for audit annually = 210
 No of audit parties required $964/210 = 4.59048$ (5 Rounded)

Total Staff required
 AO 5
 AAO 10
 Acctt. 10

Annexure-IV

F.No.5(6)/L&C/2006
Government of India
Ministry of finance
Department of expenditure

New Delhi, dated the June 1, 2006

OFFICE MEMORANDUM

Subject: Scheme of 'Integrated Financial Adviser'

Under the existing scheme of Budgetary and Financial Control and Delegation of Powers outlined by this Ministry vide OM No.10(29)-E.Coord/73 dated 6th October, 1975 and subsequent instructions in this regard, the Ministries have an Financial Adviser who is responsible both to the administrative Ministry and the Ministry of Finance. With his assistance, administrative Ministry freely exercise the enhanced powers delegated to them and, outside the scope of the delegations, he functions under the guidelines of the finance Ministry.

2. After the introduction of the scheme, the Indian Economy has matured and we are attempting to keep pace with the fast growing economies of the world. Therefore, it is imperative that our systems match the needs of a fast growing economy. The role of Financial Adviser assumes great importance in such a scenario and the scheme has been redefined in this context. The redefined charter for Financial Adviser annexed to this memorandum outlines the features of the revised Scheme of Integrated Financial Adviser.

3. This comes into force with immediate effect.

Sd/-
Finance Secretary and Secretary (Expenditure)

To,

1. Cabinet Secretary
2. Principal Secretary to the Prime Minister of India
3. All Secretaries to the Government of India (By name)
4. All FAs(By name)
5. All heads of Public Sector Enterprises

REDEFINED CHARTER FOR FINANCIAL ADVISERS

INDEX

S. No.	Contents
I.	Introduction
II.	Role of Financial Advisers
III.	Involvement in key Process of Ministries
IV.	Reporting System
V.	Roles and Responsibilities of CCAs/CAs
VI.	Interaction between Ministry of Finance and FAs
VII.	Capacity Building
	<u>ANNEX-I</u> : Copy of OM No. 10(29)-E.Coord/73 dated 06.10.1975 indicating the functions of Integrated Financial Adviser along with the modalities for functioning.
	<u>ANNEX-II</u> : Provisions under DFPR indicating duties and responsibilities of the Financial Adviser.

Introduction

The Scheme of Integrated Financial Adviser currently operates in accordance with Office Memorandum No. 10(29)-E-Coord/73 dated 6.10.1975 issued by the Department of Expenditure, Ministry of Finance. The scheme provides that the Financial Adviser would be the responsible both to the Administrative Ministry and to the Ministry of Finance. The scheme also briefly indicates the functions of the Integrated Financial Adviser along with the modalities for functioning. A copy of the OM is appended (ANNEX-1).

2. The last thirty years since introduction of this scheme have seen the Indian economy grow from a less developed stage to one of the fastest growing economies of the world. This growth has been the result of well structured economic reforms and conscious policy decisions. The last two decades have witnessed a plethora of reforms in monetary and fiscal management of the country. We have now reached a stage from where further progress requires a renewed effort. The second-generation reforms are throwing up complex challenges which, inter alia, call for a re-look at some of the institutionalized financial management systems.

3. The institution of Financial Adviser (FA) occupies a unique position in the functioning of Government of India. Having served well till now, time has come for it to be brought in sync with the fast changing socio-economic scenario and attendant attitudes, processes and systems in the Governmental functioning. It is necessary that the role, authority as well as accountability of the Financial Advisers be redefined and codified in unambiguous terms, and their capacity enhanced to meet the emerging challenges. Ministry of Finance has internally reviewed the scheme in this context, and the concept of redefined the charter for the Financial Advisers, as outlined in the ensuing paragraphs.

4. The overarching concept in redefining the charter for Financial Advisers are meant to assist in the achievement of objectives/goals of their respective Administrative Ministries, as approved by the competent authority, and that they must commit themselves to facilitate implementation of the approved programmes, with due financial prudence, to ensure that monies allocated are spent on time, in the prescribed manner, to achieve the intended outcomes defined in measurable and monitorable terms. Assisting Administrative Ministries in 'ensuring value for money' would be a key objective for Financial Advisers, with emphasis on improving the quality of expenditure and requisite systemic improvements/capacity building for this purpose. It may also be reiterated that FAs represent the Ministry of Finance in regard to all financial matters.

5. The more complex responsibilities envisaged for FAs must be accompanied by corresponding authority and capacity. It would, therefore, be necessary to ensure that FAs are suitably empowered and appropriate measures are taken for capacity building both institutionally and individually. The organizational resources, structure and processes

themselves may need to be augmented/modified and I.T. enabled systems, latest financial management practices, knowledge management structures etc. put in place.

(II)

Role of Financial Advisers

6. The role of Financial Adviser is now conceived to be akin to the role of Chief Financial Officer in a corporate structure, with specific responsibilities for ensuring fiscal prudence and sound financial management. They would bring requisite financial expertise and overall perspective of financial management of the Government as enunciated by the Ministry Of Finance, in rendering professional advice to the Secretaries of the administrative Ministries on all matters which have financial implications.

7. The role of Financial Adviser will be crucial for successful planning and implementation of various schemes and projects. Value for money will be the most important parameter in evaluating such schemes and projects. Therefore, it is imperative that outlay for a scheme is intrinsically linked with the Outcome Budget and Performance budget.

8. In rendering their advice, the Financial Advisers would be accepted to accord priority to macro management with a view to help in achieving the outcomes set by the Ministries as goals for themselves. These macro issues could include schematic appraisal and concept functions, revenue management, subsidy management, fiscal resource transfer issues, defining and evaluating outcomes besides maintaining and safeguarding the budgetary integrity etc. FAs would also be expected to look at the total picture of resources for the sectors in which they are functioning and assist the Secretaries of the Administrative Ministries in moving towards greater resource mobilization, including in terms of enabling policy and regulatory framework to attract private sector funds. FAs would in no case be assigned any routine administrative functions of the Ministry.

9. Appendix 2 of DFPR is an indicator of overall expanse of duties and responsibilities of the Financial Adviser (ANNEX- II). However, following are some of the specific tasks which the FAs would be responsible for:

(i) **Budget formulation:** FAs would continue to be responsible for budget formulation. They would bring in more analytical inputs into the budget formulation process, for improved budgeting and facilitating moving from 'itemized' to 'budgetary' control of expenditure. The present system relies largely on previous year's programme allocations and continuing commitments, without any real evaluation and expenditure analysis. FAs would now increasingly be required to assist the Administrative Ministries/Departments in moving towards zero based budgeting, and assist in better inter se programme prioritization/ allocation within the indicating budgetary ceilings, based on analysis of expenditure profiles of each programme/ sub-programme and information on cost centres/ drivers, assessment of output, outcome and performance, and status of the projects/ programmes (e.g. priority to last

mile projects. Chief Controllers of Accounts / Controller of Accounts (CCAs/CAs) will support them in this function. Such an analysis at the time of initial budget formulation should, over a period of time, help in enforcing hard budget constraints and reducing reliance on supplementaries. As the FAs' internal budgetary exercise becomes more rigorous, their involvement in MoF's budgetary processes will increase.

(ii) **Outcome Budget:** Administrative Ministries will now be required to prepare their respective 'outcome budgets' by late March each year, on the basis of the 'Annual Financial Statement' presented in the Parliament in February. The outcome budget would reflect the outlays in terms of outcomes, defined in measurable and monitorable terms. Reasonability of budget estimates, vis-à-vis the intended outcomes; will be ensured through specific appreciation of the unit costs of outcomes/delivery. Major schemes should have built-in provision for their evaluation by independent agencies, which may be appointed by the Administrative Ministries and / or Planning Commission / MoF. FAs would be actively involved in the preparation of outcome budgets. They would also assist the Administrative Ministries in clear definition of measurable and monitorable outcomes with specified deliverables, setting up appropriate appraisal, implementation/ delivery, monitoring and evaluation system, and ensuring actual achievement of the intended outcomes.

(iii) **Performance Budget:** Administrative Ministries will also be required to prepare their respective 'performance budgets' by late March each year, indicating the outcome of the outcome budget of the previous fiscal year at least up to December end. Thus, while Annual Financial statement and Outcome Budget would be for the ensuing financial year, the Performance Budget would present the picture of actual achievements/ performance for the financial year gone by. FAs would be actively involved in, and coordinate under the overall direction of the Secretaries concerned, the preparation of performance budgets for their respective Administrative Ministries. In essence, Budget Formulation, Outcome Budget and Performance Budget must link present, future and past in an integrated manner.

(iv) **FRBM related tasks:** The Fiscal responsibility and Budget Management Act requires the Government to place disclosure statements before Parliament along with the Annual Financial Statement and the Demands for Grants. CCAs/CAs as heads of the Accounts wing shall render their professional expertise in the functioning of financial management system. FAs would be responsible for preparation of these statements in respect of their Ministry/ Department for incorporation in the consolidated statements compiled by the Ministry of Finance for the Government as a whole. FAs would also provide requisite information and material as input for FM's quarterly review of fiscal situation to be presented to the Parliament.

(v) **Expenditure and cash management:** FAs would continue to be responsible for expenditure management and cash management. MoF's initiatives for better expenditure management through sophisticated exchequer control mechanisms would also be supported by FAs with improved cash management, through monitoring of monthly cash flows effectively in the context of cash expenditure/ commitments to be agreed to mutually between

the MoF and the Ministries/ PSUs / Autonomous institutions. This would help tighten the system of receipts and payments monitoring, and secure greater convergence of revenue inflow and expenditure outflows, so that borrowing and thus debt charges can be minimized. FAs would also ensure that release of funds to State Governments / other agencies is linked to the scheme-wise / project-wise utilization certificate and audited expenditure of previous years. Utilization certificate should reflect outcomes, or at least the physical outputs. FAs will also ensure that unspent balances with the State Governments and other agencies are not transferred to Public Accounts, and in case such transfer is permitted, these should be duly audited. The expenditure management function would also be closely linked to the outcome budget. CCAs/ CAs will support FAs in the discharge of these responsibilities.

(vi) **Project / programme formulation, appraisal, monitoring and evaluation:** Rigorous / effective project / programme formulation, appraisal, monitoring and evaluation are vital for high quality investment decisions and successful / timely delivery of intended outcomes. The Administrative Joint Secretaries have to take the lead role in project / programme formulation, implementation and monitoring. FAs should take the lead in ensuring high quality appraisal and evaluation with requisite rigour. MoF have issued clear guidelines in this regard, which need to be adhered to scrupulously.

(vii) **Screening of proposals:** FAs would be responsible for examining and forwarding all proposals, which need to be referred to any Department in the Ministry of Finance.

(viii) **Leveraging of non-budgetary resources for sectoral development:** FAs would assist the Administrative Ministries in evolving strategies for optimizing private sector investment and Public-private Partnership in the sector through enabling policies/schemes and appropriate regulatory framework, formulating projects for external funding, and taking innovative measures for leveraging of non-budgetary resources for sectoral development. In addition, the present role of FAs in assessment and leveraging of IEBR for investment programmes of the Public sector Undertakings will continue.

(ix) **Non-tax receipts:** Non-tax receipts have assumed greater significance in the context of the need to limit fiscal and revenue deficits, as mandated by the Fiscal responsibility and Budget Management (FRBM) Act. An optimum non-tax receipt budget would, therefore, be prepared by FAs, in consultation with the Administrative Divisions. FAs would, thereafter, periodically review the various non-tax revenue receipts under control of the Ministry/Department to which they are assigned, in the context of market trends and other sectoral developments. FAs would need to act as a catalyst in moving towards a regime in which the user charges recover the cost of service fully or substantially, as per the Government policy in this regard, and in case of only partial recovery to ensure that the subsidy element is clearly quantified. In the case of rent, license fees, royalties, profit share and dividends, the duties of FAs would include conducting periodical reviews, and giving their considered comments and recommendations regarding the reasonableness of return to the government on the deployed public resources. CCAs / CAs shall assist FAs in relation to estimation and flow of non-tax revenue receipts.

(x) **Tax Expenditure:** FAs would also monitor tax expenditure, i.e., the revenue foregone by Government on account of various exemptions and concessions. This is important since tax expenditure constitute a significant part of overall Government spending. Within the administrative Ministry, such proposals should be routed through the Financial Advisers before finalization.

(xi) **Monitoring of assets and liabilities:** Each Ministry must have a comprehensive record of its assets and liabilities. FAs would cause appropriate action for initial building up of such records and their on-going updation, as also for the maintenance and optimum utilization of the assets. Government guarantees should also be monitored. FAs in Ministries with significant real estate assets / property (land, building etc.) will cause a critical analysis of their utilization, including review of property involved in disputes / court cases etc., and also be the catalyst to ensure necessary action for their availability and fullest utilization. The progress would be regularly reviewed and corrective action taken on an on-going basis.

(xii) **Accounts and Audit:** FAs would be kept informed about the overall quality of maintenance of departmental accounts by their respective CCAs / CAs. FAs would also regularly review the progress of internal audit and action thereon, so as to make it an important tool for financial management. Action taken on audit paras may also be monitored on a regular basis.

(xiii) **Procurement and contracts:** Significant amount of monies are spent by Government on procurement and contracts. FAs would be required to set up strong internal systems to ensure due diligence and strict observance of MoF's guidelines in this regard. (The guidelines are being revised, and new guidelines are expected to be issued shortly).

(xiv) **Financial Management Systems:** FAs would periodically review the financial management of the various programmes / projects of the Ministry from the systems point of view, and take appropriate action for making the financial management systems more effective.

(xv) **Nominee Director on Boards of Public Sector Undertaking:** Financial Advisers are often Government nominee Directors on Boards of Public Sector Undertakings (PSUs). This role assumes increasingly more important dimensions with the greater autonomy being granted to PSUs. FAs would need to bring strong requisite expertise to bear on all major issues considered by the boards. Separate guidelines will be issued regarding the nomination and functioning of FAs as Directors of Boards of PSUs, in consultation with the Department of Public Enterprises.

(xvi) **Use of technology:** Increased use of technology as an advanced tool, especially communications and information technology, should be encouraged not only in his division but also in the domain of Ministries / Departments with the view to ensure better utilization of resources available with the Government and improve delivery of public services to achieve the intended results. Economy, efficiency and effectiveness would be the guiding principles.

III

Involvement in Key Processes of Ministries

10. It is important that FAs are fully involved in the key processes/ activities of Administrative Ministries which have clear economic and financial dimensions. Administrative Ministries shall, therefore, invariably involve FAs in all such activities and decision making processes which, inter alia, include the following but may not be limited to :-

- Formulation of annual/ 5-year plans, and other important consultations with Planning Commission like mid-term appraisal.
- Preparation of ‘outcome budget’, ‘performance budget’ and evaluation of actual outcomes.
- All proposals for consideration of CNE/ SFC/ EFC/ PIB/ Cabinet/ Cabinet Sub – Committees, or otherwise referred to the Ministry of Finance.
- Externally aided projects, and other strategies to encourage larger resource mobilization for the sector, including through Public Private Partnership (PPP), appropriate regulatory structures etc.
- Policy / programme formulation and other major decisions, to facilitate proper appreciation of the consequential financial implications.

11. Ministry of Finance has been increasingly moving towards macro management of Issues, and delegating more powers to the Administrative Ministries. This delegation is reviewed periodically and is suitably enhanced as and when required. As such, the Financial Advisers have adequate financial powers. Exercise of these powers and necessary financial analysis, may require the FAs to call for relevant records/ reports/ files relating to various decisions, contracts etc. FAs’ involvement would, therefore, specifically include the right of access to all records, reports, audits, reviews, documents, papers, recommendations or other material which are the property of the Ministry/ Department, or which are available to the Ministry / Department, and which relate to programmes and operations with respect to which that Ministry/ Department calls for accounts, data and reports.

12. FAs would be consulted in all cases relating to the exercise of the delegated financial powers. While normally FAs’ advice would be expected to be adhered to, there could be instances/ cases in which the Administrative Ministries feel that there are valid reasons for some modification/ deviation. In such rare instances, Secretaries of Administrative Ministries can exercise their power to overrule FAs’ advice by an order in writing.

(IV)

Reporting Systems

13. FAs will be required to prepare an ‘Annual Finance Report’ which would be a factual report indicating the operational aspects of financial management of the Department/ Ministry, including information on the resource requirement, pattern of expenditure with reference to outlay / budget, opening and closing unspent balances, opening and closing position of utilization certificates, position of non-tax revenue (user charges, dividends etc.) with reference to previous year, FRBM related activities etc, and suggestions for improvement.

14. FAs would also be required to furnish an ‘Annual Outcomes and Systems Report’, which would give factual information regarding the outcomes achieved vis-à-vis intended (as per Outcome Budget), policy and systems changes / improvements and action – taken/ results – achieved in regard to those aspects of FA’s role which are not included in the Annual Financial Report.

15. ‘Annual Financial Report’ and ‘Annual Outcomes and Systems Report’ would be factual reports to be submitted to Secretary (Expenditure), through the Secretary of the Administrative Ministry, by June 30 of the next financial year. The ‘Annual Financial Report’ would be prepared on the basis of the information contained in the provisional accounts released by the Controller General of Accounts in the month of May. The structure of the reports will be intimated separately.

16. In addition to the above, FAs would be mandatorily required to send disclosure statements concurrently to the Secretary of the Administrative Ministry and Secretary (Expenditure) whenever there are deviations from, or violation of , the provisions in paras13-15 above. They may also be required to send any other information/ report periodically, or as sought from time to time.

Roles and responsibilities of CCAs / CA

17. As the overarching concept now adopted is that the Financial Adviser are meant to assist in the achievement of objectives / goals of their respective administrative ministries it follows that the role of Chief Controller of Accounts (CCAs)/ Controller of Accounts (CAs) should undergo a parallel changes as the basic accounting and financial inputs for the Financial Advisers come from the CCAs/ CAs. In the last three decades the role of CCAs / CAs has undergone subtle, unrecorded changes that need to be formally spelt out and institutionalized in precise and unambiguous terms. Not only do the accounts wings operating under CCAs/ CAs need to catalyze changes in existing system protocols in order to synergize and integrate all interrelated aspects with the changing paradigm of financial management they in turn need to be strengthened and empowered to effectively cope with the changed demans made on them.

18. While the CCAs / CAs as head of the accounts wing, under over all superintendence and control of Financial Advisers, discharge their duties and responsibilities within the ambit of their respective administrative ministries lending their professional expertise to provide Accounting and Accountability support.

19. The spectrum of work for which CCAs / CAs will be responsible, in the revised outcome driven financial and accounting regime, are enumerated below:-

i. Receipts, Payments and Accounts :

- Accurate and timely payments in conformity with prescribed rules and regulations.
- Timely realization of receipts.
- Timely and accurate compilation and consolidation of monthly and annual accounts.
- Efficient service delivery to the Ministry / Department by the banking system.
- Adherence to prescribed accounting standards, rules and principles.
- Timely, accurate, comprehensive, relevant and useful Financial Reporting.

ii. Internal Audit / Performance Audit

The Internal Audit Wings working under the control and supervision of the CCAs/ CAs shall assist the Financial Advisers in the appraisal, monitoring and evaluation of individual schemes. Moving beyond the narrow myopic confines of compliance / regulatory audit Internal Audit would focus on:

- Assessment of adequacy and effectiveness of internal controls in general, and soundness of financial systems and reliability of financial and accounting reports in particular.
- Identification and monitoring of risk factors (including those contained in the Outcome Budget).

- Critical assessment of economy, efficiency, and effectiveness of service delivery mechanism to ensure value for money, and
- Providing an effective monitoring system to facilitate and course corrections.

iii. Other financial management activities :

- Budget formulation including the 'Outcome' and 'performance Budget'.
- Expenditure and cash management.
- Estimation and flow of non-tax revenue receipts.
- Monitoring of Assets and Liabilities.
- Disclosure and reporting requirements under FRBM Act.

(VI)

Interaction between MoF and FAs

20. The system of interaction between the MoF and FAs would be institutionalized to facilitate better two way communication and development of shared perspectives on financial issues. The administrative Ministries would be clustered in three groups for this purpose, viz, economic/ infrastructure sector, social sector and other Ministries. Secretary (Expenditure) would be meeting the FAs of each of these groups once in a quarter. These interactions will provide a forum to share the vision, priorities and concerns with the FAs who, in turn, would get an opportunity to apprise MoF about their activities, important developments and problems.

21. The quarterly interactions between the FAs and Secretary (Expenditure) would inter alia, cover the following areas :

- Implementation / compliance of decisions taken in FM's quarterly meetings.
- Discharge of responsibilities detailed in this charter, specifically the functions defined in para 8 above.
- Initiatives taken as a catalyst for policy formulation / review and systems' improvements in the concerned Ministries.
- Identification of points for action on emerging sectoral issues, including potential opportunities within the sector / Ministry.
- Major proposals/ projects currently in different stages of preparation/ approval by the Administrative Ministries, for the consideration of CNE/ EFC/ PIB/ Cabinet/ Cabinet Sub- Committees.

22. The interactions could also be used for reviewing progress on MoF's specific priorities, as also those outlined in the Budget, specific agenda items may also be developed for FM's quarterly meetings with FAs, on the basis of these monthly interactions.

(VII)

Capacity Building

23. The Integrated Finance Division may require strengthening in some Ministries for assisting the Financial Adviser in his redefined role. Such strengthening may include need for using information technology, setting up knowledge management structures, building requisite data bases, networking with relevant institutions / expert bodies etc. it may also require changes in the various decision making processes, conflict resolution, problem solving, programme/ project formulation/ appraisal, monitoring, evaluation etc., and delegation by FAs within their own divisions. The Staff / Officers would also require specialized training for rendering better professional advice. In addition, consultants may be required for specific tasks from time to time.

24. At the beginning of each Financial Year, the Financial Advisers should review the existing expertise, structure and processes of the integrated Finance Division (IFD) under their respective charges, the assess / evaluate its strengths, weakness and potential for development. In doing so, the expertise available in the set-up of CCAs / P&AOs would need to be fully taken into account. FAs would also need to clearly assess the expertise, knowledge, skills and equipment (Computers/ internet etc.) required for effective functioning of the IFD. On the basis of this analysis, FAs would formulate by June 30, each year, specific time bound Action plans for such organizational strengthening and changes as may be required. They would also need to put in place a strategy for further development of requisite skills etc., through training of existing staff and their replacement by suitably qualified personnel, wherever necessary. Creation of posts may be avoided while strengthening / restructuring the IFDs. Instead, proposals for engaging consultants for a limited time, under GFR 2005, may be sent for approval of Secretary (Expenditure), through the Secretary of the Administrative Ministry, if considered absolutely essential. An IFD Manual would be prepared in due course, to facilitate more effective functioning of the Integrated Finance Divisions.

25. An institutionalized system would be setup by the Department of Expenditure for organizing periodical workshops, seminars and training for Financial Advisers and their officers, and for helping FAs in preparation of induction material for different level of functionaries working under them. At the beginning of each financial year, not later than June 30, the Financial Advisers should indicate to the Department of Expenditure, the training needs of their respective IFDs, areas where they want opportunities for their own capacity development, and assistance required to facilitate meeting of these needs. Basic skill up gradation areas could include Government accounting, commercial accounting, project appraisal, financial analysis; corporate governance etc. policy related and sector-specific training could include public private partnership, contract management, negotiation, risk management, mergers and acquisitions etc.

26. FAs would be the nodal points within their respective Ministries for all activities relating to Plan, Budget and Programme/ project evaluations. As such, any units in the

Ministry currently looking after the functions of undertaking evaluations, preparing Annual/ Five year plans etc. should function under the overall supervision and control of the Financial Adviser.

27. Over a period of time, the enhanced capacity and expertise of IFDs, coupled with increased delegation of purely routine financial activities to the Administrative Divisions of the Ministries, would enable FAs to take on a more active macro-management role. This will also significantly enhance FAs' role in, and value- addition to, the budgetary management and project/ programme appraisal processes. FAs would also be expected to build-up an appropriate system of networking with Financial Advisers of autonomous organizations and Institutions within their respective sectors, which are receiving budgetary support, to ensure optimum utilization of their resources.

ANNEX-I
F.No.10(29)-E.Coord/73
Government of India
Ministry of Finance
Department of Expenditure

New Delhi, the 6th October, 1975

Office Memorandum

Subject: Scheme of 'Integrated' Financial Adviser

Under the existing scheme of budgetary and financial control and delegation of powers to Ministries as introduced vide this Ministry's OM No 10(3)-E.Coord/67 dated 18th October, 1968, the Ministries have an Internal Financial Adviser, who is in charge of their Budget and Accounts Section and is required to be consulted in all case of exercise of delegated financial powers and an "associate" Financial Adviser based in the Department of Expenditure, who is required to be consulted in matters falling outside the delegated field. The associate Financial Adviser is attached to a group of Ministries. In pursuance of the policy of to delegate enhanced financial powers to the administrative Ministries to match their responsibilities and to improve their competence in the field of financial management by developing appropriate internal attitudes and skills, this question whether the functions of the 'associate' Financial Adviser and the Internal Financial Adviser could, with advantage be integrated in a single official, forming part of the administrative Ministry, has been under consideration. It has been felt that Ministry in a larger measure than at present to enable him to play a more effective and constructive role in its developmental activities and should bring his financial expertise to bear in assisting the Secretary of the administrative Ministry and other senior officers in the planning, programming, budgeting, monitoring and evaluation, functions of the Ministry. A scheme of 'Integrated' Financial Adviser has accordingly been drawn up in consultation with Department of Personnel & Administrative Reforms, the salient features of which are outlined in the Annexure.

2. In the new scheme, the Financial Adviser will be responsible both to the administrative Ministry and to the Ministry of Finance. With the assistance, the administrative Ministry will be able to feely exercise the enhanced powers delegated under the Department of Expenditure OM No.F.10(13)-E.Coord/75 dated 10th April, 1975 and outside the scope of the delegations, he will function under the general guidance of the Finance Ministry. He will assist in budget formulation, scrutiny of projects and programmes for approval by the Ministry of finance and post-budget vigilance to ensure that there are neither considerable shortfalls in expenditure nor unforeseen excesses for which provision has not been made either in the original budget or in the revised estimates. The close association of integrated Financial Adviser and his staff with the formulation and implementation of all proposals involving expenditure should facilitate the more effective discharge of the Financial Adviser's responsibility. It is cardinal to the working of the new scheme that the Financial Adviser

should be associated with the formulation of schemes from the initial stages. The Financial Adviser will also be responsible for preparation of the Ministry's performance budget and monitoring of progress of schemes against the budget. The maintenance of an efficient accounting system is necessary for this purpose.

3. In matters involving any deviations from the budgeting and accounting procedures, consultations with the Budget Division of the Department of Economic Affairs, will continue to be obligatory. Similarly, in respect of the formulation of the Ministry's development plans, plan Finance Division in the Department of Expenditure would have to be consulted. The Public Investment Board (PIB) and Expenditure Finance Committee (EFC) procedure would also continue to be applicable, the Integrated Financial Adviser taking on the role at present discharge by the Establishment Division and the Staff Inspection Unit of the Department of Expenditure would also not be affected by the proposed changes.

4. In the first instance, the scheme will be introduced in the following Ministries/ Departments:

- i. Health & Family Planning.
- ii Works and Housing.
- iii External Affairs
- iv Education and Social Welfare
- v Information and Broadcasting
- vi Science & Technology, and
- vii Shipping & Transport (where the scheme has already, been introduced as an experimental measure).

5. It is proposed to extend the scheme to other Ministries/ Departments soon thereafter.

6. Pending further consideration of the need for formation centralized or decentralized, single or multiple level cadre of finance and accounts and scheme for absorption of the present associate finance staff in such cadres, in the initial stage, the Financial Adviser, the officers and staff working in the associate Finance Divisions in the Department of Expenditure will be transferred to the administrative Ministries as follows according to requirements:-

- Officers of services other than the Central Secretariat Service will be treated as on deputation to the administrative Ministry instead of to the Finance Ministry.
- Officers of the Central Secretariat Service including Grade I and selection grade will be treated as transferred to the administrative Ministry.
- Members of the decentralized cadres of various grades of CSS will be transferred on loan basis from their present cadre to the cadre of the administrative Ministry on a purely temporary basis.

7. When the scheme is introduced, certain changes will be necessary in the organization structure in the administrative Ministry and in the Department of Expenditure, Creation/abolition of some posts will be involved. The details of the revised organizational structure in the administrative Ministry out of the posts and personnel to be transferred from the Department of Expenditure to the administrative Ministry along with the work will be communicated to the respective Ministries separately.

8. The new scheme will be introduced in the Ministries/ Departments mentioned in Para 4 as soon as suitable officers to man the posts of Integrated Financial Adviser become available. A separate communication will be sent to them in this respect.

9. The administrative Ministries/ Departments are also requested to make necessary arrangements for housing the additional staff to be transferred from the associate Finance Divisions in the same building; as such arrangements are essential for the proper functioning of the Scheme.

Sd/-

Joint Secretary to the Govt. of India

To,

All Ministries / Departments of the Govt. of India.

ANNEX-II

APPENDIX 2

ITEMS OF WORKS TO BE HANDELED BY INTERNAL FINANCIAL ADVISERS

The internal Financial will be in overall charge of Budget and Accounts in addition to the internal Finance Section. It will be his duty: –

- i. To ensure that the schedule for preparation of budget is adhered to by the Ministry and the Budget is drawn up according to the instructions issued by Finance Ministry from time to time.
- ii. To scrutinize budget proposal thoroughly, before sending them to Ministry of Finance.
- iii. To see that complete departmental accounts are maintained in accordance with the requirements under the General Financial Rules. It should, in particular, be ensured that the Ministry not only maintains account of expenditure against the Grants or Appropriations directly controlled by it but also obtains figures of the expenditure incurred by the subordinate offices so that the Ministry has a complete month to month picture of the entire expenditure falling within its jurisdiction.
- iv. To watch and review the progress of expenditure against sanctioned grants through maintenance of necessary Control Registers and to issue timely warnings to Controlling Authorities where the progress of expenditure is not even.
- v. To ensure the proper maintenance of Register of Liabilities and commitments as required under the GFRs to facilitate realistic preparation of budget estimates, watching of book debits and timely surrender of anticipated savings.
- vi. To screen the proposals for supplementary demands for grants.
- vii. To formulate the foreign exchange budget for the Ministry and to process individual cases for release of foreign exchange in accordance with the instructions issued by Department of Economic Affairs from time to time.
- viii. To advise the Administrative Ministry on all matters falling within the field of delegated powers. This includes all powers other than those devolving on a Ministry in its capacity as Head of Office. It has to be ensured by I.F.A that the sanction issued by Administrative Ministry in exercise of delegated powers clearly indicates that they issue after consultation with I.F.A.
- ix. To identify, in particular, specific savings in cases of creation of posts and to maintain a Register for this purpose.
- x. To scrutinize proposals for re-delegation of powers to subordinate authorities.
- xi. To keep himself closely associated with the formulation of schemes and important expenditure proposals from their initial stages.

- xii. To associate himself with the evaluation of progress/performance in the case of project and other continuing schemes and to see that the results of such evaluation studies are taken into account in the budget formulation.
- xiii. To watch the settlement of audit objections, inspection reports, draft audit paras, etc.
- xiv. To ensure prompt action on Audit Reports and Appropriation Accounts, reports of Public Accounts Committee, Estimates Committee and Committee on Public Undertakings.
- xv. To screen all expenditure proposals requiring to be referred to Finance Ministry for concurrence of comments.
- xvi. To ensure regular and timely submission to Finance Ministry of quarterly staff statements and other reports and returns required by Finance.

LIST OF CITATIONS

- Figure 2 - Risk Management: - A Basic Understanding Management Study Guide available at www.managementstudyguide.com/risk-management.htm
- Figure 3 - Guide to Risk Assessment & Response, the University of Vermont, Enterprise Risk Management Program, August 2012, page 1
- Figure 4 - COSO: Internal Control- Integrated Framework, December 2011
- Figure 5 - Based on COSO- Components of Internal Control, available at www.modulus.com.au
- Figure 8 - Adapted from Sawyer's Guide for Internal Auditing 5th Ed., The IIA Research Foundation.
- Figure 9 - KMPG Internal Audit Methodology available at www.kmpg.com/in/en/services/advisory/risk-compliance/grcs/pages/internalauditservices.aspx

