



# UTTARAKHAND INTERNAL AUDIT MANUAL-2021

VOLUME -I, PART-I

FINANCE DEPARTMENT

GOVERNMENT OF UTTARAKHAND

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### Preface

The Government of Uttarakhand (GoUK) has passed separate legislation, namely The Uttarakhand Audit Act, 2012 which provides to make provision for and to regulate the audit of all Government machineries, Public Corporations, Government Companies, Institutions, Statutory Authorities, Panchayati Raj Institutions, Urban Local Bodies and Government Committees in the State. The Act also provides for the appointment of the Directorate of Audit and other officers. Upon enactment of the Uttarakhand Audit Act, 2012, the Internal Audit of various departments shall be centralized within the Finance Department and shall be outside the purview of the individual departments.

This Internal Audit Manual has been developed and issued by the Finance Department pursuant to Section 20 of the Uttarakhand Audit, Act, 2012 and would be supplementary to the Uttarakhand Audit Act, 2012. In the Development of this Internal Audit Manual, various notifications, orders, guidelines etc. issued by the Finance Department related to the conduct of Internal Audit have also been subsumed to the extent it is applicable for conducting Internal Audit.

The manual contains a comprehensive framework and structure for internal audit services including the procedures for internal auditing along with the roles and responsibilities of internal auditors at different levels. It includes roles and responsibilities of the management related to internal audit functions. The framework and structure as described in this Internal Audit Manual are based on the Internal Standards and best practice suit in the public sector audit functions. This manual will extensively help to eliminate the present challenges faced by the auditors in conducting internal audits and ensure efficiency and effectiveness in the internal audit process. The manual consists of two volumes. The first volume covers the overall process and guideline and audit lifecycle for Internal Audit and annexures regarding the forms and format for Internal Audit whereas the second volume covers the audit checklist for key auditable areas and other functions and audit checklist for specific departments.

This Internal Audit Manual is expected to enhance the professional capacity of the officials of the Finance Department, Directorate of Audit (DoA) and Audit Cell in achieving the following objective and goals.

- Practical guidance, tools, and information for managing Internal Audit activities.
- Risk-based approach in Internal Auditing for planning, executing, reporting, documentation,
- follow-up, and quality control assessment.

- Enhance the quality and effectiveness of Internal Audit functions by paving the way to put procedures and processes that confirm with Uttarakhand Audit Act, 2012, Professional Standards and best practices.

I am grateful for the support given by Hon'ble Chief Minister & Finance Minister Shri Pushkar Singh Dhami and would like to place on record the excellent guidance provided by the Chief Secretary, Shri S. S. Sandhu- IAS and Manisha Panwar (Additional Chief Secretary, Finance)

I would also like to express our gratitude to Ms. Sowjanya- IAS (Former Secretary, Finance & Project Director), Shri S. Murugesan- IAS (Former Director, Audit), Shri Surendra Narayan Pande- IAS (Director, Audit & Secretary Incharge, Finance), Dr. V. Shanmugam- IAS (Former Director, Audit), Dr. Ahmed Iqbal- IAS (Deputy Project Director), Shri J. C. Joshi (Director CTRFA), Shri Khajan Chandra Pandey (Joint Secretary Finance Audit Cell), Shri Vipin Bihari Lal (Deputy Director Audit), Shri Sobhan Singh Nagnyal (Deputy Director, Audit), Shi Ramesh Mishra (Senior Audit Officer, Directorate of Audit), Shri Rajat Mehra (Audit Officer, Audit Cell), consultants and all other Officers of the Directorate of Audit who contributed extensively in the development of this Internal Audit manual. The comments and suggestions provided by the World Bank Team have been pivotal in improving the quality and practicality of this Internal Audit Manual.

I would be appreciative of suggestions which is bring for further improvements, if any, and also to bring to our notice any error, inaccuracy, or omission to be incorporated in the next edition.

Date: 06 December 2021  
Director Place: Dehradun

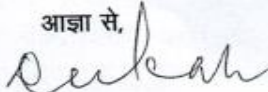
Amit Singh Negi  
Secretary, Finance and Project  
Government of Uttarakhand

Notification

उत्तराखण्ड शासन  
वित्त अनुभाग-6  
संख्या-549/XXVII(6)-तीन-1466/2021  
देहरादून: दिनांक: 06 दिसम्बर, 2021

वित्त विभाग की अधिसूचना संख्या-584/XXVII(6)/1466/तीन/2021, दिनांक 06.12.2021 द्वारा प्रख्यापित उत्तराखण्ड आंतरिक लेखा परीक्षा नियम संग्रह, 2021 एवं अधिसूचना संख्या-A 584/XXVII(6)/1466/तीन/2021, दिनांक 06.12.2021 द्वारा प्रख्यापित उत्तराखण्ड वित्तीय साक्ष्यांकन लेखा परीक्षा नियम संग्रह, 2021 की प्रति निम्नलिखित को सूचनार्थ एवं आवश्यक कार्यवाही हेतु प्रेषित:-

1. सचिव, श्री राज्यपाल, उत्तराखण्ड।
2. सचिव, मा0 मुख्यमंत्री जी, उत्तराखण्ड शासन।
3. स्टाफ आफिसर, मुख्य सचिव, उत्तराखण्ड शासन।
4. उप निदेशक, वित्त सेवायें विभाग, वित्त मंत्रालय, भारत सरकार, नई दिल्ली।
5. समस्त अपर मुख्य सचिव/प्रमुख सचिव/सचिव/सचिव (प्रभारी), उत्तराखण्ड शासन।
6. मण्डलायुक्त गढ़वाल मण्डल, पौड़ी/कुमायूँ मण्डल, नैनीताल।
7. समस्त जिलाधिकारी, उत्तराखण्ड।
8. महानिदेशक, सूचना एवं लोक सम्पर्क निदेशालय, उत्तराखण्ड, देहरादून।
9. निदेशक, यू0के0पी0एफ0एम0एस0, उत्तराखण्ड देहरादून।
10. निदेशक, लेखा परीक्षा ऑडिट, निदेशालय, उत्तराखण्ड देहरादून।
11. निदेशक, एन0आई0सी0, सचिवालय परिसर, देहरादून।
12. संयुक्त सचिव, वित्त ऑडिट प्रकोष्ठ, सचिवालय परिसर, देहरादून।
13. अपर निदेशक, राजकीय मुद्रणालय, रुड़की, उत्तराखण्ड को इस अनुरोध के साथ प्रेषित कि कृपया अधिसूचना को असाधारण गजट, विधायी परिशिष्ट भाग-4 में मुद्रित कराकर, इसकी 200 प्रतियां वित्त अनुभाग-6, उत्तराखण्ड शासन को यथाशीघ्र उपलब्ध कराने का कष्ट करें।
14. प्रभारी मीडिया सेंटर, उत्तराखण्ड सचिवालय।
15. गार्ड फाईल।

आज्ञा से,  
  
(दीपक कुमार)  
अनु सचिव।



उत्तराखण्ड शासन  
वित्त अनुभाग-6  
संख्या- 584 /XXVII(6)/ 1466/तीन/2021  
देहरादून, दिनांक: 06, दिसम्बर, 2021

### अधिसूचना

राज्यपाल, उत्तराखण्ड लेखा परीक्षा अधिनियम, 2012 ( उत्तराखण्ड अधिनियम 2 वर्ष 2012) की धारा 20 में प्रदत्त शक्तियों का प्रयोग करते हुये उत्तराखण्ड लेखा परीक्षा नियम संग्रह, 2011 को अधिकमित करते हुए इंस्टीट्यूट ऑफ इंटरनल ऑडिटर एवं सुप्रीम ऑडिट इंस्टीट्यूट (INTOSAI) के संगठन द्वारा समय-समय पर निर्धारित सिद्धांतों एवं अंतर्राष्ट्रीय उन मानकों के अनुरूप जोखिम आधारित आंतरिक लेखा परीक्षा के समस्त चरणों के लिए दिशा-निर्देश, विभिन्न प्रकार की लेखा परीक्षाओं की परिभाषाएं, सिद्धांतों एवं मानकों को लागू किए जाने के लिए उत्तराखण्ड आंतरिक लेखा परीक्षा नियम संग्रह को प्रख्यापित किये जाने की सहर्ष स्वीकृति प्रदान करते हैं, अर्थात:-

### उत्तराखण्ड आंतरिक लेखापरीक्षा नियमसंग्रह, 2021

- संक्षिप्त नाम, विस्तार और प्रारंभ 1. (1) इन लेखा परीक्षा नियम संग्रहों का संक्षिप्त नाम उत्तराखण्ड आंतरिक लेखा परीक्षा नियम संग्रह-2021 है।
- (2) इसके अंतर्गत दो खंड हैं:-खंड-I एवं खंड-II। खंड-I के दो भाग हैं। यह लेखा परीक्षा नियम संग्रह उन समस्त ऑडिटी पर लागू होंगे जो कि अधिसूचना संख्या 495/XXVII/2012, दिनांकित 26 नवंबर, 2012 के माध्यम से लागू उत्तराखण्ड लेखा परीक्षा अधिनियम, 2012 की धारा 4(1) के क्रम में अधिसूचित किए गए हैं। ऑडिटी के अंतर्गत समस्त सरकारी विभाग, सरकारी संस्थाएँ, प्राधिकरण, स्वायत्त संस्थान, सरकारी उपक्रम, सरकारी बोर्ड, सरकारी एजेंसियाँ, विश्वविद्यालय एवं अन्य सभी संस्थान सम्मिलित है, जिन्हे केंद्र या राज्य की समेकित निधि से अनुदान या ऋण या किसी प्रकार की धनराशि आवंटित/प्राप्त होती है।
- (3). इसके अतिरिक्त, ऐसे अन्य संस्थान या संगठन पर लागू होंगे, जिन्हें निदेशक, लेखा परीक्षा द्वारा आन्तरिक लेखा परीक्षा सम्पादित कराने हेतु वित्त विभाग, उत्तराखण्ड शासन द्वारा समय-समय पर अधिसूचित किया गया हो।
- (4). उत्तराखण्ड लेखापरीक्षा अधिनियम की धारा 3 कि उपधारा (5) के प्रावधानानुसार आंतरिक लेखापरीक्षा को वित्त विभाग के अंतर्गत

आन्तरिक लेखापरीक्षा के माध्यम से वित्त विभाग का मिशन और लक्ष्य

केंद्रीयकृत किया गया है एवं विभागों के प्राधिकार क्षेत्र से बाहर रखा गया है। अतः वित्त विभाग के निर्देशानुसार निदेशालय, लेखा परीक्षा, उत्तराखण्ड एवं ऑडिट प्रकोष्ठ द्वारा ऑडिट संबंधित समस्त कार्य किए जाएंगे।

(5). निदेशालय लेखापरीक्षा, उत्तराखण्ड का मुख्य दायित्व लेखापरीक्षा नियम संग्रहों को क्रियान्वित किया जाना होगा। इसके लिए निदेशालय द्वारा वार्षिक लेखा परीक्षा कार्यक्रम, लेखापरीक्षा हेतु मानव संसाधन का आंकलन, लेखापरीक्षा दलों की दक्षता के अनुसार निर्धारण, लेखापरीक्षा क्रियान्वयन, लेखापरीक्षा प्रालेखन एवं रिपोर्टिंग, लेखापरीक्षा की गुणवत्ता अभिवृद्धि एवं अनुश्रवण के कार्यवाही की जाएगी।

(6). ऑडिट प्रकोष्ठ, ऑडिट मैनुअल के निरन्तर उन्नयन हेतु तकनीकी परामर्शक की भूमिका निभाते हुए लेखापरीक्षा के मानकों/सिद्धांतों/पद्धतियों में आवधिक परिवर्तन होने पर अपनी संस्तुति प्रदान करेगा, ऑडिट में नवीन पद्धतियों को चरणबद्ध रूप से आई टी सोल्युशंस एवं कम्प्यूटर एडेड ऑडिट टेकनिक्स (CATTS) को स्थापित करेगा।

(7). लेखापरीक्षा कार्यक्षेत्र में लेखापरीक्षा दलों द्वारा आचार संहिता, स्वतंत्रता, गोपनीयता एवं सत्यनिष्ठा के सिद्धांतों का पालन किया जाएगा एवं लेखापरीक्षा के नियम संग्रहों का अनुपालन करते हुए लेखापरीक्षा के कार्यों को संपादित किया जाएगा।

(8). यह लेखा परीक्षा नियम संग्रह अधिसूचना के राजपत्र में प्रकाशन की तिथि से प्रवृत्त होगा।

2. आन्तरिक लेखा परीक्षा के माध्यम से वित्त विभाग के मिशन और लक्ष्य निम्नवत है:-

(क).राज्य सरकार द्वारा लेखापरीक्षा अधिनियम, 2012 के अधीन आन्तरिक लेखापरीक्षा का दायित्व वित्त विभाग को न्यासित गया है। वित्त विभाग द्वारा निदेशालय लेखापरीक्षा के माध्यम से विभागों के मुख्य लेखा परीक्षित कार्यक्षेत्रों का आंकलन जोखिम आधारित आंतरिक लेखा परीक्षा द्वारा किया जायेगा। वित्त विभाग द्वारा लेखा परीक्षा रिपोर्टों, संस्तुतियों एवं सम्बन्धित लेखा परीक्षा विभागों द्वारा की गई कार्यवाही की समीक्षा की जायेगी। वित्त विभाग सम्बन्धित लेखा परीक्षा रिपोर्टों द्वारा यह भी आंकलित किया जायेगा कि विभागों द्वारा स्थापित समस्त नियमों एवं कानूनों का अनुपालन, सार्वजनिक संसाधनों और निधियों का



प्रभावी और कुशलता से उपयोग किया गया है। आन्तरिक लेखा परीक्षा द्वारा जोखिम प्रबंधन, स्वतंत्र एवं आंतरिक नियंत्रण एवं शासकीय प्रक्रियाओं का व्यवस्थित मूल्यांकन का आंकलन भी किया जाएगा।

(ख) राज्य सरकार आंतरिक लेखा परीक्षा का प्रभावी उपयोग करते हुए वित्तीय अनुशासन तथा संसाधनों एवं कोषों के अनुकूलतम उपयोग के माध्यम से सुशासन के ध्येय की पूर्ति करेगी।

उत्तराखण्ड आंतरिक लेखापरीक्षा नियम संग्रह के खंड एवं संबंधित खंडों में संक्षिप्त विवरण

3. उत्तराखण्ड आंतरिक लेखापरीक्षा नियम संग्रह के दो खंड हैं, जिसमें खंड-I के अन्तर्गत दो भाग एवं खंड II के अन्तर्गत एक भाग है, जिनका विवरण निम्नलिखित है:-

| लेखा परीक्षा नियम संग्रह                                |  |
|---|--|
| उत्तराखण्ड आंतरिक लेखा परीक्षा नियम संग्रह खंड-I भाग-I  | <ul style="list-style-type: none"> <li>आंतरिक लेखा परीक्षा मानकों, लेखा परीक्षा करने वाले अधिकारियों एवं कार्मिकों के लिए आचार संहिता एवं स्वतंत्रता के नियम;</li> <li>वित्त विभाग, निदेशालय लेखा परीक्षा, ऑडिट प्रकोष्ठ के कार्यों एवं दायित्वों</li> <li>लेखा परीक्षा के सम्पूर्ण चरणों (ऑनलाइन ऑडिट मैनेजमेंट सिस्टम से सहसंबद्ध) लेखा परीक्षा कार्य योजना से लेखा परीक्षा अनुश्रवण तक समस्त चरणों का पूर्ण विस्तृत विवरण;</li> <li>लेखा परीक्षा गुणवत्ता के लिए गुणवत्ता आश्वासन।</li> </ul> |
| उत्तराखण्ड आंतरिक लेखा परीक्षा नियम संग्रह खंड-I भाग-II | <ul style="list-style-type: none"> <li>उत्तराखण्ड लेखा परीक्षा अधिनियम, 2012</li> <li>इंस्टीट्यूट ऑफ इंटरनल ऑडिटर्स के मानकों के सारांश की सूची</li> <li>लेखा परीक्षा के संबंध में शासनादेशों का संकलन</li> <li>आंतरिक लेखा परीक्षा के अंतर्गत मानकीकृत प्रारूपों।</li> </ul>  |
| उत्तराखण्ड आंतरिक                                       | महत्वपूर्ण कार्य क्षेत्रों हेतु लेखा परीक्षा   |

|                                 |   |
|---------------------------------|---|
| लेखा परीक्षा नियम संग्रह खंड-II | जांच सूचियाँ एवं विभिन्न विभागों की लेखा परीक्षा हेतु जांच सूची का संकलन। |
|---------------------------------|---|

#### जोखिम आधारित आंतरिक लेखापरीक्षा

4. (1). रिस्क बेस्ड इंटरनल ऑडिट प्लान आंतरिक लेखापरीक्षा कार्यप्रणाली के रूप में संस्था के समग्र जोखिम प्रबंधन रूपरेखा को संबद्ध करती है। आरबीआईए आंतरिक लेखापरीक्षा से प्रबंध को यह प्रतिबद्धता का प्राधिकार प्रदान होता है कि समस्त प्रकार के कार्य पद्धतियों के लिए जोखिम आंकलन की क्षमता प्रभावी ढंग से प्रबंधित की जा रही है।
- (2). इस लेखापरीक्षा नियम संग्रह में निम्नलिखित प्रमुख विशेषताएं हैं:-
- (क) जोखिम आधारित आंतरिक लेखा परीक्षा की अवधारणा के अनुसार परम्परागत लेखापरीक्षा (संवयवहार लेखापरीक्षा) के स्थान पर प्रत्येक विभागों के विभिन्न लेखापरीक्षा कार्यक्षेत्रों की समीक्षा के उपरान्त रिस्क रजिस्टर ऑनलाइन मोड द्वारा तैयार किया जाएगा। रिस्क रजिस्टर के अनुसार विभागों में चिन्हित उच्च जोखिम कार्यक्षेत्रों की लेखापरीक्षा संपादित की जाएगी
- (ख) प्रत्येक तीन वर्षों या यथाआवश्यक नीतियों में परिवर्तन या नवीन परियोजनाओं के लागू किये जाने इत्यादि की परिस्थितियों में तीन वर्ष से पूर्व संबंधित रिस्क रजिस्टर के अनुसार विभागों को उच्च, मध्यम एवं न्यून जोखिम में विभक्त किया जाएगा एवं लेखा परीक्षा नियम संग्रह के अनुसार विभागों का लेखापरीक्षा कार्यक्रम निर्धारित किया जाएगा
- (ग) आंतरिक लेखापरीक्षक संस्थान (आईआईए) द्वारा निर्धारित मानकों के अनुरूप आंतरिक लेखापरीक्षा के समस्त चरणों को संपादित किया जाएगा।
- (घ) उत्तराखंड ऑनलाइन ऑडिट मैनेजमेंट सिस्टम में आंतरिक लेखापरीक्षा कार्यों की योजना, संचालन, रिपोर्टिंग और अनुश्रवण के लिए मानकीकृत प्रारूपों को सम्मिलित किया जाएगा।
5. (क). विभिन्न विभागों द्वारा भिन्न-भिन्न प्रकार के शासकीय कार्यों का संपादन ऑनलाइन क्रियाविधि/पोर्टल के माध्यम से किया जाता है। संबंधित पोर्टल से महत्वपूर्ण सूचनाएं, आकड़े इत्यादि प्राप्त होते हैं, जिनका ऑडिट हेतु विश्लेषण किया जा सकता है।
- आंतरिक लेखा परीक्षा के क्रियान्वयन हेतु विभिन्न विभागों से ऑनलाईन डेटा प्राप्त करने की कार्यविधि



वर्तमान पारिपेक्ष्य में लेखा परीक्षा नियोजन एवं क्रियान्वयन हेतु बिग डेटा, डेटा एनालिटिक्स (Data Analytics) और अभिनव आईटी0 तकनीक अनुप्रयोग नितांत आवश्यक है।

(ख). लेखापरीक्षा एवं रिस्क आधारित लेखा परीक्षा में समय एवं मानव संसाधन के अनुकूलतम उपयोग एवं इसके सफल क्रियान्वयन हेतु आईटी0 तकनीक का प्रयोग किया जाएगा। वित्त विभाग विभिन्न विभागों से समन्वय स्थापित करते हुए Application Program Interface (API), bulk data या अन्य कोई विधि, जिसके माध्यम से लेखा परीक्षा हेतु डेटा या सूचना स्थानान्तरण हेतु सहमति बनी हो, जैसे-IFMS का उपयोग सभी आहरण-वितरण अधिकारियों द्वारा किया जा रहा है, विभागों द्वारा बड़ी परियोजनाओं, बजट व्यय की सूचना का ई आंकलन (नियोजन विभाग), इत्यादि का प्रयोग किया जा सकता है, का प्रयोग डेटा संचरण के लिए किया जाएगा।

आंतरिक लेखा परीक्षा की 6. प्रकृति/प्रकार

(क) उत्तराखंड राज्य सरकार द्वारा सार्वजनिक वित्तीय प्रबंधन सुधार कार्यक्रम के अंतर्गत आंतरिक लेखा परीक्षा प्रणाली के उन्नय, सर्वोत्तम लेखापरीक्षा कार्यप्रणालियों को लागू किए जाने एवं लेखा परीक्षा कार्य को सुदृढ़ किए जाने के लिए प्रतिबद्ध है। (ख) आंतरिक लेखापरीक्षा को दो प्रमुख वर्गीकरणों में विभाजित किया गया है, जिसमें प्रत्येक वर्गीकरण के अंतर्गत विभिन्न-2 प्रकार की लेखापरीक्षाओं को सम्मिलित किया जाएगा:-

- कार्यात्मक लेखा परीक्षा-निर्माण कार्य एवं राजस्व लेखा परीक्षा
- विशिष्ट स्वरूप की लेखा परीक्षा – निष्पादन लेखा परीक्षा, अधिप्राप्ति लेखा परीक्षा, सूचना प्रौद्योगिक लेखा परीक्षा, लोक-निजी सहभागिता लेखा परीक्षा तथा फ़ॉड एवं फॉरेंसिक लेखा परीक्षा है।

(ग) उत्तराखंड लेखा परीक्षा अधिनियम, 2012 की धारा 20 के अंतर्गत विभिन्न प्रकार की लेखापरीक्षाओं के लिए लागू होने वाली परिभाषाएं, संक्षिप्त विवरण और मानका को नियम 7 और 8 में परिभाषित किया गया है। सम्बन्धित लेखा परीक्षाओं के लिए उल्लेखित परिभाषाओं, मानकों के आधीन वित्त विभाग द्वारा पृथक-पृथक लेखा परीक्षा नियम संग्रह निर्गत एवं प्रख्यापित किए जायेंगे।

कार्यात्मक लेखापरीक्षा

7. (क). निर्माण कार्य लेखा परीक्षा-निर्माण लेखापरीक्षा के अंतर्गत

निर्माण विभागों एवं कार्यदायी संस्थाओं यथा लोक निर्माण विभाग, सिंचाई, लघु सिंचाई, ग्रामीण अभियंत्रण सेवा, मंडी परिषद इत्यादि के निर्माण कार्यों से संबंधित समस्त चरणों की लेखा परीक्षा सम्पादित की जाएगी। निर्माण कार्य लेखा परीक्षा के अंतर्गत प्रमुख लेखा परीक्षा योग्य क्षेत्रों जैसे कि निर्माण कार्य के विभिन्न चरणों, अधिप्राप्ति, अनुबंध प्रबंधन, भण्डार प्रबंधन आदि का आंकलन किया जाएगा एवं चिन्हित जोखिम क्षेत्रों की विस्तार में लेखा परीक्षा की जाएगी। निर्माण कार्य लेखा परीक्षा उत्तराखंड आंतरिक लेखा परीक्षा नियम संग्रह द्वारा निर्धारित नियमों और मानकों के अनुरूप की जाएगी। वित्त विभाग द्वारा लेखा परीक्षा कार्य को सम्पादित किये जाने हेतु विस्तार से लेखा परीक्षा प्रक्रिया को निर्धारित करने विषयक निर्माण कार्य लेखा परीक्षा नियम संग्रह को प्रख्यापित किया जाएगा।

**(ख). राजस्व लेखा परीक्षा**—राजस्व लेखा परीक्षा नियम संग्रह के अंतर्गत राजस्व अर्जन करने वाले विभागों जिसमें कर राजस्व से संबंधित विभाग—राज्यकर, आबकारी, स्टाम्प एवं रजिस्ट्रेशन विभाग करेत्तर राजस्व विभाग तथा खनन, वन विभाग जैसे विभाग समाविष्ट किये जायेंगे। राजस्व लेखा परीक्षा संबंधित विभाग के अधिनियम, नियमों, मानकों एवं नीतियों के अनुसार सम्पादित की जाएगी। राजस्व अर्जन से संबंधित विभागों की पृथक से एक जांच सूची तैयार की जायेगी। राजस्व लेखा परीक्षा के अंतर्गत लेखा परीक्षा कार्य हेतु चिन्हित मुख्य क्षेत्र यथा—रेड फ्लैग रिपोर्ट्स, कर अधिकारियों द्वारा नियमों का अनुपालन, कर अधिकारियों द्वारा नियमों के अनुसार मूल्यांकन एवं संग्रहण, आंतरिक नियंत्रण का आंकलन जैसे जोखिम कार्यक्षेत्रों की लेखा परीक्षा की जाएगी। राजस्व लेखा परीक्षा उत्तराखंड आंतरिक लेखा परीक्षा नियम संग्रह द्वारा निर्धारित नियमों और मानकों के अनुरूप की जाएगी। वित्त विभाग द्वारा लेखा परीक्षा कार्य को सम्पादित किये जाने हेतु विस्तार से लेखा परीक्षा प्रक्रिया को निर्धारित करने विषयक राजस्व लेखा परीक्षा नियमसंग्रह को प्रख्यापित किया जाएगा।

विशेष प्रकृति लेखा परीक्षा

8. **(क). निष्पादन लेखा परीक्षा**—निष्पादन लेखा परीक्षा का अर्थ इस प्रकार की लेखा परीक्षा से है, जिसके अंतर्गत किसी ऑडिटी संस्थान, योजना/कार्यक्रम संचालन/क्रियान्वयन/आउटपुट तथा सरकारी योजना/कार्यक्रम की सफलता एवं परिणामों की समीक्षा समय-समय पर की जाएगी। निष्पादन लेखा परीक्षा के लिए दिशा-निर्देश में अर्थव्यवस्था (economy), दक्षता (efficiency) और प्रभावशीलता (effectiveness) को विस्तार से समाविष्ट किया जाएगा। निष्पादन लेखा परीक्षा में उक्त 03 ई के अतिरिक्त नये आयामों का परिचय निष्पादन लेखा परीक्षा में पर्यावरण (Environment), न्याय संगतता (Equity), आचार नीति (Ethics)।



निष्पादन लेखापरीक्षा के अंतर्गत जोखिम प्रबंधन, लोक संसाधनों का समुचित उपयोग, सूचना प्रणाली और नियंत्रण प्रणाली के साथ-साथ विधिक अनुपालन जैसे विषयों की लेखापरीक्षा भी वित्त विभाग द्वारा समिलित की जा सकती है।

यह लेखा परीक्षा नियम संग्रह इन्टरनेशनल आर्गनाइजेशन ऑफ सुप्रीम ऑडिट इंस्टीट्यूट (INTOSAI) के मानकों एवं निम्नलिखित मानकों पर आधारित होगा:-

- सार्वजनिक क्षेत्र के लेखा परीक्षा सिद्धांत (ISSAI-100),
- निष्पादन लेखापरीक्षा के सिद्धांतों (ISSAI-300) और
- निष्पादन लेखापरीक्षा के मानकों (ISSAI-3000-ISSAI-3999)

वित्त विभाग द्वारा निष्पादन लेखा परीक्षा के सिद्धांतों, मानकों एवं विस्तार से लेखा परीक्षा प्रक्रिया को निर्धारित करने विषयक निष्पादन लेखा परीक्षा नियमसंग्रह को प्रख्यापित किया जाएगा।

**(ख). सूचना प्रौद्योगिकी लेखा परीक्षा (आईटी0 ऑडिट)**

आईटी0 ऑडिट इस प्रकार के आश्वासन प्राप्त करने की कार्यप्रणाली है, जिसके द्वारा स्थापित किया जा सके कि आईटी0 सिस्टम के विकास, क्रियान्वयन और रख-रखाव द्वारा ऑडिटी संस्थानों के लक्ष्य प्राप्त हुए हैं, सूचना प्रौद्योगिकी परिसंपत्तियों सुरक्षा और डेटा अखंडता संरक्षित है। दूसरे शब्दों में, सूचना प्रौद्योगिकी लेखा परीक्षा यह परीक्षण करने के लिए है कि आईटी0 सिस्टम और नियंत्रणों के क्रियान्वयन द्वारा सिस्टम सुरक्षा, गोपनीयता, लागत और अन्य महत्वपूर्ण नियमों से समझौता किए बिना ऑडिटी संस्थाओं के उद्देश्यों को पूर्ण करता है।

आईटी ऑडिट के अंतर्गत वित्तीय, अनुपालन, निष्पादन लेखा परीक्षा या इनके संयोजन की लेखा परीक्षा वित्त विभाग के दिशा-निर्देश में की जाएगी।

आईटी0 ऑडिट हेतु निम्नलिखित मानकों एवं मापदंडों के अनुसार लेखापरीक्षा सम्पादित की जाएगी।

- सूचना प्रणाली लेखा परीक्षा एवं नियंत्रण संघ के मानक (Information System Audit & Control Association (ISAC)
  - सर्वोच्च लेखा परीक्षा संस्थान के लिए अंतर्राष्ट्रीय मानक (ISSAI) के अंतर्गत सूचना प्रौद्योगिकी ऑडिट पर सिद्धांत दिये गए हैं, ISSAI 5100 आईटी ऑडिट के सिद्धांतों के लिए व्यापक सिद्धांत है।
  - Control Objectives for IT (COBIT), 2019
  - ISO 20000 Standard specifically for IT Service Management
  - ISO 22301 Standard for business continuity management
- वित्त विभाग द्वारा लेखा परीक्षा कार्य को सम्पादित किये

जाने हेतु सिद्धांतों, मानकों एवं विस्तार से लेखा परीक्षा प्रक्रिया को निर्धारित करने विषयक सूचना प्रौद्योगिकी लेखा परीक्षा नियमसंग्रह को प्रख्यापित किया जाएगा।

**(ग). लोक अधिप्राप्ति लेखा परीक्षा**

लोक अधिप्राप्ति लेखा परीक्षा के मुख्य लक्ष्य यह आंकलित करने के लिए है कि अधिप्राप्ति नियमों, वित्तीय नियमों, शासनादेशों, अधिनियमों और स्थापित नैतिक मानकों की अपेक्षाओं के अनुपालन करते हुए ऑडिटी संस्थाओं द्वारा दक्षतापूर्वक एवं प्रभावपूर्ण रूप से सार्वजनिक सामग्रियों, कार्यों, सेवाओं की अधिप्राप्ति एवं अनुबंध का क्रियान्वयन के लिए किया जाना है। अधिप्राप्ति लेखा परीक्षा का स्वरूप संबंधित लेखा परीक्षा के चयनित विषय, संबंधित लेखा परीक्षा के उद्देश्य के अनुसार निर्धारित की जाएगी। जोखिमबद्ध आंतरिक लेखा परीक्षा, निष्पादन लेखा परीक्षा, अनुपालन लेखा परीक्षा नियम संग्रहों के सिद्धांतों के अनुसार लेखा परीक्षा संपादित की जाएगी।

वित्त विभाग द्वारा लोक अधिप्राप्ति लेखा परीक्षा कार्य को सम्पादित किये जाने हेतु विस्तार से लेखा परीक्षा प्रक्रिया को निर्धारित करने विषयक लोक अधिप्राप्ति लेखा परीक्षा नियम संग्रह को प्रख्यापित किया जाएगा।

**(घ). फ्रॉड और फोरेंसिक लेखा परीक्षा**

यह ऑडिटी के वित्तीय विवरणों, वित्तीय संव्यवहार, के विश्लेषण करने का एक स्वतंत्र, व्यापक और वैज्ञानिक कार्यप्रणाली है, जिससे इनकी परिशुद्धता का निर्धारण किया जा सके, तथ्यात्मक मिथ्या कथन से अप्रभावित हो एवं महत्वपूर्ण रूप से, ऐसे साक्ष्य प्राप्त करने के लिए जिनका उपयोग न्यायालय या विधिक कार्यवाही में प्रयुक्त किया जा सकता है।

फोरेंसिक ऑडिट में विस्तृत कार्यक्षेत्रों की अन्वेषण गतिविधियां समाविष्ट हैं। संबंधित पक्ष द्वारा व्यवपहरण, दुर्विनियोग, गबन, या अन्य वित्तीय अपराधों के अभियोग की कार्यवाही हेतु प्रायः फोरेंसिक ऑडिट किया जाता है।

फ्रॉड एवं फोरेंसिक लेखा परीक्षा नियम संग्रह के अंतर्गत केन्द्र एवं राज्य सरकार द्वारा अन्वेषण, भ्रष्टाचार विरोधी, वित्तीय अपराधों, सूचना प्रौद्योगिकी से संबंधित अधिनियमों एवं नियमों, समय-समय पर सी0वी0सी द्वारा जारी दिशा-निर्देशों आई सी0ए0आई0 मानकों एवं अधीनियम एवं नियम जो कि सम्बन्धित लेखा परीक्षा नियम संग्रह के यथा आवश्यक है, के अनुसार लेखा परीक्षा नियम संग्रह तैयार किया जाएगा। वित्त विभाग द्वारा फ्रॉड एवं फोरेंसिक लेखा परीक्षा कार्य को सम्पादित किये जाने हेतु विस्तार से लेखा परीक्षा प्रक्रिया को निर्धारित करने विषयक फ्रॉड एवं फोरेंसिक लेखा परीक्षा नियमसंग्रह को प्रख्यापित किया जाएगा।



**लोक निजी सहभागिता लेखा परीक्षा** 9

(ड). लोक निजी सहभागिता लेखा परीक्षा परियोजनाओं की लेखा परीक्षा द्वारा मितव्ययिता, दक्षता और प्रभावशीलता के बारे में समस्त हितधारकों को तर्कसंगत आश्वासन प्रदान करता है। यह भी सुनिश्चित किया जायेगा की परियोजना में निजी क्षेत्र की एजेंसी को सम्मिलित किए जाने से सरकार को धन की उपादेयता में अभिवृद्धि हुई है। लोक निजी सहभागिता लेखा परीक्षा एक प्रकार की अनुबंध लेखा परीक्षा है जिसके द्वारा सार्वजनिक भागीदार कुल परियोजना लागत की युक्ति-युक्तता, इकाई के संचालन की मितव्ययिता और दक्षता एवं सर्वोपरि सहभागिता के उद्देश्यों (परिणामों) को प्राप्त किया जाना होगा।

लोक निजी सहभागिता लेखा परीक्षा में आंतरिक, निष्पादन, अनुपालन लेखा परीक्षा के निर्धारित सिद्धांतों और मानकों के अनुरूप की जाएगी।

लोक निजी सहभागिता लेखा परीक्षा समय-समय पर उत्तराखंड राज्य सरकार द्वारा प्रख्यापित लोक निजी सहभागिता नीति, अधिप्राप्ति नियमों, निर्धारित लेखा नियमों, एवं वित्तीय प्रबंधन के अंतर्गत विभिन्न अवधारणाओं के अनुसार किया जाएगा।

वित्त विभाग द्वारा लोक निजी सहभागिता लेखा परीक्षा कार्य को सम्पादित किये जाने हेतु विस्तार से लेखा परीक्षा प्रक्रिया को निर्धारित करने विषयक लोक निजी सहभागिता लेखा परीक्षा नियम संग्रह को प्रख्यापित किया जाएगा।

(अमित सिंह नेगी)  
सचिव

In pursuance of the provision of Clause (3) of article 348 of the Constitution of India, the Governor is pleased to order the publication of the following English translation of notification no. 584 /XXVII(6)/1466/Three/2021, Dehradun, dated 06-12-2021 for general information:

**Government of Uttarakhand ,  
Finance Section-06  
No.584/XXVII(6)/1466/Three/2021  
Dehradun , Date : 06, December, 2021  
Notification**

In exercise of the powers conferred by section 20 of the Uttarakhand Audit Act, 2012 (Uttarkhand Act No. 2 of 2012) superseding the Uttarakhand Audit Manual, 2011 and accordingly, as per the Standards to be applicable for Institute of Internal Auditors(IIA) and International Supreme Audit Institution (INTOSAI) to implement standards for Internal Audit, Guidelines with complete steps for conducting Risk-Based internal audit, definitions for different types of audits in Internal Audit with respective principles and Standards to be adopted, the Governor is pleased to allow to the promulgate the Internal Audit manual, namely :-

**The Uttarakhand Internal Audit Manual, 2021**

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|--|--|
| <b>Short Title,<br/>applicability<br/>and<br/>Commencement</b> | <p>1- (1) This may be called the Uttarakhand Internal Audit Manual, 2021.</p> <p>(2) This audit manual has two volumes-Volume I and Volume – II. The first volume has two parts. These audit manuals shall apply to all the auditees notified under the Gazette Notification No. 495/XXVII/2012 dated 26 November 2012 as per the provision of Section 4(1) of the Uttarakhand Audit Act 2012. Auditee includes all the Government Departments, Government Institutions, Authorities, Autonomous Bodies, Government Undertakings, Government Boards, State Agencies, Universities, and all other Institutions, which are allocated or receive grants or loans of any kind from the Consolidated Fund of the Central or State.</p> <p>(3). In addition, such other Institution or Organization as notified by the Finance Department, Government of Uttarakhand from time to time for conducting internal audit</p> |
|--|--|



by Director of Audit

(4) According to Sub Section-5 Section 3 of the Uttarakhand Audit Act, 2012 the Internal audit has been centralized under the Finance Department, and it has been kept out of the preview of the individual Departments. Now complying with the standards and principles mentioned in Uttarakhand Internal Audit manual under the guidance of the Finance Department, the Directorate of Audit and Audit Cell, shall carry out all the work related to the audit.

(5) The main goal of the Directorate of Audit is the implementation of the audit manuals. In this regard- Directorate shall prepare an annual audit plan, assess human resources strength for audit, allocation to audit parties as per their skills sets, audit implementation, audit documentation and reporting, quality enhancement and monitoring of audit shall be carried out.

(6) The Audit Cell shall carry out the technical, advisory role for recommendations and suggestions on Audit manuals, recommendation on updation of auditing standards/principles/methodologies, phase-wise introduction of new avenues and in Audit, setting up of IT Solutions, Computer Aided Audit Techniques (CATTs).

(7) The audit teams in the field during audit shall follow Principles of Code of Conduct, Independence, Confidentiality and Integrity shall be followed by audit works shall be carried out in compliance with the audit manuals.

(8) This Audit Manual shall come in force from the date of publication of notification in the Official Gazette.

**Mission and  
Goal of  
Finance  
Department  
through**

- 2- The Mission and Goals of Finance Department through Internal Audit are as follows -:
- (a) The Internal Audit responsibility has been entrusted by the State Government to the Finance Department under the Uttarkhand Audit Act, 2012. Finance Department through

## Internal Audit

Directorate of Audit shall assess the key auditable areas of the Government Departments Risk-Based Internal Audit. After that Finance Department shall review and analyze the reports, recommendations and action taken by respective departments being audited. The Finance Department shall through the audit reports also check that departments have complied with established rules and regulations, effectively and efficiently used public resources and funds. Internal Audit shall also assess risk management, independent and systematic evaluation of internal control and governance processes.

**(b) The State Government by the medium of effective internal audit shall achieve the goal of Good Governance through Financial Discipline, Optimum utilization of resources and funds.**

## Brief details of 3- Uttarakhand Internal Audit Manual: Volumes and its Parts

Uttarakhand Internal Audit Manual has two volumes in which the first volume has two parts and Volume two has one part, a brief description of manuals are as mentioned below -

- |   |  |
|---|--|
| Uttarakhand Internal Audit Manual Volume -I Part-I  | <ul style="list-style-type: none"> <li>• Internal Audit Standards, Code of Conduct and Independence for Officers and Personnel, conducting audit</li> <li>• Functions and Responsibilities of for Finance Department, Directorate of Audit, Audit Cell</li> <li>• Complete audit Cycle (co-related with OAMS) e.g., Audit plan up to follow up of Audit all the steps with complete detail</li> <li>• Quality Assurance for Audit Quality</li> </ul> |
| Uttarakhand Internal Audit Manual Volume -I Part-II | <ul style="list-style-type: none"> <li>• Uttarakhand Audit Act 2012</li> <li>• Summary of Standards as laid down by the Institute of Internal Audit</li> <li>• Compilation of GOs issued for audit</li> <li>• Standardized Formats for internal audit</li> </ul>   |



Uttarakhand  
Internal Audit  
Manual  
Volume-II

Compilation of audit checklists for  
Important Areas/Work and Checklists for  
Audit of Various Departments

**Risk-based  
Internal  
Audit**

- 4- (1) Risk Based Internal Auditing (RBIA) as a methodology links internal auditing to an organization's overall risk management framework. RBIA allows internal audit to provide assurance to the management that risk management processes are managing risks effectively, in relation to the risk appetite.
- (2) The following are the salient features of this Audit Manual:
- (a) According to the concept of Risk-Based Internal Audit, instead of traditional audit (Transaction Audit), the risk register shall be prepared through online mode after reviewing the different audit areas of each department. Audit of high-risk areas, as identified as per the risk register for the departments shall be done.
  - (b) Every three years according to the risk register every three years or before three years as required due to changes in policies or new schemes introduced etc, the departments shall be categorized into a High, Medium and Low-risk categories and as per audit manual audit planning shall be done.
  - (c) All stages of internal audit shall be carried out as per standards laid down by the Institute of Internal Auditors (IIA)
  - (d) Standardized formats for planning, conducting, reporting and monitoring internal audit functions shall be incorporated into the Uttarakhand Online Audit Management System

**Protocol for  
the request  
of Online**

- 5- (a) Various Government Departments carry out different -2 government activities through online mechanisms/portals. The relevant portals may provide important information,

**Data from various departments for conducting the internal audit**

data etc. that may be analyzed for audit. In present context audit planning, audit execution requires implementation of Big Data, Data Analytics and other innovative IT technologies applications as an absolute necessity.

(b) IT technologies shall be used for optimum utilization of time and human resources for audit and successful implementation of risk-based audit. The Finance Department shall establish coordination with other Administrative Departments, for data transfer such as APIs, Bulk Data or any other mechanism the data or information agreed upon shall be obtained for audit, such as Integrated Financial Management System (IFMS) is being used by all the Drawing Disbursement Officers of Government Departments, Large projects, estimation of budget e Aklan portal (Planning Department), etc. can be used for Data Transmission

**Nature/Types of Internal Audit**

6- (a) The Government of Uttarakhand, under Public Financial Management Reform Program, is committed for upgrading the Internal Audit system, implementation of best practices, and strengthening audit functions .

(b) Internal audit has two major classifications which shall include different-2 types of audits of auditees in each types -:

- Functional audit - Work and Revenue audit
- Specialized Nature Audits-Performance Audit, Public Procurement Audit, Information Technology audit, Public-Private Partnership Audit and Fraud and Forensic Audit

(c) As per Section 20 of the Uttarakhand Audit Act 2012, the definitions, brief descriptions and standards to be applied for these various types of audits are defined in rule 7 and 8. Separate audit manuals shall be issued and promulgated by the Finance Department under definitions, standards mentioned for concerned different types of audit.

**Functional**

7- (a) **Work Audit**-Work Audit shall be carried out for audit of



**Audit**

various stages related to construction work for Work Departments and Executing agencies like Public Works Department, Irrigation, Minor Irrigation, Rural Engineering Service, Mandi Parishad etc. Under work audit, Key Auditable areas such as various stages of construction work, procurement, contract management, store management etc. shall be evaluated and the identified risk areas shall be audited in detail. Work audit shall be conducted in accordance with the rules and standards laid down by Uttarakhand Internal Audit Manual. Work Audit manual shall be promulgated by the Finance Department to lay down detailed audit process to be carried out related to work audit

- (b) Revenue Audit** - Revenue audit shall relate to audit of revenue earning departments which includes Tax- Revenue Departments such as State Tax, Excise, Stamp, and Registration department, Non-tax revenue departments such as mining, forest department etc. shall be included in this manual. Revenue audit shall be conducted in accordance to the acts, rules, norms, policies of respective departments. There shall be a separate checklist to audit such revenue earning departments. Under revenue audit, the identified key audit areas are as follows such as red flag reports, compliance of rules by tax officers, assessment and collection by tax officers as per rules, internal control evaluation etc. on these risky areas audit shall be conducted. Revenue audit shall be conducted in accordance with rules and standards laid down by Uttarakhand Internal Audit Manual. Revenue Audit manual shall be promulgated by the Finance Department to lay down detailed audit process to be carried out related to Revenue Audit.

**Audits of 8-  
Special Nature**

**(a) Performance Audit:** Performance audit means an audit that reviews any auditee institution, scheme/program operations or implementation or output and outcome from government scheme/programs from time to time. The guidelines for performance audit shall include in detail Economy, Efficiency, and Effectiveness. In addition to abovementioned three Es. The new dimensions in performance audit i.e. three Es Environment, Equity, Ethics shall also be introduced.

Under Performance Audit Risk management, proper use of public resources, Information systems and Control systems as well as the audit of subjects like legal compliance can be covered by the Finance Department.

This Audit Manual shall be based on Standards of the International Organization of Supreme Audit Institute (INTOSAI). The manual shall be prepared on the Principles and Standards are as mentioned below -

- Public Sector Auditing Principles (ISSAI-100),
- Principles of Performance Audit (ISSAI-300)
- Performance audit Standards (ISSAI-3000-ISSAI-3999)

Performance Audit manual shall be promulgated by the Finance Department to lay down Standards, Principles and detailed audit process to be carried out related to Performance Audit

**(b) Information Technology Audit (IT Audit)**

Information Technology Audit is the process of deriving assurance on whether the development, implementation and maintenance of IT systems meet auditee institution goals, safeguards information assets and maintain data integrity. In other words, an IT Audit is an examination of the implementation of IT systems and IT controls to ensure that the systems meet the auditee institution objectives without compromising security, privacy, cost, and other critical business elements



IT audit may be conducted for Finance, Compliance and Performance audit or its combination under the guidance of Finance Department.

IT Audit shall be conducted as per the following standards and parameters

- Information System Audit & Control Association (ISAC) standards
- Guidelines on Information Technology Audit under International Standards for Auditing Institute (ISSAI), ISSAI 5100 is the broad principles for IT audit principle
- Control Objectives for IT (COBIT) 2019
- ISO 20000 standard specifically for IT Service Management
- ISO 22301 standard for business continuity Management

IT Audit manual shall be promulgated by the Finance Department to lay down Standards, Principles and detailed audit process to be carried out related to IT Audit.

**(c) Public Procurement audit –**

The goal of Public Procurement audit is to assess how efficiently, effectively in compliance with requirements of Procurement rules, Financial rules, Government Orders, laws, and established ethical standards, auditee institutions are procuring and contracting public goods, works, and services for implementing the function of public procurement.

The nature of procurement audit shall be accordingly as per the selected topic, the objective of the concerned audit. It shall be conducted as per the standards as prescribed in Risk Based Internal Audit, Performance audit, or Compliance audit

Public Procurement Audit manual shall be promulgated by the Finance Department to lay down the detailed audit

process to be carried out related to Public Procurement Audit.

**(d) Fraud and Forensic Audit –**

It is an independent, comprehensive and scientific approach of reviewing auditee financial statements, utilization of government funds, financial transactions, procurement and contract execution to determine its accuracy, free from material mis statements importantly, to derive pieces of evidence that shall be used in a court of law or legal proceedings

Forensic audits covers a wide range of investigative activities. A Forensic Audit is often conducted to prosecute a party for fraud, embezzlement, misappropriation or other financial crimes.

Fraud and Forensic Audit manual shall be promulgated by the Finance Department in accordance with the acts, rules of Central and State Government related to the investigation, anti-corruption, financial crimes, information technology, C.V.C. Guidelines issued from time to time, I.C.A.I. standards and any other acts, rules as necessary shall be included in this audit manual Fraud and Forensic Audit manual shall be promulgated by the Finance Department to lay down the detailed audit process to be carried out related to Fraud and Forensic Audit.

**( e) Public-Private Partnership Audit –**

Audit of PPP projects is to provide reasonable assurance to all stakeholders about the economy, efficiency, and effectiveness of the PPP arrangement and to ensure that the inclusion of the private sector agency into the project has resulted in improving the value for money for the Government. PPP audit is a type of contract audit for the validity of total project cost, economy, and efficiency of operations of the entity from the public partner point of view and most of all on achieving the objectives (results)



of the partnership.

The concerned audit shall be carried out in accordance with the Principles and standards as laid down by the Internal, Performance and Compliance audit.

This audit shall be done in accordance with Public-Private Partnership Policy, Procurement Rules as notified by the State Government of Uttarakhand from time to time, as well as prescribed accounting rules and different concepts of financial management.

Public- Private Partnership Audit manual shall be promulgated by the Finance Department to lay down the detailed audit process to be carried out related to Public-Private Partnership Audit

  
(Amit Singh Negi)  
Secretary

### Introduction to and Structure of the Manual

The Internal Audit manual sets out the principles, policies and procedures that govern the Internal Audit practices in the State of Uttarakhand. The manual incorporates the standards issued by the Institute of Internal Auditors (IIA) and the code of ethics for the Internal Auditors. This manual provides detailed guidance on the management of various functions at different stages of the Internal Audit life cycle i.e. planning, execution, reporting, follow-up, documentation, and quality assurance for Internal Audit engagements.

This manual shall be applicable to all the Internal Audit engagements carried out by the Directorate of Audit. Further, this manual shall be read in conjunction with other audit manuals prepared for specific areas such as Public Private Partnership (PPP) Audit, Performance Audit, Fraud & Forensic Audit, Works Audit, Procurement Audit and Revenue audit and any other area for which separate audit manual is prepared. This manual incorporates references from the government orders/notification issued by the Finance Department from time to time relating to carrying out of Internal Audit functions.

This manual has been developed to assist the audit functionaries and external agencies in providing independent, objective, and value-added Internal Audit services with an intention to introduce best practices in the State. The manual is intended to:

- act as a handbook and help the audit functionaries to perform their roles and responsibilities.
- introduce a comprehensive risk-based approach in audit planning and execution.
- develop the concept of systematic sampling, risk assessment, standardization of reporting and monitoring mechanism to improve Internal Audit effectiveness across the State.
- to act as a quick reference guide in relation to the Internal Audit methodology for ensuring uniformity in Internal Audit process.

The primary users of this manual will be the audit functionaries and the external agencies appointed for conducting Internal Audit. This manual consists of two volumes with each volume consisting of two parts:

|                     |   |
|---------------------|---|
| Volume I – Part I   | Covers overall process and guidelines for Internal Audit            |
| Volume I – Part II  | Covers annexures regarding the forms and formats for Internal Audit |
| Volume II – Part I  | Covers audit checklist for key auditable areas and other functions  |
| Volume II – Part II | Covers audit checklist for specific departments                     |

**This manual shall be further updated based on the functionality review of OAMS, inputs collected from pilot audit, workshop, and training.**

## Structure of the Manual

The manual is divided into following 15 chapters:

| Chapter No    | Heading  | Brief Description   |
|---------------|--|---|
| <b>Part-I</b> |  |   |
| 1.            | Legal Framework, Definition and Standards of Internal Audit in Uttarakhand | Introduction to the legal framework of Internal Audit in Uttarakhand, key definitions and auditing standards adopted along with the frequency of update of this manual  |
| 2.            | Internal Audit Institutional Arrangements                                  | Introduction to Finance Department, Directorate of Audit, Audit Cell and various Committees with their key roles and responsibilities   |
| 3.            | Internal Audit Charter   | Formal document defining purpose, authority, and responsibility of the Internal Audit activities.   |
| 4.            | Internal Control Framework   | Policies, procedures, and activities that are part of the internal control framework  |
| 5.            | Online Audit Management System (OAMS)                                      | An overview of web-based application i.e. Online Audit Management System (OAMS) for e-management of the Internal Audit activities carried out by Directorate of Audit.  |
| 6.            | Audit Life Cycle   | Provides the brief of all the steps in Internal Audit life cycle i.e. audit planning, audit execution, audit reporting & documentation, audit monitoring follow-up & compliance and audit quality assurance & improvement plan. |
| 7.            | Internal Audit Strategic Plan  | Provides overview, definition, objective, and principles for Internal Audit Strategic Plan.   |
| 8.            | Audit Planning and Preparation   | Steps to be followed for planning and preparing for Internal Audit engagements.   |
| 9.            | Audit Execution  | Steps to be followed for executing an individual Internal Audit engagement.   |

| Chapter No     | Heading                                     | Brief Description   |
|----------------|---|---|
| 10.            | Audit Reporting                             | Steps to be followed for reporting of the findings to the auditee.  |
| 11.            | Audit Documentation                         | Steps to be followed for documenting sufficient and appropriate evidence for an Internal Audit engagement result.   |
| 12.            | Audit Monitoring, Follow-up, and Compliance | Steps to be followed for compliances of audit paras and evaluation of actions taken by the auditee and management of the auditee on reported audit observations and recommendations.  |
| 13.            | Quality Assurance and Improvement Programme | Summarizes the activities to be conducted for quality assurance during the performance of individual Internal Audit engagements and for evaluations of the overall Internal Audit activities in terms of quality and improvement at periodic intervals. |
| 14.            | External Agencies                           | Legal Mandate and special points for consideration for audit by external agencies   |
| <b>Part II</b> |   |   |
| 15.            | Annexures                                   | Forming part of the chapters and expand upon the guidance provided in this manual.  |

TABLE 1: STRUCTURE OF THE MANUAL

## Glossary

The definitions of the various terms used in this Manual are given below:

**Auditor** means any person appointed by the GoUK to perform the audit functions under section 3 of the Uttarakhand Act, 2012 which includes Director and all other officers.

**Auditee or Audit Unit** means a department or unit of a department that is being audited

**Accountant General** means the Head of an office of Accounts and Audit subordinate to the Comptroller and Auditor General of India. The office of the AG (Accounts & Entitlement-A&E) is responsible for compiling of State finance accounts. The office of AG (Audit) exercises audit functions on behalf of the Comptroller and Auditor General of India.

**Act means** The Uttarakhand Audit Act, 2012.

**Administrative Department** means concerned Administrative Department of Government of Uttarakhand

**Audit universe** means details of all the applicable auditees in the State that are compiled and maintained for the use during the audit planning process.

**Audit functionaries** mean the composition of audit officers/personnel includes Director, Audit and such other officers appointed for this purpose under Section 3 of the Uttarakhand Audit Act 2012.

**Audit team** means the team of audit personnel assigned by the Directorate of Audit to carry out the Internal Audit function.

**Audit program** is a detailed action plan of the audit work that include necessary audit checks and procedures to be performed by the auditor during conduct of Internal Audit of various departments.

**Audit Cell** is setup at the Secretariat under the Finance Department, Government of Uttarakhand.

**Audit objectives** mean broad Statements developed by auditors that define intended engagement accomplishments.

**Competent authority** means the Government authority to which the delegation of relevant powers is made by the Government.

**Computer assisted audit techniques (CAAT)** means the practice of using computers to automate the audit process, which normally includes using basic office productivity software i.e., spreadsheets, word processors and other software packages that help in audit including statistical analysis.

**Code of Ethics means** principles relevant to the profession and practice of Internal Auditing, and rules of conduct that describe behaviour expected of Internal Auditors, to promote an ethical culture in the global profession of Internal Auditing.

**Control processes mean** policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

**Drawing and Disbursing Officer (DDO)** refer to a departmental officer, entrusted with the responsibility of drawing and disbursing funds of the Government. Administrative Departments/Heads of the Departments declare Gazetted Officers under their Administrative Control as Drawing and Disbursing Officer in respect of specific establishments.

**Director** means the Director, Audit (with Local Funds Audit, Panchayat Audit) appointed under Section 3 of the Uttarakhand Audit Act, 2012 and inter alia includes such officer on whom powers of the Director are conferred upon under sub-section (4) of section 3 of the Uttarakhand Audit Act 2012.

**External Agencies** means a person or firm outside of the organization that has special knowledge, skill, and experience for conducting Internal Audit and have been appointed by competent authority for conducting Internal Audit under outsourcing model.

**Finance Department** means Finance Department of Government of Uttarakhand.

**Financial year** means a year beginning on the 1st of April and ending on the 31st of March of the following year.

**Government** means Government of Uttarakhand State (GoUK).

**Head of Department (HOD)** means an authority declared so by the State Government.

**Head of Office (HOO)** means senior most Gazetted Officer of office.

**Half margin memo (HMM)** means a letter/memo issued by the auditor to the Head of the Department/Auditee requesting to produce relevant accounting records, registers, files and other documents required to be checked in course of the audit and seeking clarifications on observations/findings made during the audit.

**Internal audit charter** means a formal document that defines the Internal Audit activities, purpose, authority, and responsibility.

**International Professional Practices Framework (IPPF)** means the conceptual framework that organizes the authoritative guidance promulgated by the Institute of Internal Audit (IIA).

**Internal control means** procedures adopted by the department or executive of a department in achieving its objectives of ensuring efficient conduct of its business, adhering to applicable policies, rules and regulations aiming at safeguarding of assets, prevention and detection of fraud, accuracy of accounting, and timely preparation of reliable financial information

**Planning memorandum means** a detailed plan of the auditing work to be performed during the audit including various audit checks and procedures to be followed in verification, along with time frame to complete the audit



**Risk -Based Internal Audit (RBIA)** means the methodology that links Internal Auditing to an organisation's overall risk management framework. RBIA allows Internal Audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

**Record** means any data, information, document and file in whatever form including electronic and digital form, and includes vouchers, bills, invoices, challans, receipts, papers authenticated photographs, audio and video tapes, facsimile papers whether maintained by the auditee itself or on its behalf by anybody or person or obtained from the third party and relied upon it in performance to its functions.

**Section** means any section specified in the Uttarakhand Audit Act, 2012

**State Government** means Government of Uttarakhand

**Standards mean** a professional pronouncement promulgated by the International Internal Audit Standards Board that delineates the requirements for performing a broad range of Internal Audit activities and for evaluating Internal Audit performance

**Standard Object of expenditure means** a list of expenditures as Stated in Appendix VII of budget manual, Uttarakhand issued by Finance Department, Government of Uttarakhand.

**Transaction** means any act which results in outflow or inflow of public money, acquisition or transfer of any assets, store or stock or acquisition of future liability or right to receive income or assets.

**Working papers** means the supporting documents for the entire audit engagement. The documents serve as proof of audit procedures performed, evidence obtained and the conclusion or opinion of the auditor.

**Any other terms** which have not been defined either in the Uttarakhand Audit Act, 2012 or in this audit manual will be referred from its source document e.g. Financial Handbook and Budget Manual etc.

**Abbreviations**

|       |  |
|-------|--|
| AG    | Accountant General                             |
| CA    | Chartered Accountant                           |
| CAAT  | Computer aided audit techniques                |
| COSO  | Committee of sponsoring organizations          |
| CSS   | Central sector scheme                          |
| DD    | Demand draft                                   |
| DDO   | Drawing and Disbursing Officer                 |
| DoA   | Directorate of Audit                           |
| EAP   | Employee assistance program                    |
| EC    | Expert committee                               |
| FY    | Financial year                                 |
| GOs   | Government orders                              |
| GoUK  | Government of Uttarakhand                      |
| HMM   | Half margin memo                               |
| HOD   | Head of Department                             |
| HOO   | Head of Office                                 |
| IAS   | Indian administrative services                 |
| ICQ   | Internal control questionnaire                 |
| IFMS  | Integrated financial management system         |
| IIA   | Institute of Internal Auditors                 |
| IPPF  | International Professional Practices Framework |
| MACP  | Modified assured career progression scheme     |
| MIS   | Management information system                  |
| PMGSY | Pradhan Mantri Grameen Sadak Yojna             |
| PPP   | Public private partnership                     |
| PWD   | Public works department                        |
| QAIP  | Quality assurance & improvement Programme      |
| RBIA  | Risk based Internal Audit                      |
| RWD   | Rural works department                         |
| SMS   | Short message sending                          |
| SMS   | Short messaging service                        |
| SOE   | Standard object of expenditure                 |
| SSS   | State sector scheme                            |

## Chapter 1: Legal Framework, Definitions and Standards of Internal Audit in Uttarakhand

1. This chapter introduces the legal framework of Internal Audit in Uttarakhand, the definition and standards adopted and the frequency of updates of Internal Audit Manuals. The chapter has been divided into the following sections:
  - 1.1 Governing Act and Government Order's
  - 1.2 Definition of Internal Audit
  - 1.3 Internal Audit Standards
  - 1.4 Update of Internal Audit Manuals

### 1.1 Governing Acts, International Standards on Internal Audit and Government Orders/Notifications

#### 1.1.1 Uttarakhand Audit Act -2012

2. The Uttarakhand Act, 2012 provides the legal mandate for carrying out Internal Audit of the government departments in the State of Uttarakhand. Refer to **Annexure “1”** for a copy of the Act.

#### 1.1.2 International Standards on Internal Audit

3. The International Standards issued by the Institute of Internal Auditors (IIA) for the professional practice of Internal Audit has been used in the development of this Internal Audit Manual to the extent it is applicable in the context of the Government of Uttarakhand. The Standards provides guidance for conducting Internal Audit at both the organisational and individual levels. The standards describe the nature of Internal Audit activities, key components of audit charter, annual plan activity, ways of conducting Internal Audit, communicating results to the auditee and the criteria for evaluating the performance of the services.
4. The Standards comprise Attribute, Performance, and Implementation Standards. Attribute Standards and Performance Standards apply to all Internal Audit services whereas Implementation Standards apply to specific types of engagement such as assurance and consulting activities.

#### 1.1.3 Government Orders (GO's)/ Notifications

5. All Government orders/ notifications issued by the Finance Department for carrying out the Internal Audit function have been used in the development of this Internal Audit Manual.
6. A list of important GOs along with its copy is enclosed at **Annexure “2”**. Further, the Finance Department should update the list of GO's on a periodic basis. This manual shall be read in conjunction with the government orders/notifications issued by the Finance Department from time to time for conducting Internal Audit.

## 1.2 Definition of Internal Audit

7. The Institute of Internal Auditors (IIA) defined Internal Audit as:

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

## 1.3 International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA)

8. Internal Audit is conducted in diverse legal and operational environments; for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. Such differences may affect the practice of Internal Auditing in each environment, and thus conformance to uniform practices/ standards become essential in meeting the objective of Internal Auditing. Therefore, this manual has been prepared based on International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA) to bring uniformity in the Internal Audit processes. The key concepts related to International Standards for the Professional Practice of Internal Auditing are:

- a) The Standards are a set of principles-based mandatory requirements consisting of:
  - Statements of core requirements for the professional practice of Internal Auditing.
  - Framework for evaluating the effectiveness of performance that is internationally applicable at organizational and individual levels.
  - Interpretations clarifying terms or concepts within the Standards.
- b) The purpose of the Standards is to:

- Guide adherence with the mandatory elements of the International Professional Practices Framework (IPPF).
  - Provide a framework for performing and promoting a broad range of value-added Internal Auditing services.
  - Establish the basis for the evaluation of Internal Audit performance.
  - Foster improved organizational processes and operations.
- c) The standards, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework. Therefore, compliance with the Code of Ethics and the Standards demonstrates compliance with all mandatory elements of the International Professional Practices Framework.
- d) The Standards comprise two main categories:
- **Attribute Standards** address the attributes of organizations and individuals performing Internal Auditing.
  - **Performance Standards** describe the nature of Internal Auditing and provide quality criteria against which the performance of these services can be measured.

9. International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA) referred to in this manual are as under.

| Attribute Standards                                    | Performance Standards  |
|--|--|
| 1000 – Purpose, Authority, and Responsibility          | 2010 – Planning  |
| 1010 – Recognition of Code of Ethics and the Standards | 2020 – Communication and Approval                                  |
| 1100 – Independence and Objectivity                    | 2030 – Resource Management   |
| 1120 – Individual Objectivity                          | 2050 – Coordination  |
| 1130 – Impairments to Independence or Objectivity      | 2060 – Reporting to Senior Management and the Board                |
| 1200 – Proficiency and Due Professional Care           | 2070 - External Service Provider and Organizational Responsibility |
| 1210 – Proficiency                                     | 2100 – Nature of Work  |
| 1220 – Due Professional Care                           | 2130 – Control   |
| 1230 – Continuing Professional Development             | 2200 – Engagement Planning   |

| Attribute Standards                              | Performance Standards                 |
|--|---------------------------------------|
| 1300 – Quality Assurance and Improvement Program | 2201 – Planning Considerations        |
| 1310 – Requirements of the Quality Assurance     | 2210 – Engagement Objectives          |
| 1311 – Internal Assessments                      | 2220 – Engagement Scope               |
| 1312 – External Assessments                      | 2230 – Engagement Resource Allocation |
| 1320 – Reporting on the Quality Assurance        | 2300 – Performing the Engagement      |
|  | 2310 – Identifying Information        |
|  | 2320 – Analysis and Evaluation        |
|  | 2330 – Documenting Information        |
|  | 2340 – Engagement Supervision         |
|  | 2400 – Communicating Results          |
|  | 2410 – Criteria for Communicating     |
|  | 2420 – Quality of Communications      |
|  | 2500 – Monitoring Progress            |
|  |                                       |

TABLE 2: LIST OF IIA STANDARDS

10. Refer to **Annexure “3”** for brief details of International Standards for the professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

#### 1.4 Update of Internal Audit Manuals

11. The Internal Audit Manual and other supplementary Audit Manuals prepared for specialised purposes such as Performance Audit, Information Technology Audit, Public Private Partnership Audit, Fraud & Forensic Audit, Works Audit, Revenue Audit and Procurement Audit shall be updated by the Finance Department at least once in every three years.

## Chapter 2: Internal Audit Institutional Arrangements

12. This chapter details the institutional arrangements for conducting Internal Audit function in the State including an introduction to the Finance Department, Directorate of Audit, Audit Cell and various audit committees.

### 2.1 Finance Department

13. Finance Department means Department of Finance of the Government of Uttarakhand. Upon enactment of the Uttarakhand Audit Act, 2012, various departments' audit functions have been centralised within the Finance Department under Section 3(5) of the Uttarakhand Audit Act, 2012.

14. The objective of the Finance Department with respect to Internal Audit is to check whether the auditee has performed its statutory and fiduciary responsibilities and has used the public money and resources effectively and efficiently. Finance Department in order to achieve the aforesaid objectives and for smooth implementation of the provisions of the Uttarakhand Audit Act, 2012 is entrusted with the following roles and responsibilities:

- a. Update of Internal Audit manual and other supplementary Audit Manuals prepared for specialised purpose such as Performance Audit, Information Technology Audit, Public Private Partnership Audit, Fraud & Forensic Audit, Works Audit, Revenue Audit and Procurement Audit on a periodical basis.
- b. Adoption of new International Standards for the Professional Practice issued by the IIA from time to time.
- c. Issue Government order/ notification as may be necessary for the smooth conduct of Internal Audit, Performance Audit, Information Technology Audit, Public Private Partnership Audit, Fraud & Forensic Audit, Works Audit, Revenue Audit and Procurement Audit from time to time.
- d. Review Internal Audit Strategic Plan.
- e. Review the annual audit plan submitted by the Director, Audit & issue the necessary direction, in case of any change required within the period of one month. If no such further directions are issued, these plans will be deemed approved.
- f. Issue orders for conducting Special Audit and Fraud & Forensic Audit and issue of audit reports thereon. Finance Department may, under special circumstances or on the request of the HOD of the auditee or at its own discretion, issue order for Special Audit or Fraud & Forensic audit of Government Machineries, Public Corporations, Government Companies, Institutions, Statutory Authorities, Panchayati Raj Institutions, Urban Local Bodies and Government Committees. This

audit will be conducted either by the committee formed for this purpose or by the official from the Directorate of Audit.

- g. Review the progress of Internal Audit through Quarterly Progress Report and Internal Quality Assessment Report.
- h. Initiate external assessment review under the Quality Assurance Improvement Programme from professional bodies such as IIA India, ICAI or from other reputed institutions having experience in public audit.
- i. Issue of guidelines and government order(s) for the outsourcing of Internal Audit as per Section 3(6) of Uttarakhand Audit Act, 2012.
- j. Review the serious audit paras to be placed before the State Level Audit Committee.
- k. Issue directives for changes in Online Audit Management System and to incorporate various emerging IT interventions such as CAATs Tools, Data Analytics, Artificial intelligence etc.
- l. Notify the audit fee to be charged from the auditee for conducting Internal Audit under Section 4 (4) of the Uttarakhand Act, 2012.
- m. Issue Internal Audit Reports to the auditee and its HOD based on the recommendation of the Expert committee for Quality Assessment for High-Risk Departments.
- n. Issue Annual Integrated Internal Audit Reports to the Secretary of the concerned departments based on the recommendation of Director, Audit for all the categories of departments (i.e. High Risk, Medium Risk and Low Risk Departments).

## 2.2 Directorate of Audit

- 15. The Directorate of Audit is constituted under Section 3(1) of the Uttarakhand Audit Act, 2012 to perform Internal Audit functions across the State.
- 16. The Directorate of Audit is headed by the Director, Audit and day-to-day audit functions are handled by the officers of the Directorate of Audit. The power, duties and responsibility of the Director, Audit and other officials of the Directorate of Audit are provided below.

### 2.2.1 Director, Audit

- 17. The power, duties and responsibility of Director, Audit to carry out Internal Audit and other audits has been provided below:



- a. Issue functional directions, and guidance to the officials of the department for conducting Internal Audit and other specialised audit such as Performance Audit, Information Technology Audit, Public Private Partnership Audit, Works Audit, Revenue Audit and Procurement Audit.
- b. Prepare Internal Audit Strategic plan and inform-the same to the Finance Department.
- c. Preparation and execution of annual and quarterly audit plan. The plans shall be informed to the Finance Department. Both plans shall be deemed approved until & unless any other modification is intimated by the Finance Department within the period of one month.
- d. Ensure compliance with International Standards for the Professional Practice Issued by IIA in carrying out Internal Audit function.
- e. Conduct 'Special Audit' and 'Fraud & Forensic Audit' as per the direction of the Finance Department.
- f. Review risk profiling parameters to be used for categorisation of departments and auditees for conducting Internal Audit, Performance Audit, Information Technology Audit, Public Private Partnership Audit, Works Audit, Revenue Audit and Procurement Audit or any other audit area.
- g. Review and update audit risk register at least once in every three years.
- h. Ensure conduct of Internal Audit and other audits as per the approved annual and quarterly audit plan.
- i. Implement complete audit process (i.e. starting from the development of audit plan, allocation of resources and timely issuance of the final audit report to the auditee) in accordance with the guidelines provided in this Audit Manual.
- j. Issue the Internal Audit Reports to the auditee and its Head of Department based on the recommendation of the Expert Committee for Quality Assessment for Medium Risk and Low Risk Department.
- k. Review the Annual Integrated Internal Audit Report for the departments submitted by Expert Committee for Quality Assessment and recommend to the Additional Chief Secretary/Principal Secretary/ Secretary, Finance for issuance of the Annual Integrated Internal Audit Report.
- l. Follow-up, monitoring and compliance of audit paras reported in the Internal Audit Reports and submit the same to Finance Department on a quarterly basis.
- m. Prepare and submit key audit paras related to irregularities like misappropriation of Government money, defalcation, and fraud etc. to the Finance Department and concerned Administrative Department to be placed before the State Level Audit Committee.
- n. Recommend to the concerned Administrative Department and Head of Department of auditee to take disciplinary action against the person who wilfully neglects or refuses to provide any requisition of records under Section 7 of the Uttarakhand Audit Act, 2012 as per the applicable service rules.

- o. Prepare and submit Quality Assurance Improvement Program (QAIP) to Finance Department for approval.
- p. Engage external agency for carrying of Internal Audit and other specialised audit mentioned in the manual in accordance the with direction of the Finance Department.

### 2.2.2 Supervisory Officer

18. The Director, Audit may authorise any officer not below the Rank of Assistant Director for monitoring and review of the audit procedure carried by the audit team. The officer so authorised by the Director; Audit hereinafter is referred as “Supervisory Officer”. The key functions of these officers are as under:
- a. Supervise and guide the audit team by visiting the auditee during the conduct of Internal Audit or other specialised audits.
  - b. Ensure smooth execution of annual and quarterly audit plans by the audit team.
  - c. Review, approve and put forward the Draft Internal Audit Report and Annual Integrated Internal Audit reports to the Expert Committee for Quality Assessment.
  - d. Review whether the audit team has obtained and uploaded sufficient and appropriate audit evidence for drafting the audit paras.
  - e. In case any fraud, embezzlement or misappropriation is reported by the audit team, exercise the following steps:
    - Analyse and evaluate audit evidence obtained by the audit team by applying professional skepticism.
    - Intimate to Director, Audit and conduct the field visit if, required.
    - Initiate joint inspection with the auditee (except when auditee is involved) to substantiate the misappropriation, fraud, embezzlement etc.
    - Upload all the working papers on OAMS jointly signed by the audit team, auditee and all other officers who were present during the inspection/ verification immediately after completion of the inspection.
  - f. Review the audit working papers to ensure that sufficient and appropriate audit evidence has been obtained by the audit team to draft the audit paras and conclusion drawn by the audit team therefrom is correct.
  - g. Ensure that the audit team has followed all the audit procedures as provided in the audit planning memorandum.

### 2.2.3 Audit Team

19. Audit team comprised of two to three members, including the team leader. The key roles and responsibilities of the audit team are as under:

- a. Perform duties as specified under Section 6 of the Uttarakhand Audit Act, 2012.
- b. Conduct internal audits and other specialised audits using OAMS or any other audit management software as per the directions issued by Finance Department.
- c. Conduct Internal Audit and other specialised audits in accordance with the guidelines provided in this audit manual and in compliance with Government Orders and notifications issued by the Finance Department from time to time.
- d. Issue of half margin memo to the auditee for the record, reply, explanation through OAMS or any other audit management software in use as per the direction issued by the Finance Department.
- e. Inform to Supervisory Officer regarding non-compliance of audit requisition by the auditee.
- f. Conversion of half margin memos into audit paras and preparation of the Draft Internal Audit Report in accordance with the guidelines specified in this audit manual.
- g. Upload all audit working papers and evidence collected during the conduct of audit on OAMS or other audit management software in use as per the direction issued by the Finance Department.
- h. Inspect stores/ inventory, complete works, ongoing works etc. with the help of the services of respective subject matter experts, if required, by issuing HMM at least one day before such inspection. Upload all the working papers, jointly signed by the audit team, auditee and all other officers who were present during the inspection/ verification, on OAMS immediately after completion of inspection/verification.
- i. Report to the Supervisory Officer in case any fraud, embezzlement or misappropriation is found during the conduct of Internal Audit.
- j. Perform any other work as per the directions of the Director, Audit and Supervisory Officer.

### 2.3 Audit Cell

20. Audit Cell is set up at the Secretariat under the Finance Department, Government of Uttarakhand.

21. Audit Cell is comprised of officers as decided by the State Government from time to time. Audit Cell, as per the directions of Additional Chief Secretary/ Principal Secretary/ Secretary, Finance will assist in carrying out the duties and responsibilities as mentioned in *clause 2.1 above*.

22. Audit Cell will carry out any such other functions as directed by Additional Chief Secretary/ Principal Secretary, Finance / Secretary, Finance.

## 2.4 Expert Committees for Quality Assessment

23. IIA Standard-1310 “*Requirements of the Quality Assurance and Improvement Program*” requires the QAIP to include both internal assessment and external assessment. The IIA Standard -1311 requires “*Internal Assessment consists of ongoing monitoring and periodic self-assessment*”. So, in order to meet with the requirements of IIA Standard-1311 “Expert Committees for Quality Assessment” are constituted for review and finalization of Internal Audit Reports. The objective of these Expert Committees is to do the quality assessment of the *Draft Internal Audit Reports* prepared by the audit team and reviewed by the Supervisory Officer. For effective internal quality assessments following committees are formed:

- (i) Expert Committee for Quality Assessment of Internal Audit Reports for high-risk departments.
- (ii) Expert Committee for Quality Assessment of Internal Audit Reports for medium and low-risk departments

### 2.4.1 Expert Committee for Quality Assessment of High-Risk Departments

24. The composition of the Expert Committee for Quality Assessment for high-risk departments is as under:

#### Expert Committee for Quality Assessment for high-risk departments

- |   |                               |
|---|-------------------------------|
| 1 | Joint Secretary, Audit Cell   |
| 2 | Concerned Supervisory Officer |
| 3 | Audit Officer, Audit Cell     |

25. The committee shall review the Draft Internal Audit Reports submitted by the Supervisory Officer and recommend to the Additional Chief Secretary/ Principal Secretary/ Secretary, Finance for issuance of the Internal Audit Reports.

26. The committee shall review the Annual Integrated Internal Audit Reports for the departments submitted by the Supervisory Officer and recommend to the Director, Audit.

### 2.4.2 Expert Committee for Quality Assessment for Medium and Low Risk Departments

27. The composition of the Expert Committee for Quality Assessment for medium and low risk departments are as under:

- |   |  |
|---|--|
| 1 | Additional Director/ Joint Director or Deputy Director nominated by Director, Audit. |
| 2 | Concerned Supervisory Officer  |
| 3 | Concerned Audit Team Leader  |

28. The committee shall review the Draft Internal Audit Reports submitted by the Supervisory Officer and recommend to the Director, Audit for issuance of the Internal Audit Reports.
29. The committee shall review the Annual Integrated Internal Audit Reports for the departments submitted by the Supervisory Officer and recommend to the Director, Audit.
30. The general functions, roles and responsibilities of the Expert Committees for Quality Assessment are as under:
- The meeting of the Committees shall be scheduled on fortnightly basis.
  - The quality assessment of Draft Internal Audit Reports shall include reviewing that the audit team has performed the work in accordance with procedures outlined in this audit manual and in compliance with the Act, Rules, and Government orders/notification issued by the Finance Department from time to time.
  - Quality assessment of Draft Internal Audit Reports prepared and submitted by the external agencies.
31. The Expert Committee for Quality Assessment shall on monthly basis bring to the notice of Additional Chief Secretary/ Principal Secretary/ Secretary, Finance and Director, Audit on common areas requiring improvement along with its recommendations on quality improvements.

## 2.5 Audit Committees

32. To establish coordination in audit work, Audit Committee shall be constituted at Chief Secretary Level, Administrative Department Level and Head of Department Level under Section 9 (5) (b) of the Uttarakhand Audit Act, 2012.
33. The objective of the Audit Committee would be to monitor the compliance submitted by the auditees against the audit paras reported in the Internal Audit Reports. Accordingly, the following Audit Committees have been constituted:
- Departmental Audit Sub Committee at Head of Department Level
  - Departmental Audit Committee at Administrative Department Level
  - State Level Audit Committee at Chief Secretary Level

### 2.5.1 Departmental Audit Sub Committee

34. The composition of the Departmental Audit Sub Committee is provided below:

|   |                    |             |
|---|--------------------|-------------|
| 1 | Head of Department | Chairperson |
|---|--------------------|-------------|

|   |  |                  |
|---|--|------------------|
| 2 | Representative of Accountant General (Audit), Uttarakhand*   | Member           |
| 3 | Finance Controller/Finance Officer                           | Member           |
| 4 | Representative of department nominated by HOD                | Member Secretary |
| 5 | Related Auditee /Office -bearer/Drawing & Disbursing officer | Member           |

*\* For the discussions on the para of Internal Audit Report representative from Accountant General, (Audit) Uttarakhand is not required to attend the meeting of Committee.*

### 2.5.2 Departmental Audit Committee

|   |  |                  |
|---|--|------------------|
| 1 | Additional Chief Secretary/ Principal Secretary/Secretary of the Administrative Department | Chairperson      |
| 2 | Representative of Accountant General (Audit), Uttarakhand*                                 | Member           |
| 3 | Head of Department   | Member           |
| 4 | Finance Controller/Finance Officer   | Member           |
| 5 | Representative of department nominated by HOD  | Member Secretary |

*\*For the discussions on the para of Internal Audit Report representative from Accountant General, (Audit) Uttarakhand is not required to attend the meeting of Committee.*

### 2.5.3 State Level Audit Committee

|   |  |                  |
|---|--|------------------|
| 1 | Chief Secretary, GoUK  | Chairperson      |
| 2 | Additional Chief Secretary/ Principal Secretary/ Secretary, Finance, GoUK                              | Member           |
| 3 | Additional Chief Secretary/ Principal Secretary/ Secretary, Planning, GoUK                             | Member           |
| 4 | Additional Chief Secretary/ Principal Secretary/ Secretary of the Respective Administrative Department | Member           |
| 5 | AG, Audit, Uttarakhand   | Member           |
| 6 | Director, Audit, Uttarakhand   | Member Secretary |

### 35. Functions, Roles and Responsibilities of Departmental Audit Sub Committee are:

- Committee meeting shall be scheduled for at least once in every quarter
- Review of the audit compliance report submitted by various auditees with respect to the serious and non-serious observations made in the Internal Audit Report and AG report
- Monitoring timely submission of compliance report by auditees for observations mentioned in part 2 (B) of AG audit report.
- Monitoring timely submission of compliance report by auditees for observations mentioned in Internal Audit Reports to the committee, Finance Department and Directorate of Audit.

- e) Submission of a report containing list and status of serious para/observation as per AG reports and Internal Audit Reports to Departmental Audit Committee
- f) Review of the control register maintained at auditee level and the consolidated control register at the department level for control & monitoring of settled and un-settled para of the AG reports and Internal Audit Reports separately. The control register shall be prepared, updated and maintained on OAMS as per the functionality developed thereof.
- g) Review of the action taken by the auditees against the audit observation provided in the AG reports and Internal Audit Reports.
- h) Submit a report to Finance Department and Director, Audit detailing action to be taken by the committee on the audit observations/recommendations.
- i) To act as per the direction of the Departmental Audit Committee and State Level Audit Committee.
- j) The minutes of the meeting of committee shall be uploaded on OAMS.

**36. Function, Roles and Responsibilities of Departmental Audit Committee:**

- a) Committee meetings shall be scheduled at least twice in a year.
- b) Review of the report submitted by Departmental Audit Sub-Committee on serious para/observation as per AG Reports and Internal Audit Reports on instances such as embezzlement, misappropriation of funds, forgery etc.
- c) Review the major findings reported in the “Annual Integrated Internal Audit Reports”.
- d) Instruct to concerned Head of Department of the auditee to carry out the departmental investigation and necessary action as per the applicable rules.
- e) Act as per the direction of the State Level Audit Committee.
- f) The minutes of meeting of the committee shall be uploaded on OAMS.

**37. Functions, Roles and Responsibilities of State Level Audit Committee:**

- a) Committee meetings shall be scheduled at least once in every year.
- b) Review of the report submitted by the Departmental Audit Committee.
- c) Issue instructions or advice to the concerned administrative department for taking necessary action with respect to serious audit paras reported in the Internal Audit Report submitted by Departmental Audit Committee.
- d) Discuss any other issues brought to the notice of the committee by the Finance Department/ Director, Audit.
- e) The minutes of the meeting of the committee shall be uploaded on OAMS.



## 2.6 Audit Para Disposal and Settlement Committee

38. Audit Para Disposal and Settlement Committees are constituted for review and assessment of the compliance report submitted by auditees or the Audit Committee. There are two Audit Para Disposal and Settlement Committees:

- a. Audit Para Disposal and Settlement Committee for high-risk departments.
- b. Audit Para Disposal and Settlement Committee for medium and low risk departments.

### 2.6.1 Audit Para Disposal and Settlement Committee for High-Risk Departments

39. The composition of the Audit Para Disposal and Settlement Committees is provided below:

|   |   |             |
|---|---|-------------|
| 1 | Additional Secretary, Finance, GoUK                       | Chairperson |
| 2 | Joint Secretary, Audit Cell                               | Member      |
| 3 | Joint Director, Audit/ Deputy Director, Audit             | Member      |
| 4 | Concerned Supervisory Officer                             | Secretary   |
| 5 | Representative nominated by respective Head of Department | Member      |
| 6 | Audit Officer, Audit Cell (to present the report)         | Member      |

40. Based on the recommendation of the concerned Audit Committee, the above-mentioned committee shall review the compliance report and recommend to the Additional Chief Secretary/ Principal Secretary/ Secretary, Finance for disposal of audit paras. The Principal Secretary/ Secretary, Finance shall consider the recommendation and issue order(s) accordingly. The above committee shall also review the recommendation provided, if any, by the audit team in Internal Audit Reports with respect to compliance of any pending audit para.

### 2.6.2 Audit Para Disposal and Settlement Committee\* for Medium and Low Risk Department

|   |  |             |
|---|--|-------------|
| 1 | Additional Director, Audit / Joint Director, Audit                       | Chairperson |
| 2 | Deputy Director, Audit/ Assistant Director                               | Member      |
| 3 | Assistant Director   | Secretary   |
| 4 | Representative nominated by respective Head of Department                | Member      |
| 5 | Audit Officer, Directorate of Audit, Uttarakhand (to present the report) | Member      |

\*Whenever any of the positions are vacant, the Director, Audit shall nominate appropriate officer for this purpose

41. Based on the recommendation of the concerned Audit committee, the above-mentioned committee shall review the compliance report and recommend to the Director, Audit for disposal of audit paras. Director, Audit shall consider the recommendation and issue the order(s). The above committee shall also review the recommendation provided, if any, by the audit team in Internal Audit Reports with respect to compliance of any pending audit para.

## Chapter 3: Internal Audit Charter

### 3.1 Definition & Content of Internal Audit Charter

42. As per the definition of the Institute of Internal Auditors (IIA) “the charter of the Internal Audit activity is a formal document that defines the Internal Audit activity’s purpose, authority, and responsibility. The charter should:

- a) establish the Internal Audit activity’s position.
- b) authorise access to records, personnel and physical properties relevant to the performance of engagements.
- c) defines the scope of the Internal Audit activities.

43. The Internal Audit charter is a formal document that establishes the nature, roles and functioning of the Internal Audit in the organisation. It shall clearly spell out the Internal Audit’s mandate. The key components of an Internal Audit charter are:

- a) Vision and Mission
- b) Scope
- c) Authority
- d) Governance
- e) Accountability
- f) Independence and Objectivity
- g) Professional standards
- h) Code of Ethics
- i) Responsibility and functioning of the Internal Audit in an organisation.
- j) Quality Assurance and Improvement program

### 3.2 Purpose of Internal Audit Charter

44. The purpose of the charter is to define the Internal Audit activity’s purpose, authority and responsibility in the organisation so that the Internal Audit activity can be managed in accordance with the applicable Code of Ethics, Standards and other guidelines issued by the Finance Department from time to time. The charter provides a detailed outline of how an Internal Audit shall operate and allows the governing body to emphasize the value it places on the independence of the Internal Audit function. The charter establishes

this independence by defining reporting lines from the Chief Audit Executive<sup>1</sup> to the governing body and, administratively, to executive management. It also provides Internal Audit, the authority to achieve its tasks by allowing unrestricted access to records, personnel etc. for the purpose of performing its duties.

45. Refer to **Annexure “4”** for Internal Audit Charter, Government of Uttarakhand.

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<sup>1</sup> The Chief Audit Executive shall be the Director, Audit

## Chapter 4: Internal Control Framework

46. This chapter describes about internal control framework and has been divided into following sections:

- 4.1 Internal control
- 4.2 Management responsibility for internal control framework
- 4.3 COSO internal control framework
- 4.4 Role of Internal Auditors in internal control
- 4.5 Evaluation of internal control

### 4.1 Internal Control

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA

#### **IIA Standard 2130 Control:**

The Internal Audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement

**IIA standard 2130. A1:** The Internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- a) Achievement of the organization's strategic objectives.
- b) Reliability and integrity of financial and operational information.
- c) Effectiveness and efficiency of operations and programs.
- d) Safeguarding of assets.
- e) Compliance with laws, regulations, policies, procedures, and contracts

#### **Meaning and purpose of internal control:**

47. Internal **control** is an integral process that is operated by an organization's management and personnel to address risks and provide reasonable assurance in pursuit of organization's mission.
48. IIA **defines control processes** as the policies, procedures (both manual and automated), and activities that are part of a control framework, designed to ensure that risks are contained within the level that an organisation is willing to accept.

49. IIA also States that adequate control is present if management has planned and organized controls in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.
50. Internal control relates to more than just financial transactions and involves almost all operations of the entity. Internal controls help the organization to manage its risks by:
- a) Promoting orderly, economical, efficient and effective operations, and producing quality products & services consistent with the organization's mission.
  - b) Safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud.
  - c) Promoting adherence to laws, regulations, contracts and management directives.
  - d) Developing and maintaining reliable financial and management data presenting accurate, reliable and timely information and reports.
51. 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.

#### **4.2 Management responsibility for Internal Control Framework**

52. Management has the responsibility to establish an effective internal control framework to ensure adequate treatment of identified risks and the achievement of organisational goals and objectives
53. The COSO (the Committee of Sponsoring Organisations) integrated framework has been widely accepted as providing the benchmark guidance for establishing effective internal controls. It is the prerogative of the management to determine whether the COSO integrated control framework should be adopted and implemented in full or in any suitably modified form, either in the GoUK as a whole or any particular department(s) or entity(ies).
54. Notwithstanding the above, both the auditee and Internal Auditor can use the guidance provided by the COSO integrated control framework as a benchmark to understand and assess whether the government prescribed controls and other department established controls are adequate to manage all the key risks of the department and ensure that department objectives can be achieved without any impairment. As in the case of risk management, it should be noted that when drawing on the elements of the COSO integrated control framework, care should be taken to determine the appropriateness of particular processes in the context of the particular needs of the GoUK department.

#### **4.3 Committee of Sponsoring Organizations (COSO) Internal Control Framework**

55. Committee of Sponsoring Organizations (COSO) developed a model for evaluating internal controls. This model has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

56. It defines internal control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of **objectives** in the following categories:

- 1) Effectiveness and efficiency of **operations**
- 2) Reliability of financial **reporting**
- 3) **Compliance** with applicable laws & regulations

57. These components are relevant to an entire entity and its subsidiaries, division, or any of its individual operating units, functions, or other subsets of the entity.

#### **Relationship of objectives, components, and the entity**

58. A direct relationship exists between objectives, which are what an entity strives to achieve; components, which represent what is required to achieve the objectives, and entity structure (the operating units, legal entities, and other structures).

59. The relationship can be depicted in the form of a cube.

- a) The three categories of objectives are represented by the columns.
- b) The five components are represented by the rows.
- c) The entity structure, which represents the overall entity, divisions, subsidiaries, operating units, or functions, including business processes such as sales, purchasing, production, and marketing and to which internal control relates, are depicted by the third dimension of the cube. In an “effective” internal control system, the following **FIVE components** work to support the achievement of an entity’s mission, strategies and related business objectives: -
  1. Control environment
  2. Risk assessment
  3. Control activities
  4. Communication



FIGURE 1: COSO FRAMEWORK



## 5. Monitoring

60. In addition to above five components of internal control, COSO framework sets out seventeen principles representing the fundamental concepts associated with components and seventy-seven points of focus representing the important characteristics associated with the principles
61. As many concepts of above five components should be applied in the Internal Audit functions, Internal Auditor should carefully review and understand these components of COSO internal control framework along with principles and points of focus. Refer **Annexure “5”** for details of COSO internal control framework.

**(Reproduced from Committee of Sponsoring Organizations of the Treadway Commission Internal Control Integrated Framework Executive Summary 2013)**

## 4.4 Role of Internal Auditors in Internal Control

62. Auditors should assess and evaluate the effectiveness of internal controls established by management. As enshrined in the Audit Charter and Standards, Internal Auditors are required to examine internal controls to ensure that (i) the controls have been properly designed to achieve the specific control objective of managing identified risks and (ii) that the controls are functioning effectively as designed by management.
63. Internal auditors are required to evaluate and document their understanding & assessment of internal controls with the following objectives:
- a) understanding the design of significant processes
  - b) identify key risks within the process assessed
  - c) identify preventive and detective controls that prevent or detect errors from occurring within that process
  - d) identify control gaps and process improvement opportunities.
64. The importance of internal control in Internal Audit planning and Internal Audit engagement has been explained as below:

### 1) Internal Controls and Annual Internal Audit Planning

65. The effectiveness of the system of internal controls in an organization is a critical factor that needs to be considered while preparing the annual Internal Audit plan. It is important that Internal Auditors periodically test the effectiveness of control systems that are intended to address key risks faced by the department. During the testing, the control systems which are identified to be potentially inadequate or

weak helps to determine the areas where more focus shall be given by audit teams while conducting Internal Audit

## 2) Internal Controls and Internal Audit Engagements

66. While conducting Internal Audit engagements of selected areas, Internal Auditors are required to assess the risks of the department at the micro level - i.e. the risks faced by the department at that operational level. Following this, it will be necessary to determine if adequate controls have been established to address such risks. The review of internal control is an integral part of any Internal Audit engagement.
67. Internal auditors need to understand the nature of internal controls and how different controls should be established for different risks within the overall internal control framework of the department. Internal auditors should plan the audit engagement by establishing clear audit objectives and determine criteria for the measurement of the audit objective. In order to achieve most Internal Audit objectives, the Internal Auditor would have to devise audit programmes to determine the existence of internal controls along with their efficiency and effectiveness.

### 4.5 Evaluation of Internal Control

68. Internal auditors shall evaluate of internal controls to ensure that an adequate internal control framework is in existence and is operating as designed by the department. Internal control evaluation will help Internal Auditors to know the following:
- a) Reliability of records and registers maintained by the department
  - b) The extent and the depth of the examination that needs to be carried out in different areas of department
  - c) What are the areas where controls are weak and where it is unnecessarily excessive?
  - d) Whether suggestions can be given to improve the control systems.
  - e) Whether the internal controls are sufficient
  - f) Whether the internal controls are followed

#### Type of Controls

69. Generally, there are two types of internal control such as:
- a) **Preventive Control** activities are designed to deter the occurrence of an undesirable event. The development of these controls involves predicting potential problems before they occur and implementing ways to avoid them.

- b) **Detective Control** activities are designed to identify undesirable events that do occur, and alert management about what has happened. This enables management to take corrective action promptly.

**70. Evaluation of Controls**

- a) Obtain a list of internal controls from the auditee/department and /or obtain the applicable manual/instructions etc., which are in operation in the respective audit department.
- b) After obtaining the above, the Internal Auditor shall perform tests of controls to assess the existence and adequacy of internal controls. However, the Internal Auditor may not be required to test all the internal controls, he may select some sample controls based on the results of the risk assessment and professional judgment.
- c) The Internal Auditors may initially check the controls by conducting a compliance testing that is, testing to assess compliance with the internal control. Substantive testing is required to obtain evidence to ensure the completeness, accuracy and validity of the data produced by the accounting system.
- d) The Internal Auditor shall first check whether there is compliance with the control measure. If it is observed that the control measure is not operating properly, then the auditor would have to go for a substantive testing of the transactions to examine whether non-compliance with the control has resulted in any untoward incident. Substantive testing includes tests of details of classes of transactions, account balances and disclosures.

**Internal Control Questionnaire**

- 71. The internal control questionnaire is a set of information which an auditor needs to know to carry out a preliminary evaluation of the internal control available in a department. This would assist the auditor to decide whether to:
  - a) Rely on the existing internal control system in the department, or
  - b) Carry out extensive testing of the controls. (as discussed above)
- 72. The main objective of the Internal Control Questionnaire is:
  - a) To ascertain a department's system of accounting and internal control
  - b) To evaluate the control system thus recorded, and hence
    - o To identify those controls which indicate strengths in the system upon which the Internal Auditor may rely, and
    - o To identify those areas over which there are weak or no controls and which therefore must be subjected to extensive testing.



73. Refer **Annexure “6”** for Internal Control Questionnaire to evaluate internal controls, which can be modified as necessary to suit audit department. This list of internal control questions does not represent a complete and comprehensive evaluation of internal controls, but they reflect the control environment that the department shall have in place. Thus, this internal control questionnaire shall be kept dynamic and shall be refined and updated based on actual application of questionnaire and experience over the period.
74. A “Yes” answer to the questions indicates good internal controls are in place and/or practiced. A “No” answer highlights those areas where improvements should be made to improve internal controls. An “NA” indicates the controls which do not apply to the respective department.

## Chapter 5: Online Audit Management System (OAMS)

75. This Chapter provides an overview of the Online Audit Management System (OAMS) and has been divided into following sections:

76. Introduction

5.1 OAMS key features

5.2 OAMS audit process

5.3 Introduction to Computer Assisted Audited Techniques (CAAT)

### 5.1 Introduction

77. Online Audit Management System (OAMS) is a web-based application being developed by National Informatics Centre for Directorate of Audit, Government of Uttarakhand. The objective of OAMS is to systematize entire Internal Audit life cycle starting from audit planning, execution, reporting, follow-up, compliance and monitoring through e-management.

### 5.2 OAMS – Key features

78. Key features of OAMS notified as per audit guideline No. 14/xxvii (114) 2019 dated 24<sup>th</sup> April 2019 are as below:

- a) **Team Allocation and Work Management:** The audit team is divided in two parts i.e. team leader and team members. Team leader can directly send memo to the auditee while team member has to get his Half Margin Memo (HMM) reviewed from the team leader before sending it to auditee.
- b) **Integration of e-mail and SMS alerts relating to Audits:** Provision of sending emails and SMS alert is also integrated with the OAMS system. After completion of various audit activities such as creation of HMM, reply by auditee, dropping of HMM etc. an automate SMS/email is sent to auditor and auditee for necessary actions.
- c) **Year-wise and department-wise reporting of audit observations:** Year wise and department wise audit reports can be generated through OAMS
- d) **Classification of audit objections based on nature of observations:** OAMS consists of feature of classifying the audit observations into objection or information. HMM issued for information cannot be converted into para while an objection HMM or both HMM can be converted into para in case of no reply or unsatisfactory reply by the auditee. Also, there are 21 serious and non-serious categories of

observations and while preparing the draft para, an auditor has to classify the para under these categories only. This helps in segregating the type of observation at source level only.

- e) **Audit related dashboards for different departments:** Dashboards are another very useful feature of OAMS. It provides information related to audit in the graphical form for better understanding and reading. It includes information such as total category wise scheduled audits, total pending audits, audits in progress, completed audits, objection types, yearly party wise progress, pending status of audit reports, no. of half margin memo reports etc.
- f) **Audit related MIS (Management Information System) reports:** OAMS also provide MIS on the progress of audit conducted by the DoA for better monitoring and control.
- g) **Securing audit reporting trails:** OAMS enables the audit department to secure trail of reports at one platform which can be referred to whenever required through the online system
- h) **Database and repository of audit documents & observations:** OAMS also acts as a repository of all audit related documents and observations
- i) **Real Time update:** OAMS allows auditee and auditor to update the comments and observation on real time basis
- j) **Information uploading:** Option to upload data in excel or word template for easier and quicker update on OAMS



### 5.3 OAMS –Audit Process

#### 5.3.1 Existing Process

79. The existing Internal Audit process conducted through OAMS have been enumerated below:

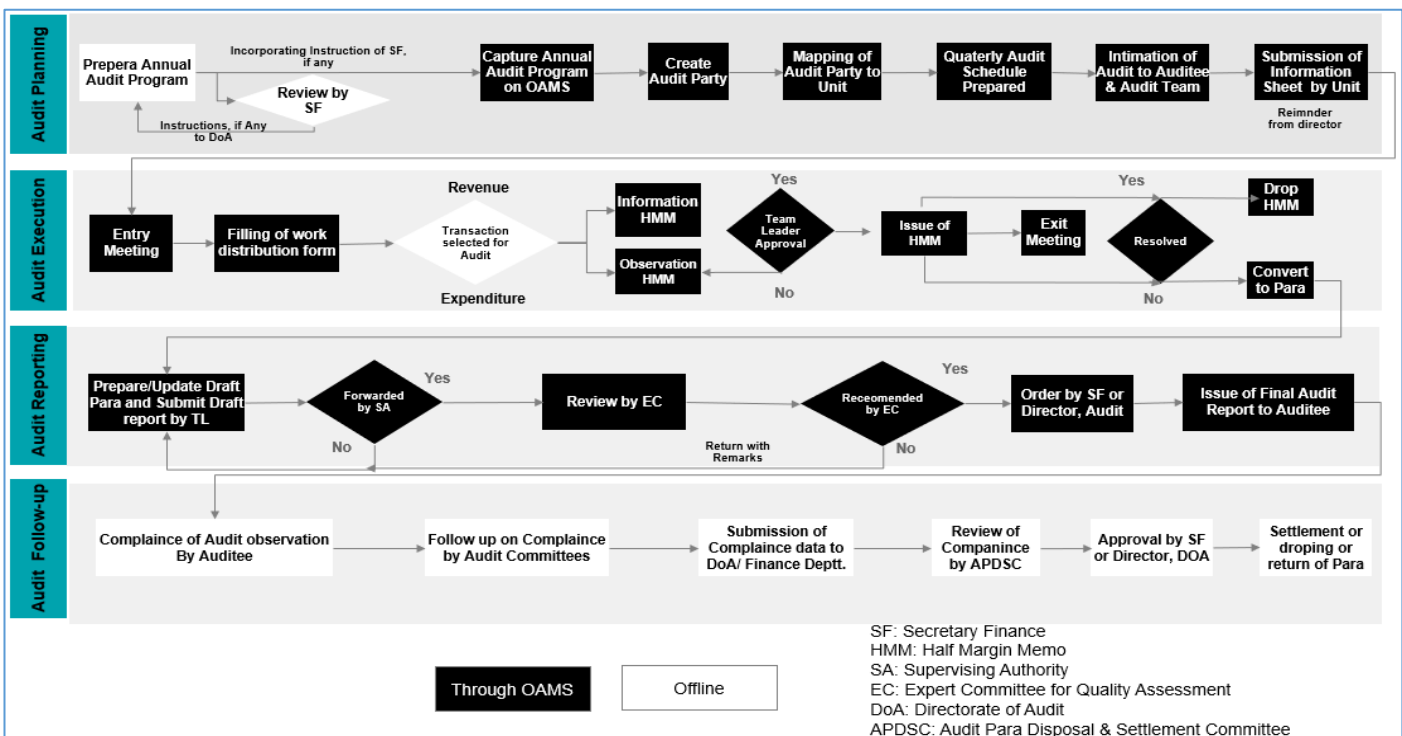


FIGURE 2: OAMS PROCESS

##### 5.3.1.1 Audit Planning:

- Uploading of approved internal annual plan on OAMS.
- Audit team creation.
- Mapping of audit team to auditees.
- Preparation of quarterly Internal Audit schedule.
- Intimation of Internal Audit to audit team and auditee.
- Submission of information sheet by auditee.

##### 5.3.1.2 Audit Execution

- Entry meeting.

- b) Work distribution.
- c) Issuance of Half Margin Memo (i) Information Memo (ii) Observation Memo.
- d) Approval of Half Margin Memo by team leader (team leader has right to edit or drop the para submitted by team member or it send back the half margin memo to team member for necessary modification).
- e) Uploading of Internal Audit evidence on OAMS.
- f) Exit meeting.

#### 5.3.1.3 Audit Reporting

- a) Conversion of Half Margin Memo into draft para.
- b) Preparation of Draft Internal Audit report.
- c) Review and forwarding of Draft Internal Audit Report by Supervisory Officer to Expert Committee for Quality Assessment.
- d) Review of Draft Internal Audit Report by Expert Committee for Quality Assessment.
- e) Issuance of Final Internal Audit Report to Auditee and/ or respective HOD for compliance.

#### 5.3.2 Planned Processes

1. The proposed OAMS will include the features such as:

##### 5.3.2.1 Audit Planning:

- a) Preparation of annual audit plan and quarterly audit plan to be done online based on the predefined parameters/ and risk profiling.
- b) Approval of annual audit plan and quarterly audit plan to be done online.
- c) Allocation of the audit team to the selected units to be done by the OAMS automatically based on their skill sets and experience.
- d) Number of days allocated to each auditee to be done automatically by the OAMS based on the predefined parameters.
- e) Preparation and updating of Planning Memorandum.

##### 5.3.2.2 Audit Execution

- a) The OAMS to be integrated with Integrated Financial Management System (IFMS) and other accounting software used by the department/auditee which shall enable the audit team to fetch the required information/data of the department/auditee directly.
- b) Integration of process for audit execution and reporting by appointed external agencies.

#### **5.3.2.3 Audit Reporting**

- a) The proposed OAMS function shall include the feature of circulating the Final Internal Audit Report to the auditee and HOD automatically for compliance.
- b) Preparation and submission of Annual Integrated Internal Audit Report to Secretary of the respective department based on the key findings observed during the audit of units in their departments.
- c) All the working papers shall also be uploaded on OAMS for record and future reference.

#### **5.3.2.4 Audit Follow up and Compliance:**

- a) The entire follow up and compliance process would be carried out through OAMS including preparation of control registers.
- b) Dashboards related to status on compliance on audit observations by various auditees.

#### **5.3.2.5 Audit Quality Assurance and Improvement**

- a) The entire process for quality assurance and improvement as explained in this manual would be carried out through OAMS.

### **5.4 Introduction to Computer Assisted Audit Techniques (CAATs)**

80. Computer assisted audit techniques (CAATs) is an IT based audit tool which assists the auditors in identifying high risk audit areas and high-risk transactions where population and sample sizes are very large. CAATs is a generic term used to collectively describe various software-based techniques and tools viz. IDEA, NT-Auditor, MS-Access etc. used for analysis of electronic data. Use of CAATs enhances the efficiency and effectiveness of audit planning and audit execution process as it enables the auditor to interrogate entire populations of digital data, choose audit samples more scientifically and perform a wide

variety of analyses. Auditors can also use CAATs for performing various types of data analysis as described below:

- a) **Generation of control totals and reconciliation of data** – Using data analysis software the control totals of the population can be recalculated and compared with account balances and summarised figures in the trial balance. Any discrepancy can be investigated further and reconciled. This procedure additionally provides assurance regarding the completeness and integrity of the data obtained from auditee computer systems
- b) **Duplicate check** – Duplicate check assist in identifying gaps in sequences like cheque numbers and identify transactions beating duplicate fields
- c) **Summarisation** – Summarising the transactions for different data fields is used to generate sub-totals which is a useful tool for identifying important sub-classes of transactions for risk assessment purposes. Summarisation is an important tool for audit as it can be used to segregate entire population of financial transactions into various classes and account balance.
- d) **Interrogation** – Using the Equation Editor and the @functions, the auditor can build simple to complex criteria to interrogate the entire populations of transactions like payments, journal entries, user logs etc. in order to identify possible unusual and irregular transactions and misstatements.
- e) **Stratification** – Stratification of the population value helps to identify the distribution of the monetary value across the various strata. It is an important tool for determining audit strategy for testing and selection of high value items for 100% testing
- f) **Matching and joining data bases** – Joining and matching databases enables the auditors to find out exceptional items and compare account balances across different accounting periods. Joining files is also useful for combining master files and transaction files.
- g) **Sampling** - Enables the auditor to extract a representative selection of transactions from the file for audit testing. The various types of sampling supported by CAATs include systematic, random, stratified, monetary unit, attribute etc.



## Chapter 6: Audit Life Cycle

81. This chapter describes about audit life cycle and has been divided into following sections: -

- 6.1 Audit Planning
- 6.2 Audit Execution
- 6.3 Audit Reporting and Documentation
- 6.4 Audit Monitoring, Follow-up and Compliance
- 6.5 Audit Quality Assurance and Improvement

82. The life cycle process of an Internal Audit includes audit planning, audit execution, audit reporting & documentation, audit monitoring, follow up & compliance and audit quality assurance & improvement. All the process and activities to be conducted under various stage of the audit life cycle shall be conducted through OAMS. A brief of each stage of the audit life cycle process is given below.



FIGURE 3: AUDIT LIFE CYCLE

### 6.1 Audit Planning

83. Planning is important to ensure that the engagement is performed in efficiently and effectively manner. The auditor shall establish an overall audit planning methodology based on which the scope & objective of audit shall be established, and allocation of time and resources shall be finalized. The preparation of annual Internal Audit plan is a fundamental requirement so as to determine what work needs to be done

and also to ensure that the resources provided for the Internal Audit activities are deployed adequately. The annual Internal Audit plan shall be prepared based on the risk assessment process as defined in chapter 8 of this manual.

## **6.2 Audit Execution**

84. This is the stage where Internal Audit plans are executed, and observations are noted through application of Internal Audit procedures. The purpose of audit execution is to gather sufficient & appropriate audit evidence to reach the conclusion on each of the objectives identified in the Internal Auditing planning memorandum. It includes field visit for conducting the Internal Audit, conducting entry meeting with auditee, allocating work among audit team members, maintaining daily diary to keep an account of the work done by the team members, interaction with the auditee, auditing the transactions selected, audit evaluation & analysis, issuing of half margin memo, conducting of exit meeting etc. The detailed steps to be undertaken in this stage is explained in chapter 9 of this manual

## **6.3 Audit Reporting and Documentation**

### **Audit Reporting**

85. This phase covers conversion of HMM to audit para based on the reply submitted by the auditee against the HMM and consequently preparation & submission of audit report. The detailed process related to preparation, approval, issuance and timeline for audit reporting is explained in chapter 10 of this manual

### **Documentation**

86. The audit team shall collect the relevant audit evidence and shall maintain a daily diary wherein they shall record their daily activity or work conducted. The audit team is expected to record and collect all the evidence obtained. While preparing the Internal Audit Report, the audit team shall attach all the evidence obtained. The detailed steps to be followed by auditors for audit documentation is provided at chapter 11 of this manual

## **6.4 Audit Monitoring, Follow Up & Compliance**

87. It includes monitoring and follow-up with auditees for the compliance reports, sending of reminders in case of not receiving of responses within stipulated time, functioning of compliance committees, process

& delegation for disposal/settlement of audit para, steps to improve compliances to audit reports etc. The detailed process of audit monitoring, follow-up & compliance is explained in chapter 12 of this manual.

## **6.5 Audit Quality Assurance and Improvement**

88. The objective of the quality assurance and improvement is to assess the entire spectrum of the Internal Audit activities, identify weaknesses & opportunities and provide recommendations for the improvement of its effectiveness and efficiency. This stage also includes the monitoring of the audit activities as per the annual and quarterly audit plan prepared. The process to be adopted under the audit quality assurance and improvement is explained in detail at chapter 13 of this manual.

## Chapter 7: Internal Audit Strategic Plan

### IIA Standard 2010: Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

#### Interpretation:

To develop the risk-based plan, the chief audit **executive consults** with **senior management** and the **board** and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls

### Standard 2020 – Communication and Approval

The **chief audit executive** must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to **senior management and the board** for review and approval. The chief audit executive must also communicate the impact of resource limitations.

89. This chapter describes about Internal Audit strategic plan and has been divided into following sections:

7.1 Definition

7.2 Objective – Internal Audit Strategic Plan

7.3 Principles – Internal Audit Strategic Plan

### 7.1 Definition

90. As per IIA's practice guide, a strategic plan is defined as "a systematic and structured process to enable the Internal Audit activity to achieve its vision and mission and playing an important role in achieving a balance between cost and value, while making meaningful contributions to the organisation's overall governance, risk management and internal controls"

### 7.2 Objective of Internal Audit Strategic Plan

91. The Internal Audit shall be conducted as per the strategic plan of Directorate of Audit. The strategic plan shall generally cover several years and guides the Internal Auditor in the selection of area, programmes or focus of audit. The strategic planning process would also assist in preparation of annual Internal Audit



plan. The Directorate of Audit shall prepare a three-year strategic plan for Internal Audit. The strategic plan shall be approved by Director, Audit. The objectives of the strategic plan shall be as follows:

- a) Establish a clear strategic and long-term objective of Internal Audit activities based on the baseline assessment of internal control environment
- b) Providing strategic direction for resource utilization for ensuring maximum possible audit coverage
- c) Process for identification and selection of auditees with the potential to improve Government Departments' accountability and administration
- d) Establish monitoring mechanism to review the progress of Internal Audit
- e) Promote accountability and governance within Internal Audit services; and
- f) Support in preparation of a work program that can be achieved with expected available resources.

92. The Director, Audit must communicate the Strategic Plan and resource requirements, including significant interim changes, to Finance Department for review.

### **7.3 Principles - Internal Audit Strategic Plan**

**Following principles to be considered for preparation of an Internal Audit strategic plan**

#### **7.3.1 Vision and Mission**

93. A strategic plan is how the Internal Audit activity, vision and mission shall be pursued. The Directorate of Audit shall prepare the strategic plan to achieve the vision and mission statements provided in the Internal Audit Charter and IIA guidance

#### **7.3.2 Objective and Outcome**

94. The strategic plan for Internal Audit shall clearly define overall objectives of Internal Audit. It shall guide and provide vision for conducting Internal Audit activities for the achievement of an organisation's strategic, operational, reporting and compliance objectives. The strategic plan shall also clearly provide the outcomes to be achieved from the Internal Audit activities which may include both qualitative and quantitative outcomes.

#### **7.3.3 Standard and Guidance**

95. DoA shall consider the IPPF issued by IIA while developing the Internal Audit strategic plan.

#### 7.3.4 Audit Universe

96. The strategic plan shall be prepared based on the updated database of auditees to be audited which shall be maintained by DoA. The database of the auditees needs to be updated on yearly basis. The following is the list of information which shall be updated in the database:

- a) Name of the Auditee
- b) Name of the department (in case of Auditee of the Department)
- c) Number of Auditees in the Department
- d) Number of IA paras pending settlement
- e) Amount of IA paras pending settlement
- f) Number of Internal Audit Serious Para/s
- g) Number of Internal Audit Serious Para/s pending for Compliance
- h) Number of embezzlement paras pending settlement
- i) Amount of embezzlement paras pending settlement
- j) Last financial year for which AG and/or Internal Audit was conducted
- k) Name/Details of Schemes (Centrally sponsored/Flagship schemes) implemented
- l) No of AG Audit Para/s pending for compliance.
- m) No of AG Audit Serious Para/s pending for compliance

#### 7.3.5 Audit Process

97. The strategic plan shall also State the process to be adopted by DoA in audit planning for selection of departments, areas and units to be audited. In the manual, a four-tier risk-based audit approach has been mentioned for audit planning & execution, which is:

- a) Tier I – Selection of department to be audited
- b) Tier II – Selection of areas to be audited of the high-risk department (gradually for medium & low risk departments as well) (As per tier I)
- c) Tier III – Selection of units to be audited under the selected department (As per Tier I)
- d) Tier IV – Selection of transaction to be audited

98. The changes/update of the above process shall be mentioned in the strategic Internal Audit plan.

### 7.3.6 Human Resource Management

99. The availability of resources and methodology for their effective utilization shall also be part of the strategic audit plan. A database of all the auditors must be maintained by DoA, which shall contain their name, age, educational background, years of experience, designation, skill sets, and trainings attended. The database related to the auditors shall be updated on yearly basis by DoA. The strategic plan shall also provide directions related to the training initiatives to be undertaken by DoA for enhancing the existing skills of the auditors

### 7.3.7 Annual Audit Plan

100. Annual audit planning for every financial year shall be done based on the objective and outcome envisaged in the strategic plan

### 7.3.8 Preparation, Approval and Updating

101. Internal audit strategic plan shall be prepared by DoA for three (03) years and shall be forwarded to Finance Department for review. The strategic plan shall be reviewed and updated annually based on the past progress and new developments (if any). The update in the strategic plan shall also be forwarded to Finance Department for review.

### 7.3.9 Reporting to Finance Department

102. The status of implementation of strategic audit plan and its outcome shall be reported to finance department for review & necessary action.

Note: DoA shall convene a workshop for all the Internal Auditors to discuss the contours of the approved Internal Audit strategic plan to ensure proper dissemination of information related to key objectives of the plan, its implementation process, roles of the auditors etc. and encourage adequate participation from the Internal Auditors.

103. Refer to **Annexure “7”** for indicative content and components of strategic plan and a tentative format

## Chapter 8: Audit Planning and Preparation

104. This chapter deals with annual Internal Audit planning, steps involved in selection of audit department, areas and units for Internal Audit and audit preparation. The chapter has been divided into the following sections:

- 8.1 Annual Internal Audit Planning
- 8.2 Steps involved in Annual Internal Audit Planning
- 8.3 Audit Preparation

As per the International Standards for the Professional Practice of Internal Auditing (Standards) issued by IIA:

### **2010- Planning**

“The audit executive must establish a risk-based plan to determine the priorities of the Internal Audit activity, consistent with the organization’s goals.”

#### **Interpretation:**

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive considers the organization’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her judgment of risks after consultation with senior management and the board.

The Internal Audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually (Standard 2010.A1)

### **2060 – Reporting to Senior Management and the Board**

The chief audit executive must report periodically to senior management and the board on the Internal Audit activity’s purpose, authority, responsibility, and performance related to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

#### **Interpretation:**

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.



The chief audit executive's reporting and communication to senior management and the board must include information about the Audit Charter, independence of the Internal Audit activity, the Audit plan and progress against the plan, resource requirements, results of audit activities, conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues

105. The preparation of annual Internal Audit plan is a fundamental requirement so as to determine what work needs to be done and also to ensure that the resources provided for the Internal Audit activities are deployed adequately. An annual Internal Audit plan shall be prepared based on a properly managed planning process.

## 8.1 Annual Internal Audit Planning

106. Annual Internal Audit planning shall be done by Directorate of Audit adopting the following principles:

- Ensuring consistency with the Internal Audit charter, Internal Audit strategic plan and the Internal Auditing standards.
- Ensuring consistency with key audit objectives of assurance regarding the effectiveness of governance, risk management, controls and fraud prevention measures.
- Collaborative approach to determine the risks that are likely to occur or adversely affect the organisation

## 8.2 Steps Involved in Annual Internal Audit Planning

107. Following are the steps that should be followed in preparation of an Annual Internal Audit Plan:

|   |
|---|
| Step 1: Updating of database of audit universe to be audited by DoA                     |
| Step 2: Selection of department, area and units to be audited using risk based approach |
| Step 3: Resource allocation   |
| Step 4: Days to be allocated for audit of unit  |
| Step 5: Preparation and approval of the annual and quarterly audit plan                 |
| Step 6: Communication of the audit plan to auditee and audit team                       |

FIGURE 4: STEPS INVOLVED IN ANNUAL INTERNAL AUDIT PLANNING

### 8.2.1 Step 1 – Updating of Database of Audit Universe to be audited by DoA

108. The updating of database of audit universe including the details of departments and units should be completed by DoA at least 60 days prior to the start of the financial year in which the Internal Audit is proposed i.e. by end of January.

**OAMS Functionality:** The details of the auditee such as address, communication details, details of in charge of the units, department etc. shall be updated in the OAMS by Directorate of Audit

### 8.2.2 Step 2 - Selection of Department, Area and Units to be audited using RBIA approach

#### Risk Based Internal Auditing

109. IIA defines “Risk Based Internal Audit (RBIA) as a methodology that links Internal Auditing to an organisation's overall risk management framework. RBIA allows Internal Auditor to provide an assurance to the management that risk management processes are managing risks effectively, in relation to the risk appetite.”

110. RBIA involves risk profiling of the auditees over the period of time to facilitate strategic use of scarce audit resources, align audit efforts with its objectives, facilitates institutional development and reduces risk exposure by focusing attention on areas of significant weaknesses. Additionally, RBIA provides the benefits of increased and effective controls which in turns lead to reduced risks.

111. Given the finite resources available, it would not be possible for DoA to audit all the key auditable areas and auditees in a year. Therefore, the plan should focus on more significant or high inherent risk areas and auditees.

112. A comprehensive system of risk-based audit approach shall be adopted wherein all the departments, various key auditable areas to be audited in such departments and auditees within such departments shall be classified as “High Risk”, “Medium Risk” and “Low Risk” periodically based on certain pre-defined parameters. The risk-based approach provides the requisite information to the audit team to guide their focus towards auditing significantly riskier areas and auditees and also assist them in preparing for the nature and extent of the Internal Audit to be conducted.

The risk assessment process described in this manual to categorize the departments / units as High, Medium or Low is to select the departments / units for Internal Audit. It should not be construed as a confirmation or certificate indicating inherent riskiness of the departments / units.

113. The key Internal Audit roles which covers the risk management framework of the entity are:

- a) Evaluate the design, implementation and effectiveness of the department's internal control framework and contribute to its continuous improvement
- b) Evaluate the effectiveness of the department's risk management processes and contribute to its continuous improvement
- c) Evaluate the mechanism adopted by the department for testing and reviewing the internal control and assessing the results obtained from the same
- d) Evaluating the implementation of the risk management process to minimize the risks
- e) Evaluating the reporting framework used by the department to communicate the identified risks to the competent authority

As per the International Standards for the Professional Practice of Internal Auditing (Standards) issued by IIA:

#### **2100- Nature of Work**

The Internal Audit activity must evaluate and contribute to the improvement of the organization's governance, risk management and control processes using a systematic, disciplined and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact.

114. The Directorate of Audit shall apply the risk-based methodology in the following manner:

|               |  |
|---------------|--|
| <b>Tier I</b> | <p><b>Risk-Profiling and Selection of Departments to be Audited</b></p> <p>A periodic risk assessment of the departments will be carried out to develop an individual "Department Risk Profile" based on selected parameters. This will help to include departments in the annual audit plan on a rotational basis for efficiency and ensuring full coverage over three years period. The detailed risk assessment and categorization of the departments shall be carried out at least once every three years with annual updates based on findings from latest audit and other sources. The annual selection of departments to be audited shall be done as per the process detailed in this manual. DoA shall review the parameters and update the risk assessments for the departments, wherever it deems necessary, on annual basis based on the findings in past audits and their professional judgement.</p> <p>The objective of risk-profiling of the department would also help to determine the extent and coverage of Internal Audit and the days to be allotted. Priority shall be given to high-risk departments in the annual audit planning.</p> <p style="text-align: right;"><b>[Section 8.2.2.1]</b></p> |
|---------------|--|

|                 |  |
|-----------------|--|
| <b>Tier II</b>  | <p><b>Risk-Profiling of Key Auditable Areas and Selection of Areas to be Audited</b></p> <p>The objective of this stage is to identify the risk areas and help in prioritizing the audit and use the available resources more effectively.</p> <p>For departments that are assessed as high-risk under Tier I, risk assessment of all the Auditable Sub Areas under each Key Auditable Area shall be conducted which would help to determine and finalize the audit engagement. Those key auditable areas which are categorized as high risk will be prioritized for detailed audit around the risks identified. DoA shall carry out the detailed risk assessment of the Key Auditable Areas, Auditable Sub-Areas and the associated risks at least once in every three years but update it annually based on the results of the latest audit and their professional judgement.</p> <p>For the departments that are assessed as medium or low risk under Tier I, the Tier II risk assessment process would be introduced gradually over a period of time. The selection and audit of units in such departments would be carried out as per the risk assessment process detailed in Tier III and Tier IV. <span style="float: right;"><b>[Section 8.2.2.2]</b></span></p> |
| <b>Tier III</b> | <p><b>Risk-Profiling and Selection of Units to be Audited</b></p> <p>The objective of this stage is to identify and select auditable units which are perceived to be riskier and those that are suitable for audit.</p> <p>The auditable units to be selected for audit will be done based on risk assessment in accordance to pre-specified criteria and considering the risk-profile of the respective department as determined under Tier I methodology. The risk assessment parameters include financial, non-financial and special parameters (based on the key Auditable Area selected for audit as per Tier II). <span style="float: right;"><b>[Section 8.2.2.3]</b></span></p>  |
| <b>Tier IV</b>  | <p><b>Selection of Transactions to be audited at the Auditee selected for Audit</b></p> <p>For the units selected for audit as per Tier III risk assessment process, the selection of transactions and extent of checking have been defined for all Key Auditable Areas. <span style="float: right;"><b>[Section 9.3]</b></span></p>   |

TABLE 3: SUMMARY MATRIX FOR RISK ASSESSMENT PROCESS

115. Based on the above-mentioned risk assessment process and available resources, an annual Internal Audit plan shall be prepared consisting of departments, areas & units to be audited. The risk-based assessment process shall be finalized at least 30 days before the start of the financial year in which audit is proposed to be conducted i.e. by 1<sup>st</sup> March.



## Tier I Risk Assessment Process

### 8.2.2.1 Tier I: Selection of Departments to be audited

116. Under Tier I process, the risk assessment of departments would be carried out to categorize the departments into High, Medium or Low Risk based on pre-determined parameters. This would assist DoA in determining the frequency of audits for departments in different risk categories, determine the extent and coverage of audit and help in allocating resources based on risk assessed. The detailed risk assessment and categorization of the departments shall be carried out at least every three years and updated annually based on the results of latest audits and other sources. The annual selection of departments to be audited shall be done as per the process mentioned in this section.

117. Steps involved in Tier I risk based approach are:

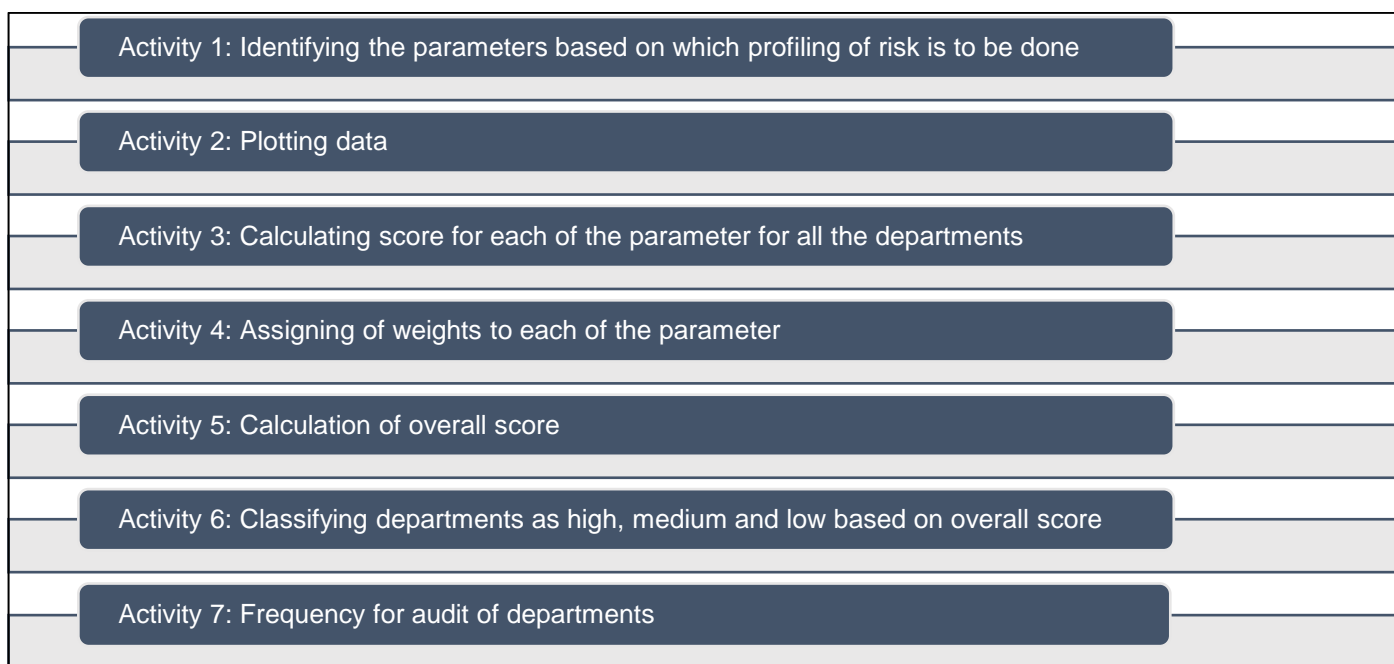


FIGURE 5: TIER I RISK ASSESSMENT PROCESS

#### 8.2.2.1.1 Activity 1: Identifying the parameters based on which profiling of risk is to be done

118. The departments shall be categorized as high risk, medium risk or low risk based on the assessment of the following parameters (Table 4), applied wholly or partially depending upon the circumstances and the significance to the department being assessed. This assessment shall be done at the global level by DoA preferably involving a cross-section of audit teams that are proposed to be deputed to the field

| Sr  | Parameters   | Description  |
|---|--|--|
| <b>Financial Parameters</b>   |  |  |
| 1   | Actual Expenditure   | Risk assessment of the department based on their share in total actual expenditure of the State during the last financial year.  |
| 2   | Direct Benefit Transfer  | Risk assessment based on proportion of expenditure incurred through Direct Benefit Transfer method out of total expenditure during the last financial year   |
| 3   | Value of serious Internal Audit Paras pending compliance   | Risk assessment based on the cumulative value of serious Internal Audit paras observed during the past Internal Audits and pending compliance, of all the units in a department as on the end of last financial year |
| 4   | Value of serious audit Para pending for compliance in CAG's report tabled in the State Legislature | Risk assessment based on the value of serious observations pending compliance in the past audit reports conducted by CAG and tabled in State Legislature.  |
| <b>Non-Financial Parameters</b>   |  |  |
| 5   | Past Internal Audit conducted  | Assessment of department based on time elapsed from last audit   |
| 6   | Number of Auditees in the department   | This indicates the extent of centralization or decentralization of the departments.  |
| <b>Other Parameters (Scoring would not be conducted for these parameters)</b> |  |  |
| 7   | Significant loss or fraud or complaints  | Knowledge of potential loss or fraud or any substantial complaint against the department   |
| 8   | Significant changes in operational or business processes   | Effect of structural or significant changes to the operational or business processes either individually or collectively (including changes to technology deployment)  |
| 9   | Introduction of any new scheme   | Introduction or implementation of any new major scheme by the department   |
| 10  | Level of Internal Control  | Findings from the Internal Control Questionnaire of the respective departments during the current period or last audit   |

| Sr | Parameters  | Description  |
|----|---|--|
| 11 | Level of serious audit Para pending in CAG's report tabled in the State Legislature | Risk assessment based on the level or seriousness of the serious audit para in CAG's report tabled in the State Legislature in the past. Past would mean since last risk assessment but not exceeding three years. |

TABLE 4: CRITERIA FOR RISK PROFILING OF DEPARTMENTS (TIER I)

119. The above parameters are illustrative and DoA may edit/delete/modify the parameters based on its applicability, relevance, and availability of the data for various department assessed.

**OAMS Functionality:** All the above-mentioned parameters will be made available in OAMS for assessments of all the departments. The DoA will have to select the parameters of the financial year for which audit is to be done in order to do the risk-profiling of the department. Further, the DoA is authorized to add new parameters and/or to enable/disable/modify the existing parameters.

#### 8.2.2.1.2 Activity 2: Plotting data

120. The next step is to plot the data for each of these parameters for all the departments. The data with respect to these parameters will have to be made available in OAMS for the first time and updated periodically including data extraction from other applications for example from IFMS for actual expenditure etc.

121. The scoring would not be done for other parameters and DoA shall conduct the risk assessment of departments on such parameters based on available information and their professional judgement. The final outcome of such risk assessment based on their professional judgement shall be incorporated in OAMS and shall be used for the final categorization of the department. The detailed procedure for the classification of the departments is provided at Activity 6 (8.2.2.1.6) in subsequent section.

#### 8.2.2.1.3 Activity 3: Calculating score for each of the parameter for all the departments

122. Based on a pre-defined range for each of the above-mentioned objective parameters, a score will be assigned to each parameter for every department. The scores will be assigned on the scale of 1 to 10 for each of the parameter.

**OAMS Functionality:** Once all the range of values and the respective score are decided and updated into OAMS master data, the system will automatically calculate the respective scores for each parameter for a department.

#### 8.2.2.1.4 Activity 4: Assigning of weights to each of the parameter

123. After assigning the score for each of the selected parameters the next step is to assign appropriate weight against each of the parameters. The sum of all these weights should be equal to 1 for a department. The assigning of weights will be an administrative decision and it will be reviewed/revised/changed in each year or period during which the risk assessment process is conducted. However, the weights should be uniform for all departments. Illustrative weights provided to the above-mentioned parameters is explained later in this section of the manual. Once the weights for individual parameters and scores against each of the parameters have been updated into OAMS, the weighted score of parameters will be calculated by OAMS automatically.

**OAMS Functionality:** For the first time this data needs to be updated into the OAMS database and then the system will automatically calculate scores without any human intervention.

#### 8.2.2.1.5 Activity 5: Calculation of overall score

2. For the calculation of overall score, the following formula may be used:

$$S_{D1} = \frac{(P_1 \times W_1) + (P_2 \times W_2) + \dots + (P_n \times W_n)}{(W_1 + W_2 + \dots + W_n)}$$

Where

$S_{D1}$  is Score for a Department

$P_n$  is score for the respective parameters

$W_n$  is the weight of the respective parameter

**OAMS Functionality:** The OAMS will automatically add all the weighted scores of each parameter and then reflect the overall score of each department

#### 8.2.2.1.6 Activity 6: Classifying Department as High, Medium or Low based on overall score

124. The categorization of the departments would be done based on the following two steps:

**Step 1: Categorization of Department based on the score generated on Financial and Non-financial Parameters**

125. Based on the weighted scores calculated under Activity 5, the department would be categorised as High, Medium or Low as per below table:

| Particular   | Category |
|--|----------|
| Department with Score Greater than 7                             | High     |
| Department with Score Greater than 4 but less than or equal to 7 | Medium   |
| Department with Score less than or equal to 4                    | Low      |

TABLE 5: CLASSIFYING DEPARTMENT AS HIGH, MEDIUM AND LOW BASED ON OVERALL SCORE

**Step 2: Finalization of Categorization of Departments based on risk assessment of other parameters.**

126. After Post categorization of departments as per the above step, a dedicated team in DoA shall carry out the risk assessment of departments based on the other parameters as provided in activity 1 (8.2.2.1.1). The risk assessment of departments on these parameters would be based on available information and the professional judgement of the evaluating team. The final outcome of such risk assessment would be based on their professional judgement and shall be incorporated in OAMS which shall be used for the final categorization of the department for e.g. assuming a department is classified as low risk department based on the assessment as per step 1 above, however, while conducting the assessment on other parameters, DoA finds certain information based on which they believe that such department shall be classified as medium or high risk department, they shall do the same in the OAMS along with mentioning of the reason for the same.

127. Therefore, the final categorization of the departments would be based on the professional judgment and experience of DoA.

**8.2.2.1.7 Activity 7: Frequency of Audit of Department**

128. The departments to be taken up for audit in a year will be decided based on available manpower. The following is an indicative methodology to be adopted for frequency of audit of a department:



| Department Category    | Frequency of Audit                         | Other factors   |
|------------------------|--|---|
| High Risk Department   | To be Audited Every year                   | Where there is significant and material embezzlement, fraud or misappropriation of funds reported across multiple units of the department in the preceding financial year then based on the significance, materiality, and pervasiveness of the situation, such department could be classified as high-risk department. The significance and materiality of the embezzlement, fraud or misappropriation of funds shall be determined by DoA based on their experience and professional judgement. Further, if any special audit of the department has been conducted in the preceding year and significant observations were made or the audit recommends a continued focus on these areas, then on the basis mentioned above, the department could be classified as high risk. |
| Medium Risk Department | To be Audited at least once in two years.  | Depending on other factors and the availability of resources, such departments can be selected for audits in specific areas or for limited audit.<br><br>Departments may be selected for audit on a rotational basis based on the availability of the resources and based on the scores as calculated at activity 5   |
| Low Risk Department    | To be Audited at least once in three years |   |

TABLE 6: FREQUENCY OF AUDIT OF DEPARTMENT

129. Risk assessment framework at a departmental level based on an illustrative list of parameters along with their score, range and weightage is provided below. The evaluators shall also refer to the findings from the internal control questionnaire for each department during the risk assessment process (Refer section 4.5) to ensure adequate assessment of the department:

| Sr. No.               | Parameter Name | Description of Parameters | Scoring  |        |       | Weightage |
|-----------------------|----------------|---------------------------|----------|--------|-------|-----------|
|                       |                |                           | Variable | Range  | Score |           |
| Financial Parameters: |                |                           |          |        |       |           |
| 1                     |                |                           |          | 0-2.5% | 3     | 20%       |

| Sr. No. | Parameter Name   | Description of Parameters  | Scoring   |                 |       | Weightage |
|---------|--|--|---|-----------------|-------|-----------|
|         |  |  | Variable  | Range           | Score |           |
|         | Actual Expenditure                                       | Actual expenditure for the preceding financial year needs to be considered e.g. For Internal Audit to be conducted during FY 2020-2021 (planning done in FY 2019-20) then the actual expenditure for the financial year 2018-2019 needs to be considered | Actual expenditure of the department to the Total Actual expenditure of the State (%)                               | 2.5-5%          | 6     |           |
|         |  |  |   | >5%             | 10    |           |
| 2       | Direct Benefit Transfer                                  | Direct Benefit Transfer for the immediately preceding financial year need to be considered   | Value of Expenditure through Direct Benefit Transfer of a department to the Total Expenditure of the Department (%) | 0-20%           | 3     | 10%       |
|         |  |  |   | 20-50%          | 6     |           |
|         |  |  |   | >50%            | 10    |           |
| 3       | Value of serious Internal Audit Paras pending compliance | Cumulative Value of serious Internal Audit Paras pending for compliance at end of the immediately preceding financial year needs to be considered.   | Cumulative Value of Serious Internal Audit paras pending for compliance at department level (Rs. In Cr)             | 0               | 0     | 20%       |
|         |  |  |   | 0-25 Cr.        | 3     |           |
|         |  |  |   | >25 Cr.- 50 Cr. | 6     |           |
|         |  |  |   | >50 Cr          | 10    |           |
| 4       | Value of serious audit Para                              | Value of serious Audit Paras (AG)  | Value of serious AG para pending for  | 0               | 0     | 20%       |
|         |  |  |   | 0-5 Cr.         | 3     |           |

| Sr. No.                   | Parameter Name   | Description of Parameters  | Scoring                                  |               |       | Weightage |
|---------------------------|--|--|--|---------------|-------|-----------|
|                           |  |  | Variable                                 | Range         | Score |           |
|                           | pending for compliance in AG report to State legislature | audit) pending for compliance at end of the immediately preceding financial year needs to be considered. | compliance for the department (AG Audit) | >5 Cr.-15 Cr. | 6     |           |
|                           |  |  |  | >15 Cr        | 10    |           |
| Non-Financial Parameters: |  |  |  |               |       |           |
| 5                         | Past Internal Audit Conducted                            | Number of Years since the last Internal was Audit conducted for the department                           | Years Pending for Internal Audit         | 0             | 0     | 20%       |
|                           |  |  |  | 1             | 3     |           |
|                           |  |  |  | 2             | 6     |           |
|                           |  |  |  | 3 or more     | 10    |           |
| 6                         | No. of Auditees in the Department                        | Number of Auditees in the Department as at the time of risk assessment                                   | Number of Auditee                        | 0-15          | 3     | 10%       |
|                           |  |  |  | 15-50         | 6     |           |
|                           |  |  |  | >50           | 10    |           |

TABLE 7: ILLUSTRATIVE RISK ASSESSMENT FRAMEWORK FOR RISK PROFILING OF DEPARTMENT (TIER I)

**130.Notes: DoA may add/delete/modify the above parameter as they deem fit which will be applied uniformly across all departments.**

**Tier II Risk Assessment Process****8.2.2.2 Tier II: Selection of Key Auditable Areas for High-Risk Department (classified as per Tier I assessment)**

131. Post categorization of the department as per the steps mentioned in Tier-I risk assessment process, DoA shall select the areas to be audited for each of the high-risk departments based on the risk assessment process explained in this section. DoA shall perform the detailed risk assessment of the Key Auditable Areas and their Auditable Sub Areas of all the high-risk departments every three years but shall update the risk evaluation matrix annually based on the results of the latest audits.

**Note: Tier II risk assessment process will be applied to departments in medium and low risk categories on gradual basis**

132. The Standard Object of Expenditure (SOE) is used for government budgeting and accounting to classify the transaction by its character (natural head of account) which includes salaries, procurement, grants, travelling expenses, medical expenses, training cost etc. SOEs can be clubbed into homogenous groups and these are termed as the “Key Auditable Area”. Each of the Key Auditable Areas can be further disaggregated into sub areas called “Auditable Sub Areas”. To prioritize the potential audit engagements and identify the key areas to be audited which along with the available resources forms the basis to determine the level of activities to be included in the annual Internal Audit plan.

133. Steps involved in Tier II Risk Based Approach is as below:

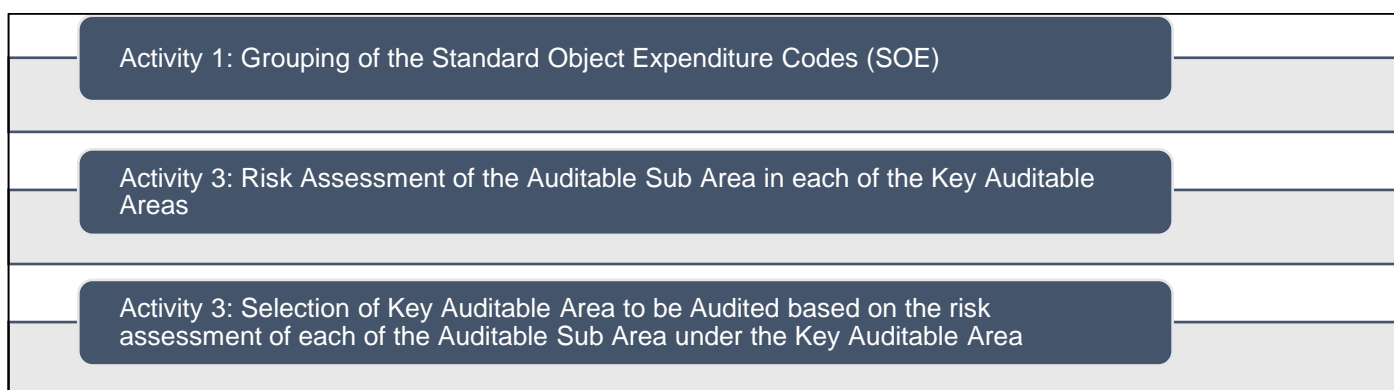


FIGURE 6: TIER II RISK ASSESSMENT PROCESS

#### 8.2.2.2.1 Activity 1: Grouping of the Standard Object Expenditure Codes

134. Grouping of the similar Standard Object Expenditure Codes (SOE) applicable for the high-risk departments shall be done by DoA. Refer to **Annexure “8”** for an illustrative grouping of the SOE codes. The groups of similar SOEs shall be referred to as the Key Auditable Areas. The grouping shall be reviewed by DoA annually and shall be updated in the OAMS.

**OAMS Functionality:** Post integration of IFMS and OAMS, the grouping of similar SOEs shall be carried out through OAMS and the data related to such key Auditable areas shall be fetched automatically on OAMS through IFMS

#### 8.2.2.2.2 Activity 2: Risk Assessment of Key Auditable Areas

##### Step 1: Determination of Auditable Sub Areas under each Key Auditable Area

135. Each Key Auditable Area shall be disaggregated into the Auditable Sub-Areas and risks shall be identified through multiple sources. An indicative list of Auditable Sub-Areas under the currently identified Key Auditable Areas is provided at **Annexure “9 A”**. This list shall be updated by DoA periodically based on the information gathered during the past audits conducted. This list shall also be linked and updated on OAMS.

##### Step 2: Risk Assessment of Auditable Sub Areas

136. DoA shall carry out the risk assessment of all the Auditable Sub Areas under each Key Auditable Area through situational analysis of the risks underlying such Auditable Sub Areas. The risk listing/identification (situational analysis) for each Auditable Sub Area would be done from various sources such as review of the internal control environment, past audit reports, best practices, past experience, discussion with management, media reports and professional judgement of officials of DoA conducting the risk assessment.

137. Based on the situational analysis, DoA shall classify each Auditable Sub Areas as High, Medium, or Low. The format for the risk evaluation matrix is provided below:



| Sr. No. | Auditable Sub Areas | Risk Listing/Identification | Situational Analysis | Risk Assessment (High/Medium/Low) | Score |
|---------|---------------------|-----------------------------|----------------------|-----------------------------------|-------|
|         |                     |                             |                      |                                   |       |
|         |                     |                             |                      |                                   |       |

TABLE 8: ILLUSTRATIVE TEMPLATE FOR SITUATIONAL ANALYSIS OF AUDITABLE SUB AREAS

138. An illustrative general risk evaluation matrix for the currently identified Key Auditable Areas and their Auditable Sub Areas in the above template is provided at **Annexure “9 B”**. The DoA shall build upon this matrix based on the actual risks identified during each audit cycle. Based on the categorization, a score shall be provided to each Auditable Sub Area as per the table provided below:

| Categorization of Auditable Sub Area under Key Auditable Area | Score |
|---|-------|
| High  | 7-10  |
| Medium  | 4-6   |
| Low   | 1-3   |

TABLE 9: SCORING MATRIX FOR KEY AUDITABLE AREA

139. The above table provides the range of the scores to be assigned to each of the Auditable Sub Area based on their risk assessment finalized through situational analysis at Table 8 above.

#### 8.2.2.2.3 Activity 3: Selection of Key Auditable Area to be audited based on the assessment of each Auditable Sub Areas

140. After assigning a score to each Auditable Sub Area as per Table 9 above, a final score shall be calculated for the Key Auditable areas. The score for any Key Auditable Area shall be a simple average of scores provided to its Auditable Sub Areas. For example, under a Key Auditable Area there are five Auditable Sub Areas and based on the situational analysis and risk rating of these five Auditable Sub Area, the score assigned to them are 7, 6, 8, 3 & 9. In this case, the final score of the Key Auditable Area would be the simple average of these scores i.e. 6.6.

141. Post generation of the score for each key Auditable area, it shall be categorized as per the following matrix:

| Score Range  | Categorization |
|--|----------------|
| Key Auditable Area with score greater than 7                             | High           |
| Key Auditable Area with score greater than 4 but less than or equal to 7 | Medium         |
| Key Auditable Area with score less than or equal to 4                    | Low            |

TABLE 10: CATEGORIZATION OF KEY AUDITABLE AREA

142. Post the above categorization of Key Auditable areas/Auditable Sub Areas, DoA shall select high risk Key Auditable areas/Auditable Sub Areas or a combination of high and medium risk auditable areas for audit in each year, based on their professional judgement and experience. The extent and coverage of audit for selected auditable areas shall be in with accordance to the Tier – IV risk assessment process explained in chapter 9 of this manual. The detailed risk assessment of Key Auditable Areas shall be done by DoA at least once in three years but the same shall be updated periodically by DoA based on the results of the latest audit.

**OAMS Functionality:** The above process for risk assessment of Key Auditable Area shall be done through OAMS post integration with IFMS. The template for scoring of Auditable Sub Areas and Key Auditable Area shall be integrated in the OAMS and the response shall be entered by DoA in OAMS only, for automatic calculations of the scores.

143. An illustration explaining the above process of Tier II risk assessment is provided at annexure “9 C”

**Note – Way Forward:**

During the initial years from the adoption of this manual, the audit will be done at the level of the Key Auditable Area as per the process mentioned in section 8.2.2.2 above. Over the years, DoA shall continuously update the risk evaluation matrix for the Auditable sub-Areas under each Key Auditable Areas particularly for high-risk departments.

In the long term, DoA shall carry out the risk assessment of Auditable Sub Areas only and the Internal Audit would be conducted for high-risk Auditable Sub Areas or a mix of high and medium risk Auditable Sub Areas, as decided by the DoA. Post adopting of this approach, the steps mentioned in para 8.2.2.2.3 would not be required.

Further, initially, the Tier II shall be applicable for High-Risk departments and gradually this process shall be adopted for Medium and Low Risk Department.

**Tier III Risk Assessment Process****8.2.2.3 : Tier III Selection of Units to be audited of the Selected Department (As per Tier I)**

144. The Directorate of Audit shall carry out categorization of auditee in each of the selected departments (as per Tier I) on annual basis for selection of units to be audited.

145. Steps involved in Tier III risk- based approach is as below:

|   |
|---|
| Activity 1: Identifying the parameters based on which profiling of risk is to be done |
| Activity 2: Plotting data   |
| Activity 3: Scoring the Units on the basis of each of the parameter                   |
| Activity 4: Assigning of weights to each of the parameter                             |
| Activity 5: Calculation of overall score.   |
| Activity 6: Classifying Units as high, medium or low based on overall score           |
| Activity 7: Auditing Criteria for categorized Units                                   |

FIGURE 7: TIER III RISK ASSESSMENT PROCESS

**8.2.2.3.1 Activity 1: Identifying the parameters based on which profiling of risk is to be done**

146. All the auditees of each of the selected departments shall be categorized as high risk, medium risk or low risk based on the following parameters:

- Financial Parameters
  1. Actual Expenditure.
  2. Value of serious Internal Audit paras pending compliance
  3. Value of serious AG para pending for compliance
- Non-Financial Parameters
  4. Past Internal Audit conducted.
- Other Parameters
  5. Specific Parameters for each department based on the Key Auditable Area to be audited (as per Tier II).

147. The above parameters are illustrative and DoA may edit/delete/modify the parameters based on their applicability, relevance, and availability of the data for various units assessed.

**OAMS Functionality:** All the above-mentioned parameters will be made available in the OAMS for auto selection of units from the total available auditees of the selected department. The DoA will have to select the parameters of the financial year for which audit is to be done in order to select the auditees. Further, the DoA is authorized to add new parameters and/or to enable/disable the existing parameters.

#### 8.2.2.3.2 Activity 2: Plotting data

148. The next step is to plot the data for each of these parameters against the auditees. The data with respect to these parameters will have to be fed into the OAMS for the first time. Some of the data against these parameters may already be available into OAMS and other data needs to be fed manually from external sources for example from IFMS etc.

#### 8.2.2.3.3 Activity 3: Scoring the Auditee on the basis of each of the parameter

149. Based on the range for each of the above-mentioned parameters, a score will be assigned to each parameter for every unit. The scores will be assigned on a scale of 1-10 for these parameters.

**OAMS Functionality:** Once all the range of values and the respective score are decided and updated into OAMS master data, the system will automatically calculate the respective scores for each parameter for a unit.

#### 8.2.2.3.4 Activity 4: Assigning of weights to each of the parameter

150. After assigning the score for each of the selected parameters the next step is to assign appropriate weight against each of the parameters. The sum of all these weights should be equal to 1 for a unit. The assigning of weights will be an administrative decision and it will be reviewed/revised/changed in each year and may be different for units under high risk, medium risk, or low risk departments. Illustrative weights provided for the above-mentioned parameters are explained later in this section of the manual. Once the weights for individual parameter and scores against each of the parameters have been updated into OAMS,

the weighted score of parameters will be calculated by OAMS automatically without any human intervention.

**OAMS Functionality:** For the first time this data needs to be updated into the OAMS database and then the system will automatically calculate scores for each unit without any human intervention.

#### 8.2.2.3.5 Activity 5: Calculation of overall score

151. For the calculation of overall score, the following formula may be used:

$$S_{U1} = \frac{(P_1 \times W_1) + (P_2 \times W_2) + \dots + (P_n \times W_n)}{(W_1 + W_2 + \dots + W_n)}$$

Where

$S_{U1}$  is Score for a Unit

$P_n$  is score for the respective parameters

$W_n$  is the weight of the respective parameter

**OAMS Functionality:** The OAMS will automatically add all the weighted scores of parameters and then reflect the overall score of each unit

#### 8.2.2.3.6 Activity 6: Classifying Auditee as High, Medium, or Low based on overall score

152. Based on the weighted scores calculated at activity 5, the auditees of the selected department shall be categorized as high, medium, and low risk for the purpose of selection of unit for audit.

| Particular  | Category |
|---|----------|
| Auditee with Score Greater than 7   | High     |
| Auditee with Score Greater than 4 but less than or equal to 7   | Medium   |
| Auditee with Score less than or equal to 4  | Low      |
| <b>Note: Where there is any embezzlement, fraud or misappropriation of fund were reported in auditees in the preceding financial year then the unit will be classified as high-risk auditee irrespective of weightage as calculated above</b> |          |

TABLE 11: CLASSIFICATION OF AUDITEES



**8.2.2.3.7 Activity 7: Auditing Criteria of categorized units**

153. The units to be selected for audit shall be decided based on available manpower and the number of Days to be assigned to each auditee. The illustrative methodology for selecting auditees of a department is provided below:

| <b>Auditees Category</b> | <b>High Risk Department</b>                             | <b>Medium Risk Department</b>                           | <b>Low Risk Department</b>                            |
|--------------------------|---|---|---|
| High Risk Auditees       | 50% of the high-risk units will be selected for audit   | 30% of the high-risk units will be selected for audit   | 30% of the high-risk units will be selected for audit |
| Medium Risk Auditees     | 30% of the medium risk units will be selected for audit | 10% of the medium risk units will be selected for audit | --  |
| Low Risk Auditees        | 10% of the low-risk units will be selected for audit    | 5% of the low-risk units will be selected for audit     | --  |

TABLE 12: INDICATIVE AUDITING SELECTION CRITERIA FOR CATEGORIZED AUDITEES

154. The above ranges are illustrative in nature and final selection of auditees shall be done by DoA and Audit Cell based on their professional judgement and available resources.

155. For instance, in case of Department “X” which has 100 units (30 high risk units, 40 medium risk and 30 low risk units), the audit coverage would be as per below table:

| <b>Auditees Category</b> | <b>If X is a High-Risk Department</b> | <b>If X is a Medium Risk Department</b> | <b>If X is a Low-Risk Department</b> |
|--------------------------|---------------------------------------|---|--------------------------------------|
| High Risk Auditees       | 50% of 30 =15                         | 30% of 30=9                             | 30% of 30=9                          |
| Medium Risk Auditees     | 30% of 40 =12                         | 10% of 40=4                             | --                                   |
| Low Risk Auditees        | 10% of 30 =3                          | 5% of 30 = 1.5 (to be taken as 2)       | --                                   |
| <b>Total</b>             | <b>30 units</b>                       | <b>15 units</b>                         | <b>9 units</b>                       |

TABLE 13: ILLUSTRATION FOR SELECTION OF AUDITEES

156. Risk profiling of the units under a selected department shall be based on financial, non-financial Parameters and special parameters. An illustrative list of parameters along with their score, range and weightage is provided below:

| Sr. No .              | Parameter Name   | Description of Parameters  | Scoring  |          |       | Weightage            |                                |
|-----------------------|--|--|--|----------|-------|----------------------|--------------------------------|
|                       |  |  | Variable   | Range    | Score | High Risk Department | Medium and Low Risk Department |
| Financial Parameters: |  |  |  |          |       |                      |                                |
| 1                     | Actual Expenditure                                       | Actual expenditure for the preceding financial year needs to be considered e.g. For Internal Audit to be conducted during the financial year 2020-2021 (planning done in FY 2019-20) then the actual expenditure for the financial year 2018-2019 needs to be considered | Actual expenditure of the unit to the Total Actual expenditure of the department (%)               | 0-2.5%   | 3     | 10%                  | 25%                            |
|                       |  |  |  | 2.5-5%   | 6     |                      |                                |
|                       |  |  |  | >5%      | 10    |                      |                                |
|                       |  |  |  |          |       |                      |                                |
|                       |  |  |  |          |       |                      |                                |
| 2                     | Value of serious Internal Audit Paras pending compliance | Cumulative Value of Internal audit serious paras pending for compliance at end of the immediately preceding financial year needs to be considered  | Cumulative Value of Internal Audit serious paras pending for compliance for the respective auditee | 0        | 0     | 10%                  | 25%                            |
|                       |  |  |  | 0-20L    | 3     |                      |                                |
|                       |  |  |  | >20L-50L | 6     |                      |                                |
|                       |  |  |  | >50L     | 10    |                      |                                |
|                       |  |  |  |          |       |                      |                                |
| 3                     |  |  |  | 0        | 0     | 10%                  | 20%                            |

| Sr. No.                          | Parameter Name  | Description of Parameters   | Scoring   |                |       | Weightage            |                                |
|----------------------------------|---|---|---|----------------|-------|----------------------|--------------------------------|
|                                  |   |   | Variable  | Range          | Score | High Risk Department | Medium and Low Risk Department |
|                                  | Value of serious audit Para pending for compliance in AG report                             | Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered. | Value of serious AG para pending for compliance for the unit (AG Audit) | 0-0.50 Cr.     | 3     |                      |                                |
|                                  |   |   |   | 0.5 to 1.5 Cr. | 6     |                      |                                |
|                                  |   |   |   | >1.5 Cr        | 10    |                      |                                |
| <b>Non-Financial Parameters:</b> |   |   |   |                |       |                      |                                |
| 4                                | Past Internal Audit Conducted   | Numbers of Years since last Internal Audit conducted for the unit   | Years Pending for Internal Audit  | 0              | 0     | 20%                  | 30%                            |
|                                  |   |   |   | 1              | 3     |                      |                                |
|                                  |   |   |   | 2              | 6     |                      |                                |
|                                  |   |   |   | 3 or more      | 10    |                      |                                |
| 5                                | Specific Parameters for each department based on the areas to be audited (as per Tier II) * |   |   |                |       | 50%                  | -----                          |

TABLE 14: ILLUSTRATIVE LIST OF PARAMETERS FOR TIER III RISK ASSESSMENT PROCESS

157.\*Apart from the Financial and Non-Financial Parameters, DoA shall add a few specific parameters for each of the high-risk departments based on the selected Key Auditable Areas for such department as per Tier II risk assessment process. Few Illustrative parameters are provided below:

| Key Auditable Area to be Audited | Parameter                                     | Score  |
|----------------------------------|---|--|
| Establishment Expenses           | Establishment expenses as % of total Expenses | 0-30%: 3 Points<br>30-60%: 6 Points<br>>60%: 10 Points |

| Key Auditable Area to be Audited | Parameter  | Score  |
|----------------------------------|--|--|
| Grant in Aid                     | Grant in Aid as % of total receipts  | 0-30%: 3 Points<br>30-60%: 6 Points<br>>60%: 10 Points |
| Schemes                          | Schemes related Allocation as % of total Budget  | 0-30%: 3 Points<br>30-70%: 6 Points<br>>70%: 10 Points |
| Procurement                      | No's of Procurement under Execution of Major Works   | 0-10: 3 Points<br>10-25: 6 Points<br>>25: 10 Points    |
| Revenue                          | Trend of Revenue:<br>% Variation in revenue receipts over last year (both negative and positive) | 0-10%: 3 Points<br>10-20%: 6 Points<br>>20%: 10 Points |

TABLE 15: ILLUSTRATIVE LIST OF SPECIFIC PARAMETERS FOR TIER III RISK ASSESSMENT PROCESS BASED ON KEY AUDITABLE AREA

158. Notes: **DoA may add/delete/modify the above parameter as they deem fit.** The results of all the above-mentioned risk assessment process shall be considered for the preparation of the audit planning memorandum and annual Internal Audit plan

### 8.2.3 Step 3 - Resource allocation

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA

#### **IIA Standard 2230 Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

##### **Interpretation**

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the engagement. Sufficient refers to the quality of resources needed to accomplish the engagement with due professional care.

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA

#### **IIA Standard 2030 Resource Management**

The Chief Audit Executive must ensure that Internal Audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan

##### **Interpretation**

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan

159. Allocation of resources for the audit engagement shall be done at the DoA level. Selection of the right audit team is one of the important factors for achieving the objective of audit. The audit team shall consist of 2-3 members, with one team leader, depending on the size and nature of the of the auditee. The audit team member should be allocated to the auditee based on their background, previous experience, skillset, etc. For example, a person who has experience of audit in Works/ Procurement audit may be allocated maximum auditees of Works departments, since they will have a good knowledge and understanding of the works/procurement related acts, rules and procedure. This will improve the effectiveness of audit. The following key consideration should be kept in mind while allocating audit team.

- a) The team leader and other members should have earlier work experience in a similar type of audit



- b) As far as possible, the audit team should be assigned auditees nearest to their offices so that there is limited inter movement of resources

160. Every audit team shall be formed in such a way that it shall consist of the right mix of all the attributes of an auditor in terms of skills, knowledge, experience, report writing, decision making abilities etc. Each audit team shall be assigned a unique number to distinguish with other audit teams.

**OAMS Functionality:** The logic shall be built up in the OAMS through which it shall automatically map the audit team to various auditees.

161. Further, it is the responsibility of the audit team member to follow the Code of Ethics and independence, maintain a good quality of audit and must be free from circumstances or influences that compromise, or may be compromising, professional judgement, and they must act in an impartial and unbiased manner.

162. The resource allocation process should be finalized 30 working days prior to the start of each quarter of the financial year in which the audit is proposed to be conducted. This shall be included in the quarterly Internal Audit plan.

#### 8.2.4 Step 4- Days to be allocated for Audit of unit

163. Once the resource allocation is completed and the audit team is mapped to the auditee, the next step is to allot a number of days for carrying out the audit. Days must be allotted for audit of a unit based on its type and their risk rating (e.g. – high, medium or low). The following parameters may be considered while allocating the number of days for the conduct of an Internal Audit.

| S. No. | Activity  | Risk Rating of Auditee |          |          |
|--------|---|------------------------|----------|----------|
|        |   | High                   | Medium   | Low      |
| 1.     | Audit Execution: Entry Meeting, Audit of Transaction and observation, Issuance of Half Margin Memo, Exit meeting etc. | 10                     | 6        | 4        |
| 2.     | Audit Reporting - Conversion of Half Margin Memo into Para, Issuance of draft report and final report etc.            | 2                      | 2        | 2        |
|        | <b>Total</b>  | <b>12</b>              | <b>8</b> | <b>6</b> |

TABLE 16: ILLUSTRATIVE MATRIX FOR ALLOCATION OF DAYS FOR AUDIT

164. The days shall be finalized at least 30 working days prior to the start of the financial year in which the audit is to be proposed. However, such days may be modified in the quarterly Internal Audit plan based on the learning during the audit executed.

165. **Note: Above Days allocated are indicative and can be increased/decreased based on professional judgement and past audit experience.**

**OAMS Functionality:** The number of days for each type of auditee as per their risk rating shall be updated into OAMS and then OAMS will automatically allocate the number of days to each auditee based on its risk rating.

### 8.2.5 Step 5 - Preparation and Approval of the Annual and Quarterly Internal Audit Plan

As per the International Standards for the Professional Practice of Internal Auditing (Standards) issued by IIA.

#### **2020-Communication and Approval**

The Chief Audit Executive must communicate the Internal Audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The Chief Audit Executive must also communicate the impact of resource limitations.

#### **Annual Internal Audit Plan**

166. The DoA shall prepare an integrated annual Internal audit plan covering all the departments, auditable areas and units selected for audit. The annual Internal Audit plan shall be finalized at least 30 days prior to the start of the financial year in which the audit is proposed i.e. by 1<sup>st</sup> March. The annual Internal Audit plan shall be sent to Finance Department and shall be considered as deemed approved until & unless any other modification is intimated by the Finance Department.

167. The annual Internal Audit plan shall include an executive summary, comments on the risk assessment methodology adopted for planning, the outcome of the risk assessment process indicating the departments, area & unit selected for audit, audit resources, timelines, advisory to the auditors, nos. of audit parties etc. Refer to Annexure "10" for the format of the annual Internal Audit plan.

#### **Quarterly Internal Audit Plan**

168. The DoA has the responsibility to prepare a quarterly Internal Audit plan covering the following details:

- a) Name of the departments/units selected for audit,
- b) Details of Key Auditable Area/ Auditable Sub Area (where applicable),

- c) Name of the auditors assigned the work of audit,
- d) Period of accounts to be audited and,
- e) Days allotted to conduct the audit.
- f) Dates on which the audit of the unit will be conducted

169. The quarterly Internal Audit plan shall be finalised at least 30 working days prior to the commencement of the quarter in which the audit is proposed. The quarterly Internal Audit plan shall be approved by Director, Audit.

170. Refer to **Annexure “10”** for format of annual and quarterly Internal Audit plan.

**OAMS Functionality:** The annual and quarterly Internal Audit plan shall be prepared through OAMS and shall be reviewed and approved as per the provision of this manual

#### 8.2.6 Step 6 - Communicate the Internal Audit Plan to Auditees and Audit Teams

171. DoA will share the approved annual Internal Audit plan with all the departments and units selected for audit. DoA shall also communicate the quarterly Internal Audit plan to the concerned auditees in advance through OAMS, preferably at least 30 days prior to the start of the Internal Audit (First Quarter of the Audit Plan will usually start by 10th of April) intimating the following details:

- a) Details of the time of audit.
- b) Team Leader and audit staff assigned for the Internal Audit.
- c) Scheduled date of entry meeting.
- d) Objective and scope of Internal Audit.
- e) Period of accounts to be audited.
- f) Number of working days allotted for completion of Internal Audit.
- g) List of common documents and information required for Internal Audit.
- h) Information sheet.

172. Refer to **Annexure “11”** for the format of Intimation of Internal Audit.

173. Along with the intimation letter, auditee would also be provided with an information sheet. This will enable the auditee to arrange for the necessary records and resources for smooth conduct of the audit and fill the information sheet on OAMS at least 14 days before the start of the audit. The detailed format for the information sheet has been provided at **Annexure “12”**.

174. The quarterly Internal Audit plan shall be shared with the audit team as well, preferably at least 30 days prior to the start of the quarter, so that necessary audit preparation activities could be completed at their end.

**OAMS Functionality:** The annual and quarterly audit plan is approved on OAMS. The information with regard to the name of the auditees selected for audit, period of accounts to be audited, name of the audit team assigned the work of audit, type of audit to be conducted and number of working days allotted for completion of audit needs to be pre-fed into the system manually. As soon as the quarterly audit plan is approved, intimation is shared with the auditee on OAMS through email. The auditors can also view his schedule of audit on OAMS and can plan their visits accordingly. The auditee is informed about the schedule of the audit at least a month before the audit.

However, the DoA shall update the OAMS system to ensure that the annual planning is carried through OAMS only instead of uploading of Annual plan manually.

Before the start of the audit, the auditee is required to fill the information sheet in the OAMS itself which is approved by HOD/ DDO. Once the information sheet is approved the same is intimated automatically to the concerned auditor through SMS/ email.

### 8.3 Audit Preparation

175. Once the days are finalized, the DoA shall ensure the audit preparation of the audit parties with respect to following activities:

- Activity 1: Understand the department and its operation
- Activity 2: Understand the legal and regularity framework
- Activity 3: Preparation of planning memorandum

176. The above activities shall be conducted at the DoA level, along with a group of audit parties selected for each department to be audited. These groups shall document and further disseminate the information to other audit teams. These activities have to be done once in detail and then periodically updated in subsequent audits.

As per the International Standards for the Professional Practice of Internal Auditing (Standards) issued by IIA.

#### **2200 Engagement Planning**

Internal auditors must develop and document a plan for each engagement including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risk relevant to the engagement.

#### **2201 – Planning Considerations**

In planning the engagement, Internal Auditors must consider:

- a) The objectives of the activity being reviewed and how the activity controls its performance.
- b) The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level
- c) The adequacy and effectiveness of the activity's risk management & control processes compared to a relevant control framework or model; and
- d) The opportunities for making significant improvements to the activity's risk management and control processes.

#### **8.3.1 Activity 1 - Understand the Department and its operations**

177. It is essential that the audit team has good knowledge about the environment of the department and its operations before the start of the audit. This includes understanding the rationale behind establishing the department, structure and functions of the department. This will normally include considering matters such as:

- What are the services delivered by the department/operations performed?
- What are the Schemes which are run by departments?
- What is the statutory basis for these operations?
- How are they funded i.e. Centrally, Centrally and State, EAP?
- What are the key performance indicators of the department?
- What is the organizational structure of the department? Is it centralized or decentralized?
- What are the principal geographical locations and how are the operations distributed between them?
- What is its relationship with other department/government organizations?
- Were there any major changes that took place/planned during the period proposed for audit? (like re-organization of a department/ wing)
- Who are the recipients of its services i.e. Public?
- How does it deliver its products/services or perform its operations?
- Have there been any cases of significant fraud and embezzlement in the department?
- What is the level of computerization of the department's activities?
- What is the result from the Tier I risk assessment of the department?
- Are there any management concerns?
- Regularity of Audit committee and what is its scope? Action taken by the department or auditee on previous audit.

178. Primary source of information about the audit department can be obtained from the following documents:

- Previous Internal Audit Plans.
- Previous Internal Audit Reports.
- AGs inspection reports.
- Policy and procedures manuals, if any.
- Important circulars issued by State and Central Government from time to time.
- Organization charts and flow charts of processes.
- Review of budget and management information.
- Information sheet.



- Review of the permanent audit file and previous audit reports, including reports from the State Audit office.
- Review of the strategic and operational plans of the area to be audited.
- Department website, if any.

### 8.3.2 Activity 2 - Understand the legal and regulatory framework

179. The audit team should familiarize with the legal and regulatory framework within which the department operates. This will inter alia include:

- Any changes in law, regulations, accounting rules or policies of the department since the last audit.
- Primary and secondary legislation (like any Governing Legislation, Financial Rules, and other relevant rules) and any changes since the last year.
- Regulations or instructions issued by the Finance Department or controlling Department and any changes since the last audit.

### 8.3.3 Activity 3 - Preparation of Planning Memorandum

As per the International Standards for the **Professional Practice of Internal Auditing (Standards)** issued by IIA's:

#### **2210 – Engagement Objectives:**

Objectives must be established for each engagement

**2210. A1:** Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review, engagement objectives must reflect the result of this assessment.

**2210. A2:** Internal auditors must consider the probability of significant errors, fraud, noncompliance and other exposures when developing the engagement objectives

#### **2220 – Engagement Scope**

The established scope must be sufficient to satisfy the objectives of the engagement.

**2220. A1:** – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

180. **Planning Memorandum:** The overall Internal Audit plan should be summarized in a memorandum containing a summary of the scope of the Internal Audit and planned Internal Audit procedures. The

planning memorandum shall be prepared at the department level and shall present an analysis of the key Internal Audit areas and a summary of the key planning decisions.

181.The DoA shall appoint the audit teams who shall prepare an audit planning memorandum for various selected departments. This will enable the audit team members to understand the goal and mission of the department, associated risk with the department and key areas which need more focus during the audit.

182.The content of the audit planning memorandum at the department level shall include:

- A brief outline of the audit department activities based on the understanding of the Department.
- Areas to be audited at the Department (As per Tier II Risk Based Approach)
- Basic information of Units to be audited at the Department (As per Tier III Risk Based Approach)
- A description of the scope and objective of the audit.
- Details of any significant facts, events or changes which have taken, or may take place, their likely effect on the audit of operations and environment
- A summary of the key team members and the total planned days for audit

**OAMS Functionality:** At the end of the preparation phase, the audit team needs to prepare an audit planning memorandum in OAMS which States scope of the audit, nature and timing of audit procedure and the overall strategy for the audit execution.

183.Refer to **Annexure “13”** for the format of Internal Audit Planning Memorandum.

184.Based on the entry meeting and/or on receipt of any additional/modified information after visiting the auditee, the audit planning memorandum may be updated, if required, by the audit team leader. However, any such update shall not lead to a reduction of the scope or extent of check to be done i.e. the auditor has to mandatory do the audit as per the scope and extent of check provided in the annual audit plan and audit planning memorandum.

185.The audit team leader can increase the scope or extent of check based on any information received without impacting/reducing the scope already defined in the annual audit plan and audit planning memorandum.

186.The audit team leader shall obtain the approval from Supervisory Authority through OAMS for an increase in scope or extent of check of audit, if such increase leads to additional time and resources for execution of the audit. Accordingly, the audit team leader shall update the planning memorandum and ensure that such changes are also highlighted in the Internal Audit Report. The approval is to be provided through the system within two days.

**Chapter 9: Audit Execution**

187. This is the stage where Internal Audit plans are executed, and observations are noted through the application of Internal Audit procedures. The purpose of audit execution is to ensure completion of the Internal Audit and gather sufficient & appropriate Internal Audit evidence to reach a conclusion on each of the objectives identified in the Internal Auditing planning memorandum.

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA:

**1200 – Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

**1210 – Proficiency**

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The Internal Audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

**1220 – Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent Internal Auditor. Due professional care does not imply infallibility.

**2050 – Coordination and Reliance**

The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

**Interpretation:**

In coordinating activities, the Chief Audit Executive may rely on the work of others assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the Chief Audit Executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The Chief Audit Executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the Chief Audit Executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the Internal Audit activity.

188. Following are the steps to be followed in an audit execution stage:

9.1 Entry meeting.

9.2 Update/revision of audit planning memorandum.

9.3 Select the transaction to be audited (Tier IV – Risk Assessment Process.)

9.4 Work distribution among the team members.

9.5 Audit of transaction selected.

9.6 Audit analysis and evaluation.

9.7 Issuance of Half Margin Memo.

9.8 Exit meeting.

3. The figure below shows the flow chart of steps under the Audit Execution:

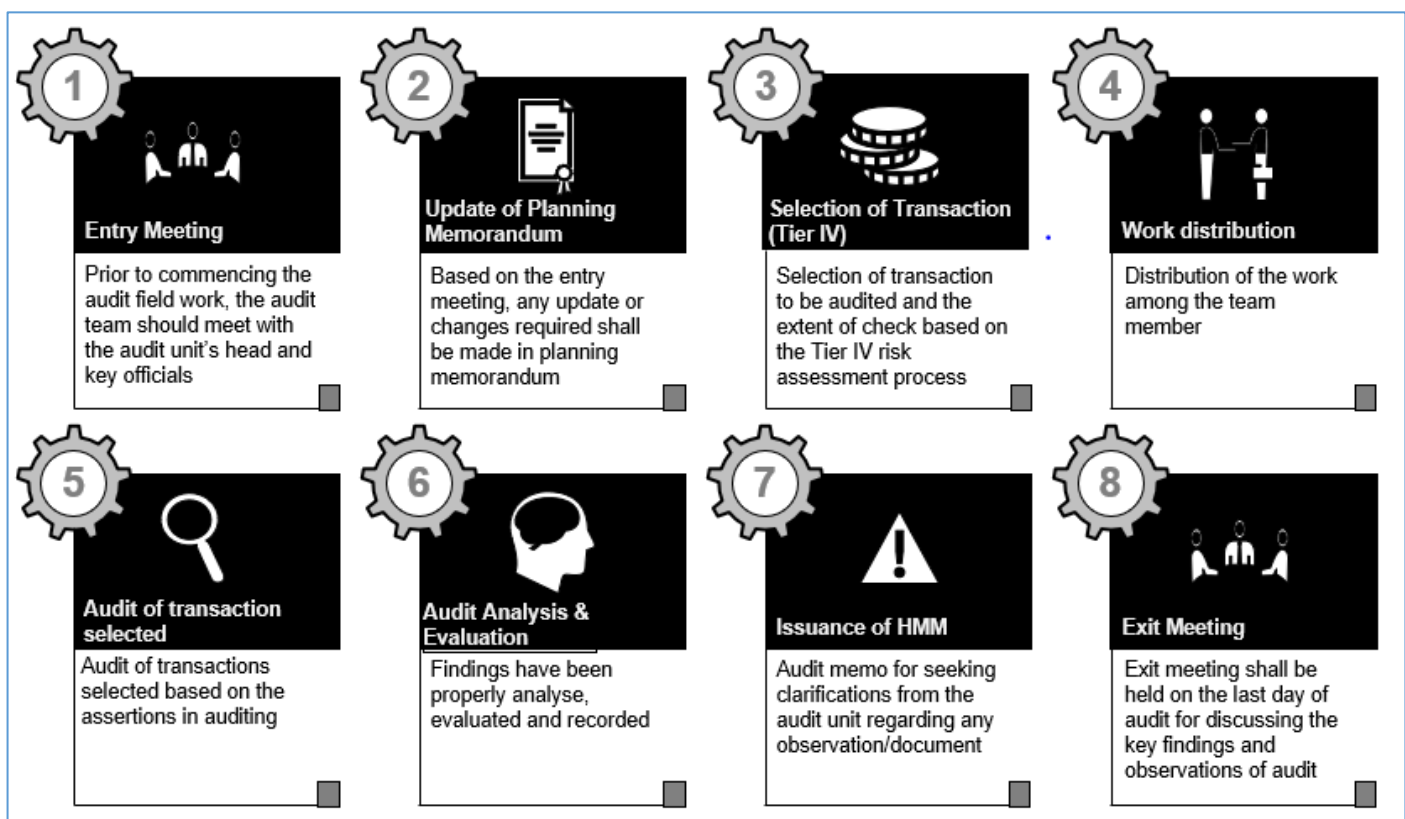


FIGURE 8: AUDIT EXECUTION PROCESS

## 9.1 Entry Meeting – Auditee Level

189. The purpose of the entry meeting is to establish effective communications between the audit team and the auditee at the beginning itself. The entry conference meeting will be held after completion of individual auditee planning and before the commencement of actual audit work at the field. The entry conference meeting will be held among the audit team members, the auditee's head and other key officials of the auditee. During the entry conference meeting, an audit coordinator from auditee shall be identified. The

entry conference meeting will facilitate building a good relationship between the audit team and officials of the auditee. Following are the main points which shall be discussed in the entry conference meeting.

#### **9.1.1 Objectives and Scope of Work**

190. There should be clear communication about the objective and scope of the audit with emphasis on the fact that the purpose of the audit is to assist management by providing analysis, appraisals, recommendations, and information in respect of their activities.

#### **9.1.2 Seeking Inputs and Co-operation from Auditee**

191. Discuss and seek inputs on problem areas where the auditors can be of assistance to the auditee. Careful consideration must be given to any suggestions and requests. Inquire about working hours, access to records, available work area for participating auditors, the auditee's work deadline and any other information which would help in scheduling the audit activities to fit into the office routine and ensuring minimal interruption to the auditee's routine work activities.

#### **9.1.3 Audit progress**

192. Establish a clear understanding with the auditee and regularly update them regarding audit progress and findings.

#### **9.1.4 Audit Findings**

193. Discuss how the audit findings will be handled, e.g. resolution of minor findings, the discussion of all findings on a concurrent basis to enable auditee to take timely and corrective action, discuss the status of prior audit findings etc.

#### **9.1.5 Debriefing and reporting**

194. The audit team shall discuss the procedures for verifying and reporting the audit findings with the auditee. Immediately after the entry meeting, the audit team shall submit a preliminary list of records required for the execution of the Internal Audit.

195. One team member of audit team shall be assigned to fill up all the details of the entry meeting into OAMS under the entry conference tab which shall be duly approved by both parties.
196. Refer to **Annexure “14”** for the format of the minutes of entry meeting.

**OAMS Functionality:** In OAMS, under the entry conference tab, the audit team fills all necessary details relating to auditees like name of key officials, period of audit, audit start date, audit end date, audit month, auditee name, mobile number of concerned officials, a discussion held during the entry meeting etc.

## 9.2 Update of Planning Memorandum

197. Based on the entry meeting and/or on receipt of any additional/modified information after visiting the auditee, the audit planning memorandum may be updated, if required, by the audit team leader. However, any such update shall not lead to a reduction of the scope or extent of check to be done i.e. the auditor has to mandatorily do the audit as per the scope and extent of check provided in the annual audit plan and audit planning memorandum. The audit team leader can increase the scope or extent of check based on any information received without impacting/reducing the scope already defined in the annual audit plan and audit planning memorandum. The audit team leader shall obtain the approval from Supervisory Authority through OAMS for an increase in scope or extent of check of audit, if such increase leads to additional time and resources for execution of the audit. Accordingly, the audit team leader shall update the planning memorandum and ensure that such changes are also highlighted in the Internal Audit Report.

**OAMS Functionality:** After the entry conference meeting, the audit team may need to revise the audit planning memorandum to include any further relevant information which may affect the execution strategy.

## 9.3 Selection of Transactions to be Audited (Tier IV)

198. The Tier IV risk assessment process shall be carried out by the audit team for identifying the transaction and finalizing the extent of checking to be carried out
199. If all the information is available, the respective audit team shall conduct the Tier IV risk assessment process at the audit planning and preparation stage. However, in case of non-availability of information, the Tier IV risk assessment process shall be done after the entry meeting. The process of risk assessment shall be different in the following two scenarios:

### 9.3.1 Scenario 1: Tier IV risk assessment process for units under High Risk Department



#### 9.3.1.1 Step 1: Extraction of Transactions Report

200. The audit team shall first extract the total expenditures report of the auditee to be audited from the IFMS software integrated with OAMS or from any other software/application being deployed by the concerned department.

#### 9.3.1.2 Step 2: Percentage of Transaction to be selected for Audit

201. The approach to be followed for the extent of check of transactions to be audited by the audit team is as under:

202. **Key Auditable Areas/ Auditable Sub Area selected for audit as per Tier -II:** At least 60% of transactions (*in terms of value*) or at least 60% of the number of transactions as may be defined by the DoA in the annual Internal Audit plan for selected Key Auditable Area or Auditable Sub Area. The above extent of check would be indicative, and an auditor may increase the same based on their professional judgment and findings during the audit.

203. **For Remaining Key Auditable Areas/Auditable Sub Area:** The decision regarding the audit of the other remaining key auditable areas and the extent of check shall be decided by the auditor based on their professional judgment and findings during the audit. However, the audit team leader shall obtain necessary approval from Supervisory Officer and update the audit planning memorandum as explained at section 9.2 above before increasing the scope of the audit. The auditor may take guidance from **Annexure “15** “for the transaction’s selection and extent of checking.

### 9.3.2 Scenario 2: Tier IV risk assessment process for units under Medium and Low Risk Department:

#### 9.3.2.1 Step1: Extraction of Transactions Report

204. The audit team shall first extract the total expenditures report of the auditee to be audited from the IFMS software integrated with OAMS or from any other software/application being deployed by the concern department.

#### 9.3.2.2 Step 2: Percentage of Transaction to be selected for Audit

205. Till the time the Tier II risk assessment process is not applicable for medium and low risk departments, the process for selection of transactions and the extent of checking for the Key Auditable Area/ Auditable Sub Area of units under such departments will be done as provided in **Annexure “15”**. The extent of check mentioned in **Annexure “15”** is indicative and an auditor may increase the same based on their professional judgment and findings during the audit. Post applicability of Tier II risk assessment process on medium and low risk departments, the extent of check shall be in accordance to the scenario mentioned in section 9.3.1 above.

#### 9.4 Work Distribution among the Audit Team Members

206. Based on the understanding about the department and auditee, the audit team leader shall divide the audit work among the team members and according to the work distribution they should proceed with the Internal Audit. The audit team leader should take up more significant items along with the supervision of other team members. The work distribution should be recorded and kept with the working papers.

207. Refer to **Annexure “16”** for the format of audit work distribution

**OAMS Functionality:** The work distribution shall be done by the team leader through OAMS under the work distribution tab. The audit team members can view the works assigned to them through OAMS only.

#### 9.5 Audit of the Transaction selected

As per the International Standards for the Professional Practice of Internal Auditing (Standards) issued by IIA.

##### **2300 Performing the Engagement**

Internal auditors must identify, analyses, evaluate and document sufficient information to achieve the engagement's objectives.

208. The audit team shall carry out the Internal Audit of transactions selected in step 3 (9.3 above) which involves an examination of supporting documents and occurrence of transactions. The audit team has to ensure that transactions are recorded in a timely manner after proper verification, under the appropriate head of account and shall be approved by the competent authority.

209. The transactions shall be audited based on the assertions in auditing. Assertions are used by the Internal Auditor to form a basis for:

- Considering the different types of potential misstatements that may occur.
- Assessing the risk of material misstatement.
- Designing further audit procedures that are responsive to the assessed risks.

210. The following five items are classified as assertions related to transactions:

- Existence/Occurrence
- Completeness
- Accuracy
- Cut-off
- Classification

211. These audit assertions are explained below with suitable examples for better understanding of the concept.

| Assertions                  | Explanation  | Example: Procurement  |
|-----------------------------|--|---|
| <b>Existence/Occurrence</b> | This assertions States that the transactions recognized or recorded have occurred and relate to the specific auditee or department         | Whether Notice Inviting Bid was published in the procurement portal with all the information as per Uttarakhand Procurement Rules, 2017.      |
| <b>Completeness</b>         | This assertions states that all transactions that were supposed to be recorded have been recognized in the books, registers, or documents. | Check whether any documentation is maintained for evaluation of financial bids (scoring sheet).   |
| <b>Accuracy</b>             | This assertions states that all transactions have been recorded accurately at their appropriate amounts.                                   | Check whether bid security or performance security are collected and recorded correctly in the books of accounts at their appropriate amount. |
| <b>Cut-off</b>              | This assertions states that transactions have been recognized in the correct accounting period.  | Check whether the entire procurement procedure was recorded appropriately in the accounting period when it has occurred.                      |
| <b>Classification</b>       | This assertions states that transactions have been classified and recorded within the correct heads i.e. major and minor head              | Check whether the procurement that is made, is correctly accounted under the head,  |

| Assertions | Explanation | Example: Procurement  |
|------------|-------------|---|
|            |             | where the budget for the same was allocated for that purpose. |

TABLE 17: TYPES OF ASSERTIONS

212.Refer to Audit checklist provided in Volume II of Internal Audit Manual for checking of auditable areas.  
A guidance for reference to the checklist is also provided in the **Annexure “15”**.

### Daily Diary

213.The audit team members shall maintain the record of their daily work in the daily diary. During Internal Audit, each audit team member is required to keep an account of work done by them. Such a diary shall be kept date wise and should include the following:

- Name of auditor.
- Name of auditee.
- Audit Team number.
- Number of working days allotted.
- Date of commencement of audit.
- Period of audit.
- Date of allocation of work.
- Number of hours worked on audit (work allocation wise).
- Area of work allocated by the audit team leader.
- Progress made during the day.

214.Refer to **Annexure “17”** for the format of daily diary.

215.The audit team leader shall review the daily diary of team members and provide appropriate comments.

**OAMS Functionality:** The template/ format for the daily diary has been provided on OAMS and the audit team members shall fill the same on daily basis through OAMS only.

## 9.6 Audit Analysis and Evaluation

As per the International Standards for the Professional Practice of Internal Auditing (Standards) issued by IIA's

2310 Identifying Information

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives

2320 – Analysis and Evaluation:

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations

216. Upon completion of the fieldwork, auditors shall ensure that all the necessary evidence to support findings have been properly analysed and evaluated. Audit observation shall be clear, providing sufficient information and clearly addressing the criteria of the Internal Audit engagement. Audit evidence should be supportive to the audit observation and should have been cross-referenced in Half margin Memo (HMM) to demonstrate that the Internal Auditor has identified, analysed and evaluated sufficient information to achieve the audit engagement objectives before issuing any audit observation.

217. Please refer to section 11.5 with regards to audit evidence and their collection process. Throughout the Internal Audit, the auditor shall have discussions with the staff of auditee to review findings and potential recommendations. This would help in ensuring that all pertinent information has been considered in developing conclusions and also provides an opportunity to the audit team and the auditee to work together in developing potential solutions for the identified deficiencies.

## 9.7 Issuance of Half Margin Memo

218. During the audit analysis and evaluation, the audit team might come across various issues/findings for which a clarification is required from the auditee. Such information is asked by issuing Half Margin Memo (HMM) to be created through OAMS and sent to the auditee for the reply.

219. HMM is prepared by the audit team during the audit for (i) seeking clarification from the auditee regarding any observation or (ii) the requirement of any information or document.

220. Therefore, the Half Margin memo is classified as follows:

- **Information memo:** is used to obtain additional information or documents from the auditee.
- **Observation memo:** is used where preliminary audit indicates that a draft para can be made.
- **Information Cum Observation Memo.**

221. HMM created by team members shall be reviewed and approved by the team leader before sharing it with the auditee. HMM shall be approved or returned or rejected by the team leader only once and the HMM created by the team leader shall be sent directly to the auditee. There could be the following scenarios:

- **If HMM is approved by the Audit Team Leader:** The Half Margin Memo shall be sent to the auditee for seeking a response. The auditor is required to evaluate the response provided by the auditee on each Half Margin Memo and accordingly take necessary actions. Following are the two outcomes of a Half Margin Memo:
  - **Resolved Half Margin Memos-** In case the auditee provides a response, which is satisfactory as per the auditor, then Half Margin Memo shall be resolved.
  - **Un-resolved Half Margin Memos-**
    - In case auditee fails to provide a response within the stipulated time, then Half Margin Memo shall be treated as un-resolved and shall be converted into para.
    - In case the auditee provides a response, which is not satisfactory as per the auditor, then HMM shall be treated as un-resolved and shall be converted into audit para.
- **If HMM is not approved by the audit team leader:** It shall be sent to the audit team member again along with the comments (reason for rejection) for necessary corrections, and the same will be rectified by the audit team member accordingly.

222.Refer **Annexure “18”** for format of Half Margin Memo

**OAMS Functionality:** Half Margin Memo (HMM) is created on OAMS by team members and approved by the team leader and on submission, an automatic intimation is sent to the identified auditor and coordinator of the auditee through SMS and email for reply.

HMM once created and submitted to the auditee, cannot be edited. The audit team can add sub HMM for any additional point or for addressing the reply received from the auditee. However, all the HMM must be either closed as resolved or converted into draft paras in OAMS. Information HMM has to be closed and any discrepancy or limitation faced shall be mentioned in the audit report.

- ▶ The auditee has to respond to the HMM within 3 working days. Along with the reply, the auditee has also to upload all the documents on OAMS which supports the resolving of audit HMM.
- ▶ In case of non-reply or unsatisfactory reply, the HMM would be converted into draft para by the audit team. Based on the response of the auditee, the audit team either drops the HMM or covert the same into draft para.

## 9.8 Exit Meeting

223.Once the audit team completes the audit execution, it would interact with the auditee for discussion on the conclusion drawn on the audit findings. The audit team leader together with other team members is



responsible for scheduling the exit conference meeting with the auditee's head or his/her authorised representative latest by the last date of fieldwork to give them an opportunity to provide any clarification on audit findings. The purpose of the exit conference meeting is:

- To inform the head of the auditee about the audit findings (discuss the unresolved HMMs issued during the audit period / uncorrected misstatement, which have been included in the HMM) and reporting process,
- To obtain management response on the HMM and recommendation made along with the reason thereof,
- To provide reasons for acceptance or rejection of responses received on the half margin memo,
- To provide adequate guidance about corrective actions to be taken against each half margin memo and also provide guidance about their rights and available remedies,
- To apprise auditee that in case of non-submission or reply to the HMM, the same shall be converted into draft para and included in the Internal Audit Report

**224.Points to be discussed in exit meeting:**

- Observations and findings of Internal Audit on each issue, matter, segment, and comments of the auditee thereon.
- Reasons for acceptance or rejection of those comments.
- Shortcomings/lapses in accounts and suggestions of Internal Auditors thereon.
- Remedial action/follow-up action to be taken by the auditee.
- Suggestion for improvement in the accounting, financial management and general performance of the auditee.

225.One audit team member should be assigned to document all discussions during the meeting on OAMS.

The audit team should prepare and circulate minutes of the meeting through OAMS to the auditee personnel who were present during the meeting. The minutes of the exit conference meeting shall be duly approved by both the parties.

226.Refer to **Annexure “19”** for the format of minutes of the exit meeting.

**OAMS Functionality:** Under the exit conference meeting tab on OAMS, the audit team has to enter all the details of the exit meeting such as meeting start and end date, name and designation of participants etc. The

exit conference meeting template also includes major queries raised and discussed held during the exit conference meeting.

## Chapter 10: Audit Reporting

227. This chapter describes the steps that are to be followed for reporting the findings under an Internal Audit engagement. The chapter has been divided into the following sections:

10.1 Conversion of HMM into draft audit para

10.2 Preparation of Draft Internal Audit Report

10.3 Review, approval and issuance of Internal Audit Report

As per the International **Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA:

### **2400 – Communicating Results**

Internal auditors must communicate the engagement results.

### **2410 – Criteria for Communicating**

Communications must include the engagement's objectives and scope and results

2410. A1 – Final communication of engagement results must, where appropriate, contain Internal Auditors' overall opinion and/or conclusions as well as applicable recommendations and/or action plans. Where appropriate the Internal Auditor's opinion should be provided. An opinion must consider the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information

#### **Interpretation:**

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance

2410. A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410. A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

### **2420 – Quality of Communications**

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

#### **Interpretation:**

**Accurate** communications are free from errors and distortions and are based on underlying facts.

**Objective** communications are fair, impartial, unbiased and are result of a fair-minded and balanced assessment of all relevant facts.

**Clear** communications are easily understood, logical, avoids unnecessary technical language and provides all significant and relevant information.

**Concise** communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness.

**Constructive** communications are helpful to the client and the organization and lead to improvements where needed.

**Complete** communications lack nothing that is essential to the target audience and include all significant and relevant information to support recommendations and conclusions.

**Timely** communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

228. Audit reporting is the phase where the auditors prepare a report based on the findings noted during the audit and interaction carried out with the officials of the auditee. Audit reporting starts with the conversion of unresolved HMM into draft para and preparation of a draft Internal Audit Report. The steps to be followed in the audit reporting stage is provided in the figure below:



FIGURE 9: PROCESS OF AUDIT REPORTING

## 10.1 Conversion of Half Margin Memo into Draft Audit Para

### 10.1.1 Conversion or Dropping of HMM

229. Audit reporting is the phase where the auditors prepare a report based on the findings noted during the audit and interaction carried out with the officials of the auditee. This stage starts from the conversion of unresolved HMM into audit para. The steps to be followed under this phase is provided in the figure below:

230. The HMM converted to draft para by audit team members shall be sent to the audit team leader for approval. The audit team leader shall either approve, reject or return the draft audit para to team member for making necessary changes. The rejection or return of the HMM by team leader shall be done only once.

**OAMS Functionality:** Creation of Draft Audit Para from Half Margin shall be done through the functionality provided on OAMS. All the half margin memo (HMM) must be either closed as resolved *or* converted into draft audit paras in OAMS. There can be following two types of situations:

- If the auditee answer is satisfied, then the half margin memo (HMM) is drop or closed as resolved.  
*OAMS functionality Half Margin - Drop/ Not Converted into Draft audit para.*
- If auditee does not reply or the answer is not satisfactory, then the half margin memo (HMM) is converted into Draft Audit Para.

### 10.1.2 Categorization of Para

231. The audit team needs to classify the audit paras/observations into Serious or Non-serious irregularities. The observation shall also be categorized based on the Key Auditable Area/ Auditable Sub Area to which it pertains. The categorisation of paras shall be based on the following:

#### 10.1.2.1 Categorization of Para based on the type of the observation

#### A. Serious and Non serious Para

232. **Serious Para:** All observations involving major lapses or loss to the government department shall be categorized as serious para. Some examples of serious para are mentioned below:

- Fraudulent withdrawal from treasury/ government bank accounts
- Bogus payment and non-payment to beneficiaries
- Misappropriation of cash and stocks
- Any excess payments
- Irregularities in procurement involving excess or illegal payments
- Loss in revenue and fee realization
- Embezzlement of funds
- Irregularities in revenue and fee collections and utilizations
- Any un-authorized expenditure.

233. **Non-Serious Para:** All other observations other than the serious observation shall be categorized as non-serious para.

#### B. Based on reason for the observed deficiency/deviation

234. After categorizing the audit para under the serious or non-serious category, the audit team shall further sub categorize each audit para based on the reason due to which the observed deficiency/deviation has happened and the nature of the observation. The categories for the same is provided in below table:

| Sr | Category Type             | Description  |
|----|---------------------------|--|
| 1. | Systematic Issues         | The observed deficiency/deviation has happened due to the absence of clear guidelines or ambiguity/ conflicts in the applicable rules or guidelines e.g. absence of rules regarding the process for evaluation of bids or conflict in the amount of security deposit to be obtained in the applicable procurement rules and standard bidding document etc. |
| 2. | Internal Control Weakness | The observed deficiency/deviation has happened due to weaknesses in the design and implementation of the internal control system or the absence of internal control e.g. Calculation of pension is not checked by the designated authority before sending to the treasury.   |
| 3. | Compliance issues         | The observed deficiency/deviation has happened due to non-compliance with the applicable policies, prescribed procedures, rules and regulations e.g. the mode of inviting the bids are not as per the procurement rules etc.   |
| 4. | Operational issues        | The observed deficiency/deviation has happened due to inefficiency and ineffectiveness of operations e.g. lack of human resources, skill gap, budget constraints etc.  |

TABLE 18: CATEGORIZATION OF PARA

235. **Note:** There could be certain observations which might fall under more than one of the above-mentioned categories, in such a scenario the audit team shall select the category which is the predominant reason for the observed deficiency/deviation as per their professional judgment or select multiple categories as applicable.

#### 10.1.2.2 Categorization of observation based on Key Auditable Area audited



236. The categorization of the audit para shall also be done based on the Key Auditable Area/ Auditable Sub Area related to which such observation is made.

**OAMS Functionality:** The categorization or sub categorization of the para shall be done through OAMS. All the types of categorization shall be pre-fed in the OAMS, and the auditor shall select the relevant category while converting the HMM into draft para or creating a new draft para

## 10.2 Preparation of Draft Internal Audit Report

237. An Internal Audit Report is a written document, which formally communicates the results of the Internal Audit to the auditee. Internal Audit Report is the final deliverable of the audit process which reflects the quality of the audit. Hence, the auditor should take utmost care in drafting their report. The draft Internal Audit Report prepared shall include the response received from the auditee during the audit execution phase. There shall be two levels of audit reports to be submitted:

### 10.2.1 Internal Audit Report to be issued to Individual Auditee

238. The audit team leader shall consolidate all the para converted or created post completion of the Internal Audit and prepare the draft Internal Audit Report which shall be issued to the auditee post necessary review and approval. The Internal Audit Report for the individual unit consists of six sections. Refer to **Annexure “20”** for the format of Internal audit report – Individual unit. The key elements of the audit report for the individual unit are provided below:

| Report Section                     | Contents   |
|------------------------------------|--|
| <b>Part I: General Information</b> |  |
| Profile                            | <p>This section will provide a brief description about the following to provide a background and serve as an introduction:</p> <ul style="list-style-type: none"> <li>• <b>Auditee’s Profile:</b> It shall include the name of the department, address, contact no, email-id, name of the head of the department, period of the audit conducted, name and designation of HOD, senior accounts person, DDO (Gazette and non-gazette), name of the accountant, cashier, store-keeper for fixed asset and consumables etc.</li> </ul> |

| Report Section  | Contents   |
|---|--|
|   | <ul style="list-style-type: none"> <li>• <b>Auditor's Profile:</b> It will include the name and contact details (email and phone no.) of the Internal Audit team who conducted the audit</li> <li>• <b>Audit Profile:</b> It will be the State audit period or cycle and duration of the audit.</li> </ul>   |
| <b>Part II: Scope of Audit</b>                                      |  |
| Scope of Audit  | <p>In this section, auditors shall detail out the scope of Internal Audit to be conducted. The Internal auditors shall mention the scope of Internal Audit, coverage of Internal Audit and risk assessment process adopted. This section specifies the Internal Audit plan or methodology adopted by the auditors depending on the risk involved, details of the process followed, and parameters used for risk assessment.</p> <p>This section shall also include the list of all risks assessed for the auditable areas during the audit for resolution by the department/unit and also for future use.</p>  |
| <b>Part III: Observations and Conclusions</b>                       |  |
| Transaction Review, Serious Observation and Non-Serious Observation | <p>In this section, observations of Internal Auditors shall be detailed out categorizing observations into Serious and Non-Serious.</p> <p>This section shall cover all major irregularities noticed during the course of Internal Audit and consequences for non-compliance of the same viz. Fraudulent withdrawal from treasury/ bank accounts, misappropriation of cash and stocks, any excess payments, irregularities in procurement involving excess or illegal payments, cases of loss in revenue and fee realization, fee collections and utilizations or any unauthorized expenditure etc.</p> <p>The Internal Auditors shall report the observations on any other irregularities noticed while conducting Internal Audit on each item of verification like physical verification of cash, stock, receipts, payments, contracts, stores, procurement, budget and actual review, or any other irregularities that comes across during audit, etc.</p> <p>The Internal Auditor shall also provide the necessary recommendations, if any, with respect to each para.</p> |
| <b>Part IV: Recommendations</b>                                     |  |
| Recommendations   | <p>This section includes key analysis and recommendations that an Internal Auditor may like to include on the overall performance of the auditee.</p> <p>The Internal Auditor shall also provide the necessary recommendations for the lapses noticed during the Internal Audit and list of the areas needing improvement.</p>   |

| Report Section                           | Contents   |
|--|--|
| <b>Part V: Previous audit compliance</b> |  |
| Pending paras of AG and DoA              | In this section, the Internal Auditors shall provide the status of previous audit observations, audit objections and compliances.  |
| <b>Part VI: Follow-up</b>                |  |
| Audit follow-up                          | This section shall include status report of the follow up actions taken by the department to the previous Internal Audit Report/AG Report. Generally, only pending paras is to be highlighted in this section along with the revised action plan and due date, so as to enhance the follow-up mechanism. |
| <b>Part VII: Limitation</b>              |  |
| Limitation                               | The auditor shall provide the limitation faced by them during carrying out of the Internal Audit.  |

TABLE 19: ELEMENTS IN THE INTERNAL AUDIT REPORT

**10.2.1.1** The following are the indicative timelines for effective monitoring:

| Action  | Timeframe  |
|---|--|
| Submission of an information sheet by the auditee.  | At least 14 working days prior to the date of commencement of Audit.   |
| Response to the Half Margin memo by the auditee.  | 3 working days from the date of issue of HMM and in case the audit duration for a unit is less than 3 days then all efforts should be made by the unit to submit responses during the audit duration only. |
| Exit meeting.   | Immediately on completion of Internal Auditor on the last date of the scheduled time allocated to conduct the Internal Audit.  |
| Conversion of Half Margin Memo into Audit Para.   | Within 3 working days from the date of exit meeting.   |
| Review and forwarding of Draft Internal Audit Report by team leader to Supervisory Officer. | Within 14 working days from the date of exit meeting.  |
| Review of the Draft Internal Audit Report by Supervisory Officer.                           | Within 5 working days from the date of receipt of Draft Internal Audit Report from team leader.  |

| Action  | Timeframe   |
|---|---|
| Re-submission of Draft Internal Audit Report by team leader in case returned by Supervisory Officer.      | Within 3 working days from the date of return from the Supervisory Officer.   |
| Meeting of Expert committee for Quality Assessment \.   | Fortnightly.  |
| Re-submission of Draft Internal Audit Report in case returned by Expert Committee for Quality Assessment. | 14 days from the return of the Draft Internal Audit Report by the Expert Committee for Quality Assessment.  |
| Issuance of the final Internal Audit Report to the auditee and respective Head of Department.             | Within 2 working days from the date of recommendation for issuance of report by Expert committee for Quality Assessment.<br>The report shall be issued to the auditee within 45 working days from date of the exit meeting. |

TABLE 20: INDICATIVE TIMELINE FOR REPORTING

### 10.2.2 Annual Integrated Internal Audit Report issued to Department

239.The main objective of the Internal Audit is to strengthen various areas of the department and organizations. Based on individual Internal Audit Reports of each unit of the departments, an “*Annual Integrated Internal Audit Report*” shall be prepared for each department containing key findings and observations related to the areas/processes audited. The Annual Integrated Internal Audit Report shall be prepared in OAMS. The DoA shall set out responsibility for their officials to prepare Annual Integrated Internal Audit Report for various departments.

240.The main objective of the Annual Integrated Internal Audit Report is to highlight the key and common issues faced by various units of the same department to the senior management. The Annual Integrated Internal Audit Report shall provide:

- The approach and manner in which the Internal Audit was conducted including the selection of the auditable areas/units and actual coverage.
- An executive summary containing an overview of the key findings and observations during the audit of selected Key Auditable areas/Auditable Sub Areas.
- Common and systemic issues and challenges which might not be resolved at the unit level and may need intervention from the top management of the department (Concerned Secretary or Head of the

department) such as contradiction in the provisions of various applicable rules, weak internal controls, ambiguity in the application & implementation of rules, outdated process, delays in approvals etc.

- d) Significant risks identified during the Internal Audit that may impact the department's ability and capacity to achieve the objectives.
- e) A consolidated and macro level view to the top management of the department about the various activities being conducted and key challenges being faced by various units, which in turn would support them in decision making process such as changes in policy, strategic long-term planning etc.
- f) The summary of observations based on audit para value, para type etc. for all the audited units under a department shall be extracted through OAMS and shall be used by concerned officials in preparing the Annual Integrated Internal Audit Report.

241. The Annual Integrated Internal Audit Report shall be submitted to the Secretary of the Administrative department. Refer to **Annexure "21"** for format of Internal Audit report – Department.

#### **10.2.2.1 Process for Preparation & Issuance of the Annual Integrated Internal Audit Report to the department**

242. Post competition of audit reporting to all the planned individual auditees of a department, the DoA shall appoint/select a team of auditors to prepare an Annual Integrated Internal Audit Report for such department. The selection of such team members shall be based on the types of units audited by them in that financial year. Along with the team, DoA shall also appoint a Supervisory Officer for each team for review of the quality and content of the report.

243. The selected team shall prepare the Annual Integrated Internal Audit Report for the department assigned to them within 30 days from the finalization of Internal Audit Reports of all the planned individual auditees of that department. The report shall be prepared on OAMS. Post preparation of the Annual Integrated Internal Audit Report, the team shall submit the same to the concerned Supervisory Officer for their review. Thereafter, the Annual Integrated Internal Audit Report shall be forwarded to the respective Expert Committee for Quality Assessment for their review & recommendation, by Supervisory Officer within 10 days from the date of receipt of such report. The Expert Committee for Quality Assessment shall review and forward the report to the Director, Audit (irrespective of risk - category of the department) within 15 days from the date of receipt of such report.

244. Annual Integrated Internal Audit Report will be finally reviewed by Director, Audit. The report shall be forwarded by Director with its recommendation to Finance Department within 10 days.
245. The Finance Department shall approve the Annual Integrated Internal Audit report and issue the same to Secretary of the Concerned Departments under the signature of Additional Chief Secretary/Principal Secretary/ Secretary Finance.
246. The Annual Integrated Internal Audit Report for the department shall be issued to the concerned Secretary within 45 days from the submission of the draft report by the selected team to the Supervisory Officer.

### 10.2.3 Qualities of a good audit report

#### Qualities of Good Audit Report:

The qualities of a good audit report are:

- Complete
- Accurate
- Objective
- Convincing
- Clear
- Concise
- Constructive and
- Timely

Further to the above, auditor shall perform the following checks:

- Report should be concise, free of unnecessary detail
- Contents in various sections i.e., executive summary, scope and audit observations are consistent
- Report is logically presented and easily understood
- Report is based on facts and is free from personal criticism
- Acronyms are defined
- Findings are worded constructively
- Recommendations are directed toward achieving objectives and not step by step actions.
- Report has proper spelling, grammar, and punctuation and is free of other surface errors.
- Spacing is proper and consistent



- Fonts and formatting are proper and consistent
- Report addressee name and title are proper and correctly spelled
- Names mentioned in 'copy to' columns are correct
- Audit Report number and subject title are included on the report and are correct.

**OAMS Functionality:** The audit report either for the department or for the individual unit shall be prepared through OAMS. The template/format of the audit report is pre-fed on the OAMS, and the audit team shall prepare the report online through OAMS only. Under OAMS, there is functionality through which HMM can be converted directly to draft para and also allows automatic populating of data including response from the auditee. Further, with the help of OAMS various data related to the general information section such as the name of the auditee, details of the audit team, period of audit etc. are also pre-populated in the report.

### 10.3 Review, Approval and Issuance of Draft Internal Audit Report

#### 10.3.1 Internal Audit Report to Auditees

247. The process flow for the submission, review, approval and issuance of an Internal Audit Report for individual audit is explained below:

| Audit Team Member   | Audit Team Leader  | Supervising Authority   | Expert Committee for Quality Assessment   | Auditee for Compliance  |
|---|--|---|---|---|
| <ul style="list-style-type: none"> <li>• Converts HMM to Draft Para &amp; submits to Team leader for consolidation of report</li> </ul> | <ul style="list-style-type: none"> <li>• Converts own HMM to draft Para, review Draft Para of Team member, consolidate Draft Internal Audit Report &amp; submit to Supervisory Officer for review</li> </ul> | <ul style="list-style-type: none"> <li>• Review the draft Internal Audit Report submitted by team leader and forwards the reviewed report to Expert Committee for Quality Assessment</li> </ul> | <ul style="list-style-type: none"> <li>• Review and recommend for issuance of the Internal Audit Report submitted by the supervisors</li> </ul> | <ul style="list-style-type: none"> <li>• Final Internal Audit Report is issued to the auditee based on the recommendation of the Expert Committee for Quality assurance to Finance Department or Director, Audit</li> </ul> |

FIGURE 10: PROCESS FLOW FOR REVIEW, APPROVAL AND ISSUANCE OF INTERNAL AUDIT REPORT

248. **10.3.1.1 Audit Team Member:** Audit team members shall submit the draft audit para created for the audit work allocated to them to the team leader for review

4. **10.3.1.2 Audit Team Leader:** Along with the review of draft audit para submitted by team members, the team leader shall consolidate all the draft audit para created for the auditee. The team leader shall either drop, edit or delete the draft audit para submitted by the team member on merit or advise them for making necessary changes. The rejection or return of the audit para submitted by team member shall be done only once. Post consolidation of all draft audit paras, the team leader shall prepare the draft Internal

Audit Report in the pre-described format. The draft Internal Audit Report shall be submitted by the team leader to the Supervisory Officer authority for review.

**249.10.3.1.3 Supervisory Officer:** The Concerned Supervisory Officer shall review the draft Internal Audit report submitted by the audit team leader. The Supervisory Officer shall either approve the report or return it to the team leader for incorporating any changes, if required. Rejection or return of the Draft Internal Audit Report submitted by team leader shall be done only once by the Supervisory Officer. After review of the Draft Internal Audit Report, Supervisory Officer shall submit the same to Expert Committees for Quality Assessment.

**250.10.3.1.4 Expert Committee for Quality Assessment:** There shall be two Expert Committee for Quality Assessment namely

- (i) Expert Committee for Quality Assessment of Internal Audit Reports for high-risk departments.
- (ii) Expert Committee for Quality Assessment of Internal Audit Reports for medium and low-risk departments

251. The above Expert Committees for Quality Assurance shall review the Draft Internal Audit Report submitted by the Supervisory Officer. Meeting of expert committee shall be scheduled regularly based on the number of draft Internal Audit Reports submitted by the Supervisory Officer. If the Expert Committees for Quality Assurance finds any mistake/deficiency in the draft Internal Audit Report then the same would be returned to the concerned audit team leader for correction and resubmission. Post the assessment and review of the Draft Internal Audit Report, the committee shall recommend to the Finance Department or Director, Audit for the issuance of the Final Internal Audit Report to Auditee and its Head of Department.

252. For roles, responsibilities & composition of Expert Committees for Quality Assessment refer to section 2.4 of Chapter 2. The composition of the above committee may be changed by GoUK from time to time by issuing relevant orders or notifications.

**OAMS Functionality:** All reviews, rejection, return or approval of report shall be done through OAMS. Separate log-in credentials is provided to all the stakeholders for review and issue of the reports. The draft audit report has to be prepared in OAMS within 14 days from the date of the exit meeting. The final Internal Audit Report shall be shared with the auditees and their HOD through OAMS.

## Chapter 11: Audit Documentation

253. This chapter describes about the methodology for documentation of the work done by the auditors. The chapter has been divided into the following sections:

- 11.1 Working papers
- 11.2 Characteristics and qualities of good working papers
- 11.3 Review of working paper
- 11.4 Security and control of work papers
- 11.5 Audit evidence and their collection

As per the International Standards for the Professional Practice of Internal Auditing (Standards) issued by IIA:

### **2330 – Documenting Information**

Internal auditors must document relevant information to support the conclusions and engagement results.

254. Documentation of work done serves, both as a tool to aid the Internal Auditor in performing his/her work and also as written evidence to support the conclusions/finding included in the Internal Audit Report. Documentation of information shall be sufficient, competent, relevant and useful to provide a sound basis for audit findings and recommendations.

255. Adequate documentation is important for several reasons such as:

- Confirms and supports the Internal Auditors' report
- Increase the efficiency and effectiveness of audit
- Serve as a source of information for preparing reports or answering any inquiries from the audited entity or from any other party
- Serve as evidence of the auditor's compliance with Auditing Standards.
- Facilitate planning and supervision
- Provide evidence of work done for future reference
- Assist in conducting external inspections in accordance with applicable legal, regulatory or other requirements
- Assist in conducting quality control reviews and inspections

## 11.1 Working papers

256. Working papers are an important responsibility of the audit team. The working papers file should contain all tests conducted, samples were drawn, documentary evidence supporting the audit findings and observations. These should be carefully numbered, and cross referenced in the final report. Working papers shall be kept in an audit file for future reference and verification. The audit staff should ensure to properly file all the working papers, number the pages, cross reference the papers where required, etc. The term “working paper” in this context applies to both hard copies of audit work papers and to files stored in the computer.

257. The audit file should contain a list of working papers referred/prepared during the course of audit and generally consists of following:

- Audit programme.
- Audit Schedule.
- Planning memorandum.
- Nature and purpose of the audit tests carried out and the results obtained.
- Work allocation sheet among the audit party members.
- Previous Internal Audit Reports.
- Outstanding AG audit paragraphs.
- The financial information/Statements of the auditee.
- Physical verification reports of cash/stock and store etc.
- Data relating to the budget provision and actual expenditure for the period of audit.
- Audit evidence relating to key findings.
- HMM issued and compliance received from the auditee.
- Minutes of opening and closing meeting conducted.
- Draft Internal Audit Report.
- Daily diary maintained by the audit team.
- Names of audit personnel who carried out the audit work.
- Dates when the audit work was carried out by the respective audit personnel.
- Sources of the information / evidence obtained.

258. A standard method of filing working papers / documents is essential. The filing method should recognise that documents fall into two categories:

- those relevant to the audit of the entity generally
- those relevant only to the audit of the entity for a particular year of account.

259. The documents to which the auditor needs to refer each year should be placed in a permanent file. This file should contain current information about the organisation itself, such as:

- the authority for the audit.
- governing legislation and manuals.
- organisation chart and key personnel.
- descriptions of accounting systems, internal control environment.
- any other documents.

260. The documents relevant to the audit of a particular year of account should be filed in a manner that brings together related working papers in a series of folders (or in separate sections within folders).

**OAMS Functionality:** All the relevant working papers shall be uploaded in OAMS before finalization of the Internal Audit Report.

## 11.2 Characteristics and qualities of good working papers

261. In order to standardize the Internal Audit working papers, the following information should be used for all working papers:

- **Description of location/ period audited:** Department/ Unit audited, and the audit period covered.
- **Tick marks:** The auditor makes frequent use of a variety of symbols to indicate work that has been done. These symbols are commonly referred to as tick-marks
- **Cross-referencing:** Cross-referencing within work papers should be complete and accurate. Work papers should be cross-referenced to the audit findings and audit programs
- **Indexing:** The system of indexing audit working papers should be simple. A capital letter (A-Z) should be used to identify each segment of the audit, and Arabic numerals (I, II, III etc.) should be used to identify schedules within the segments

- **Carry forward:** The Internal Auditor should make full use of the working papers developed in the previous audit. Those papers which remain useful should be made a part of the current working papers.

262. Qualities of a good working paper are:

- Completeness
- Conciseness
- Uniformity
- Neatness

### 11.3 Review of working paper

263. An important part of the DoA's quality control program is a timely and thorough review of audit working papers by the concerned **Supervisory Officer** or the team leader of the audit team. The purpose/objective of working paper's review is to evaluate the adequacy of Internal Audit work performed and to determine if the predetermined audit objectives have been met.

### 11.4 Security and control of Audit Working papers

264. **Physical control:** During the audit execution, audit working papers are the Internal Auditors' property and should be kept under their control. The Internal Auditors should know exactly where the working papers are kept during the conduct of the audit. All the working papers shall also be uploaded on OAMS before the finalization of the report.

265. **Storage procedures:** The most recent set of audit working papers for each Internal Audit should be kept in the DoA's files area. Audit working papers should be filed based on sequence of Internal Audit period and Internal Audit number. Files removed or borrowed shall be recorded in the appropriate column of the prescribed register maintained at the DoA's files area. All audit working papers prior to recent one shall be shifted to the record room. This shall be the responsibility of Establishment & Records section under the DoA.

266. **Retention:** Audit Working papers and reports shall be retained for at least 10 years from the date of closure of the report unless any other legislation requires a longer period. Retention of working papers shall be the responsibility of the Establishment and Records section under the DoA.



## 11.5 Audit Evidence and their collection

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA:

### 2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

#### **Interpretation:**

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the auditor to meet the audit engagement objective.

267. **Audit** evidence refers to information that an auditor collects for supporting his analysis, observation or recommendation. It is important for the auditors to properly cross-verify the authenticity and accuracy of the evidence.

268. The Audit team shall obtain sufficient and appropriate audit evidence to support the audit conclusion.

269. Where required by the Audit team, the auditee shall attest the data, information and documents kept in physical form/manually, forming the evidence.

### 11.5.1 Audit Evidence Characteristics

270. Audit evidence provides the foundation for any audit finding. It is therefore important that auditors understand the nature of evidence and its critical role in the entire Internal Audit process. The more important characteristics associated with good evidence are:

- (i) **Relevance** refers to the relationship of evidence to its use. Questions that test the relevancy of an evidence are:
  - a) Is the evidence related to such factors as background, condition, criteria, effect or cause?
  - b) Does the evidence make an asserted finding, conclusion or recommendation more believable?
- (ii) **Reliability** refers to the appropriateness, soundness, trust worthiness or credibility of the sources of information and the techniques used to obtain the information. Generally, evidence is more reliable if it is obtained or developed from:

- a) A credible independent source other than from the Auditee.
  - b) A good system of internal controls rather than that obtained from a source where such control is weak or unsatisfactory.
  - c) Direct physical examination, observation, computation, and inspection.
  - d) Documentary rather than oral representations
  - e) Original documents rather than copies.
  - f) Testimonial evidence obtained under conditions where persons may speak freely rather than testimonial evidence obtained under compromising conditions (e.g., where the persons may be intimidated).
- (iii) **Sufficiency** relates to quantity. There should be enough factual and convincing evidence so that a reasonably informed and unbiased person would agree with the auditor's findings and conclusions. When considering the adequacy of evidence, the auditor should keep in mind that:
- a) The audit is seeking reasonable, but not absolute, conclusions.
  - b) Incomplete data may result in inability to reach reasonable conclusions.
  - c) Examination of extensive evidence may be uneconomical, inefficient and ineffective
  - d) Evidence should be reasonably representative of the population being reviewed or addressed

### 11.5.2 Techniques for Collection of audit evidence

271. One of the most critical factors of any audit is to collect audit evidence in respect of the transaction/areas that are being audited. Given below are some techniques to facilitate the collection of evidence during Internal audit.

#### 11.5.2.1 Interviewing

272. Interviewing is an effective way of collecting information in respect of important and weak control areas for the transaction/areas being audited. The following points need to be kept in mind in respect of interviewing:

- **Fix a prior appointment:** Considering that the auditor shall be meeting a senior officer of the department, he/she should fix up an appointment prior to the meeting date and ensure that the officer is able to spare the requisite time for the interview
- **Adopt a top down approach:** For the assessment of the control environment, it is necessary that the auditors adopt a top down approach, meeting with the functional head and going down up to the

officers engaged in the function under audit at the respective locations. This approach leads to better acceptability and wider coverage.

- **Keep the questions simple:** The auditors should ask general questions, which are open ended in nature like the following:
  - ✓ What are some of the key concerns you have in respect of your function?
  - ✓ What are the main objectives of the department?
  - ✓ What are the main bottlenecks to these objectives?
  - ✓ What are the improvements that can be made in the department's functioning?

273. Such questions encourage the auditee to speak about his function and provide information to the Internal Auditor.

#### **11.5.2.2 Comparative Analysis**

5. This involves comparing data, sometimes from various sources, to identify unusual trends or deviations.

#### **11.5.2.3 Analytical review**

6. This involves comparing results such as income, expenses etc., of the same department/auditee from period to period. It can also be used when evaluating changes in results that are dependent or affected by other factors. For example, if the number of employees has increased from the last period, the payroll costs should also go up in addition to the normal increase due to pay raise, inflation, etc.

#### **11.5.2.4 Visual observations**

274. A tour of the facilities of the department/auditee may disclose material weaknesses in the operations. Visual observations also include scanning records and reports for unusual items.

#### **11.5.2.5 Photographs**

275. Photographs are taken to capture something which the audit team has already observed. The photos should be conveying and clear. Before taking photographs, the auditor shall inform in writing to the auditee, that the audit team will be taking photos (need not specify time, date). Photos should be authenticated by the auditee as far as possible to avoid dispute. The Photos are to be uploaded in OAMS immediately.

#### **11.5.2.6 Physical verification**

276. The Internal Audit team should carry out physical verification in presence of representatives of auditees and should document the findings on the same date.

#### **11.5.2.7 Other types of evidence**

- Copy of an external but authoritative record.
- Print out of an electronic database / web page.
- Extract from an authentic report/book.
- Result of a survey conducted by audit/ another agency.
- Analysis of data.

**OAMS Functionality:** All the relevant evidence shall also be uploaded on the OAMS and shall be maintained in the repository

## Chapter 12: Audit Monitoring, Follow-Up and Compliance

277. This chapter describes the steps that are to be followed for Audit Monitoring, Follow Up and Compliance.

The chapter has been divided into the following sections:

- 12.1 Introduction.
- 12.2 Audit Monitoring Process.
- 12.3 Audit Follow up Process.
- 12.4 Audit Committees.
- 12.5 Disposal and Settlement of Audit Para.
- 12.6 Guidelines for accelerating the follow-up procedure.



FIGURE 11: PROCESS FOR AUDIT MONITORING, FOLLOW UP & COMPLIANCE

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA:

### **2500 – Monitoring Progress**

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

**2500. A1** – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not acting.

## 12.1 Introduction

278. On receipt of the Internal audit report under Section 8 of the Uttarakhand Audit Act, 2012, the auditee shall take immediate action and submit replies to DoA and Finance Department through Department Audit Sub Committee within one month against each point raised therein, showing the action taken or proposed to be taken thereon. It shall be the responsibility of the auditee/ HOD of the auditee to see that the audit observations and irregularities pointed out in Internal Audit Reports are suitably replied to within one month from the date of the receipt of the Internal Audit Report.
279. The monitoring and follow up with the auditees regarding the compliance of outstanding audit paras shall be done by Director, Audit or Supervisory Officer appointed by Director, Audit.
280. To assist the Director, Audit regarding the compliance of the audit paras, the State Government has constituted Audit Committees that shall verify whether auditee has taken necessary action for compliance of the observations or implemented the recommendation made in the Internal Audit Reports or have not taken any action.

## 12.2 Audit Monitoring Process

281. Monitoring is based on management's assertions with respect to the status of implementation. If certain reported observations and recommendations are significant enough that require immediate action by management, the same shall be monitored closely until the observation is corrected, or the recommendation is implemented.
282. Auditees are responsible for implementing the audit observations and recommendations that have been made in the Internal Audit Report. The auditee shall be tasked with the responsibility to:
- Review all audit observations, recommendations, evaluate their impact on the organization and assign implementation responsibilities to specific personnel.
  - Prepare and submit the compliance report to Finance Department and DoA through Department Audit Sub Committee with details of action taken and compliance done against the observations/ recommendations mentioned in the Internal Audit Report within 30 days from the date of receipt of such report.
  - Ensure, where necessary, the availability of adequate resources to implement audit observations and recommendations.
  - Report regularly to the Audit committees, Finance Department and DoA on actions taken for implementing the audit observations and recommendations.



**OAMS Functionality:** The monitoring & follow up of the compliance shall be done through OAMS. Customized MIS and dashboards would be available for reviewing the level of compliance by the auditees.

283.OAMS shall have a standardized classifications system for monitoring and reporting the status of compliance to audit paras. A uniform system would help in consolidating the status of compliance to audit paras. An indicative classification of the status is provided below:

#### Status of Compliance to Audit Paras

| Status                                       | Condition  |
|--|--|
| 1. Not Received                              | No compliance has been received until now with ascertaining the reason   |
| 2. Received, not verified                    | The auditee or audit committee has sent the compliance, but the same has not been verified                                     |
| 3. Received and verified                     | The auditee or audit committee has sent the compliance and the same has been verified for its completeness.                    |
| 4. Compliance verified, but not satisfactory | The compliance has been verified but it is not satisfactory. Returned for further clarification.                               |
| 6. Para Merged                               | Para is merged with same para appearing in the next year's audit report.   |
| 7. Para Complied / Dropped                   | Para is categorized as complied when satisfactory compliance report has been received and approved by the respective committee |

TABLE 21: CATEGORIZATION OF AUDIT PARA FOR COMPLIANCE

**OAMS Functionality:** The categorization regarding status of the compliance to the audit para shall be carried out through OAMS.

### 12.3 Audit Follow up Process

284.Follow up is a process by which the Internal Auditor evaluates the adequacy, effectiveness and timeliness of actions taken by HOD or concerned officials of the auditee on reported observations and recommendations.

285.The Director, Audit shall determine the nature, timing and extent of follow up based on the following factors:

- Significance of the reported observation or recommendation
- Degree of effort and cost needed to correct the reported condition

- Impact that may result in case the corrective is not implemented
- Complexity of the corrective action
- Time period involved

286. The auditee should send compliance against each audit para through Department Audit Sub Committee to the Finance Department and DoA within 30 working days from the date of receipt of the Internal Audit Report.

287. Tentative timeline for follow-up procedure regarding compliance of audit paras is provided below:

| Action   | Timeframe  | Mode            | Addressed to   |
|--|--|-----------------|--|
| 1 <sup>st</sup> reminder for seeking compliance  | On completion of 30 working days from the date of issue of Internal Audit Report | OAMS Generated  | Auditee  |
| 2 <sup>nd</sup> reminder for seeking compliance  | Within 30 working days from the date of first letter of reminder                 | OAMS Generated  | Auditee & HoD  |
| 3 <sup>rd</sup> reminder: A semi-official letter to the Administrative department of the auditee                               | Within 30 working days from the date of second letter of reminder                | Director, Audit | Secretary of Administrative Department<br>With copy to Auditee and HOD |
| 4 <sup>th</sup> reminder: Name of the Auditee should be sent to the Finance Department along with timely reminders to auditees | Within 30 working days of the date of semi-official letter.                      | Director, Audit | Finance Department   |

TABLE 22: INDICATIVE MATRIX FOR REMINDERS

288. OAMS shall have the functionality to maintain an online follow-up register which shall consist of the status of paras of every auditee. A quarterly progress report which shall consist of number of audit reports pending for approval and audit paras pending for compliance would be placed by Supervisory Authority to Director, Audit and Finance Department

289. Refer to **Annexure “22”** for the format of Follow-up Register and **Annexure “23”** for the format of Quarterly Progress Report.

**OAMS Functionality:** The follow-up register, and quarterly progress report shall be prepared and maintained through OAMS. The format of follow-up register, and quarterly progress report shall be integrated with the OAMS. The integration of the above formats on the OAMS would be done in such manner that it would ensure auto populating of maximum data which is already available in the database. Further, the follow-up process including sending of reminders shall also be carried out through OAMS to the extent possible.

#### 12.4 Audit Committees

290. There shall be three Audit Committees for compliance of observation/recommendations mentioned in the Internal Audit Report as provided below:

- Departmental Audit Sub Committee at Head of Department Level.
- Departmental Audit Committee at Administrative Department Level.
- State Level Audit Committee at Chief Secretary Level.

291. For functions, compositions, roles and responsibilities of Audit Committees refer para 2.5 of Chapter 2. The composition of the above committee may be changed by GoUK from time to time by issuing relevant orders or notifications.

#### 12.5 Disposal and Settlement of Audit Para

292. The responsibility of timely compliance of audit observation is of the auditee and HOD.

293. The auditee shall prepare and submit the compliance report to Finance Department and DoA through the Department Audit sub-committee along with the details of action taken. The compliance report shall be submitted within 30 days from the date of receipt of the Internal Audit Report.

294. The responses provided in the compliance report submitted by auditees or Audit Committees shall be reviewed by the Audit Para Disposal and Settlement Committees. Based on the review of the above reports, such committees shall provide their opinion and recommendation regarding the disposal and settlement of the audit para to the concerned officer.

295. For functions, compositions, roles and responsibilities of the above committee, refer to section 2.6 of Chapter 2.

**OAMS Functionality:** The Compliance report and the action taken report shall be submitted by auditees and Departmental Audit Sub Committee through OAMS. The disposal and settlement or return of audit para would also be done through OAMS.

## **12.6 Guidelines for Accelerating the Follow-up Procedure**

### **12.6.1 Organizing district level camps every quarter for receiving compliances to audit paras**

296. The DoA and the Finance Department shall on its own initiative, organize district level camps in each quarter for disposal of pending audit paras and to facilitate the receipt of compliances to audit paras. Organizing such camps would be helpful in spreading awareness about the need to provide compliances on time.

### **12.6.2 Handing over long pending audit paras to respective controlling unit for further follow up**

297. The DoA in consultation with Finance Department may decide on a cut-off date and transfer all audit paras before that cut-off date to the respective HOD of auditees and ask them to seek compliance from their subordinate units. This shall also be informed to the Secretary of the concerned departments for further necessary action.

### **12.6.3 Resolving the audit paras by the audit team on the field**

298. Responsibility may be taken up by the audit team to get the audit para complied while they are on the field for conducting Internal Audits. While conducting the Internal Audit, the audit team may verify the compliance of the pending audit paras, obtain sufficient evidence & documents and recommend their opinion in the Internal Audit Report for necessary action by the concern Audit Para Disposal & Settlement Committee.

### **12.6.4 Quarterly knowledge sharing between Internal Auditor and auditees**

299. A knowledge sharing session shall be organized every quarter between the Internal Auditor and auditees on district-wise basis wherein pitfalls in the functioning of the auditees, compliances to audit paras and major common irregularities shall be discussed.

## Chapter 13: Quality Assurance and Improvement Program (QAIP)

300. This chapter describes the steps that are to be followed for Quality Assurance and Improvement Programme (QAIP). The chapter has been divided into the following sections:

13.1 Definition of QAIP

13.2 Objectives of QAIP

13.3 Implementation of QAIP

### 13.1 Definition of QAIP

301. IIA's International Professional Practices Framework (IPPF) defines a quality assurance and improvement program (QAIP) as "An ongoing and periodic assessment of the entire spectrum of audit work performed by the Internal Audit activity. These ongoing and periodic assessments are composed of rigorous, comprehensive processes; continuous supervision and testing of Internal Audit and consulting work; and periodic validations of conformance with the definition of Internal Auditing, the Code of Ethics, and the Standards."

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA

#### **1230 – Continuing Professional Development**

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

#### **1300 – Quality Assurance and Improvement Program**

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the Internal Audit activity.

Interpretation:

A quality assurance and improvement program are designed to enable an evaluation of the Internal Audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether Internal Auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement.

#### **1310 – Requirements of the Quality Assurance and Improvement Program**

The quality assurance and improvement program must include both internal and external assessments.

### 13.2 Objectives of QAIP

302. The objective of the QAIP is to assess the entire spectrum of the Internal Audit activity, identify weaknesses and opportunities and make recommendations for the improvement of its effectiveness and efficiency. The assessments are focused on determining the Internal Audit activities:

- Conformance with the definition of Internal Auditing, the Code of Ethics, and Standards.
- Adequacy of the charter, goals, objectives, policies, and procedures.
- Compliance with applicable laws, regulations, and government or industry standards.
- Meets the expectations of the stakeholders, particularly in adding value and improving the organizations operations.
- Efficiency and effectiveness in performing its mandate and has processes to facilitate continuous improvement, including the adoption of best practices.
- Effectiveness in staff development and the adoption of new audit methodologies and techniques.

### 13.3 Implementation of QAIP

303. Implementation of QAIP will include following steps:

#### 13.3.1 Monitoring and Supervision

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA

##### **2340 – Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

##### Interpretation:

The extent of supervision required will depend on the proficiency and experience of Internal Auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the Internal Auditor, but he/she may designate appropriately



experienced members of the Internal Audit activity to perform such review. Appropriate evidence of supervision shall be documented and retained.

304. Supervision is a continuous process and focuses on individual units. It is to provide assurance to the DoA that auditors are doing what they are supposed to do in their ongoing projects. The assurance given shall include that Internal Auditors and appointed external agencies have conformed to the DoA's policy as outlined throughout this manual (audit objectives were met, working papers support the findings and conclusions, working papers provide adequate information for a meaningful report etc.) and also that the audit work was completed in accordance with the guidelines adopted by DoA.
305. Supervision and oversight at all stages of the audit work is a key element of QAIP. The DoA has the responsibility to ensure that there is adequate supervision, review and measurement of the work performed by the Internal Auditors and other staff in DoA. This continuous supervisory work includes review of adherence to established standards and policies and the exercise of due professional care by all auditors in the conduct of Internal Audit work.
306. Under the QAIP, quality should be assessed at both an individual audit engagement level as well as at a global Internal Audit activity level. Following are the steps which will be followed to ensure that quality is built into the way the Internal Audit activity operates.
307. The Supervisory Officer shall guide, direct, supervise and monitor the Internal Audit assignments. Following are the basic activities that will be monitored.
- The approved annual and quarterly Internal Audit plan are followed diligently by the audit teams unless deviation is justified and authorized.
  - The audit team conducts audit as per the Internal Audit manual.
  - The auditor is present at the auditee and reaches the unit on time.
  - The audit team leader ensures the planned audit objective are substantially achieved.
  - The audit working papers, records, registers, documents and evidence adequately support the audit conclusions and provide sufficient data to prepare a meaningful audit report.
  - To ensure that any issues that occurs during the audit execution gets resolved (cases of non-cooperation or non-compliance, refusal of documents, records or anything by the auditee, if any.)
308. The above-mentioned activities shall be monitored through the following ways:
- Through surprise visits or surprise calls in auditees to ensure that the audit team conducts the audit as per the scheduled audit calendar.

- Taking feedback from the audit team, after the opening meeting relating to the approach or methodology to be followed, the schedule, the procedures for verifying and reporting the audit findings.
- By providing real time solution through online messaging application, for quick resolution of doubt that arises.
- By providing on field assistance to audit team in case of any problems faced during the progress of audit.
- By reviewing the work distribution form, and analysing the reasons for deviations, if any.
- By conducting meetings with the audit team to discuss any complaints received from the auditee.

309. The Supervisory Officer is required to submit the monthly progress report of Internal Audit conducted by the audit teams assigned under him/her to Director, Audit. In addition, it also needs to be ensured that audit teams allocated under him/her have been adequately assigned with audit work.

310. The monthly progress report will include a brief synopsis of the overall status of the Internal Audit such as:

- Number of auditees where audit is yet to begin.
- List of auditees which are in execution stage.
- Number of auditees for which final report has been issued.
- Number of auditees where compliance and actions taken report have been received (if any).
- Details of deviation in planned audit activities together with the reasons for such deviation (if any).

311. The monthly progress report may also include any other specific points as per the guidelines issued by the competent authority.

**OAMS Functionality:** OAMS also provides MIS for the monthly progress of audit conducted by the team for better monitoring and control. The Dashboard of OAMS provides information relating to auditees i.e. total audit scheduled, pending audits, audit under execution, audit completed etc. There is a feature in dashboard which provides information to the user regarding type of objection and their present status. The dashboard also provides pending status of audit reports and half margin memo (HMM)

### 13.3.2 Internal Assessments

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA

### **1311 – Internal Assessments**

Internal assessments must include:

- Ongoing monitoring of the performance of the Internal Audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of Internal Audit practices.

#### Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the Internal Audit activity. Ongoing monitoring is incorporated into the routine policies and practices to manage the Internal Audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Sufficient knowledge of Internal Audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

312. Internal assessments provide both quality assurance to audit management and training for the staff. The assessments may be done regularly or intermittently. The assessments aim to ascertain the level of compliance of auditors and supervisors with the guidelines. Internal assessment includes assessment of work of auditors as well the management along with evaluation of sample audit working papers and reports. The assessments also provide recommendations for improvement.

7. Two key elements of the quality assessment process under internal assessment are:

#### **(i) On Going Monitoring**

313. On-going monitoring applies to all assurance and should achieve the objectives that state “Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed”.

314. On-going assessment shall be conducted through:

- Supervision of engagements.
- Regular documented review of working papers during engagements by Supervisory Officer.
- Application of audit policies and procedures used for each engagement to ensure compliance with applicable planning, fieldwork and reporting standards.

- Adequate functions and roles performed by the Expert Committees for Quality Assessment, Audit committees and Audit Para Disposal and Settlement committees.

## **(ii) Periodic Self-assessment**

315. Periodic self-assessments have a different focus than ongoing monitoring, as periodic assessment provides a more holistic, comprehensive review of the Internal Audit activity. Additionally, periodic self-assessments address conformance with every standard, whereas ongoing monitoring is more focused on the performance standards at the engagement level.

316. Finance Department shall facilitate periodic self-assessments at least once in a year to validate the Internal audit activity's conformance with the applicable Standards and Code of Ethics. Through conformance with the Standards and Code of Ethics, the Internal Audit activity also achieves alignment with the definition of Internal Auditing and the core principles.

### **13.3.3 External Assessments**

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA

#### **1312 – External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

#### **Interpretation:**

External assessments may be accomplished through a complete external assessment or a self-assessment with independent external validation. The external assessor must conclude in their report, the conformance of the Internal Audit activities with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of Internal Auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector

or industry, and technical issues is more valuable. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that shall be qualified. The Chief Audit Executive shall use his professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team shall not have either an actual or a perceived conflict of interest and shall not be a part of, or under the control of, the organization to which the Internal Audit activity belongs. The Chief Audit Executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

317. External assessments evaluate conformance of the Internal Audit function with the Internal Audit Charter, guidelines and directives issued by the GoUK, the definition of Internal Auditing, the Code of Ethics, Standards, and Internal Auditing best practices.

318. The purpose of the external assessments is to provide independent assurance of the quality of Internal Audit work carried out by DoA. In compliance with the IIA Standards, an external assessment of the DoA shall be performed every five years to appraise the quality of the DoA's operation.

319. The external assessment shall be initiated by Finance Department. Upon completion of the external assessment, the DoA shall receive a formal, written report expressing an opinion regarding the compliance of the Internal Audit activities with the rules and shall also include recommendations for improvement as appropriate.

320. The Supervisory Officer should cooperate and facilitate the work of the external assessors so that the exercise can be useful in further strengthening the DoA as an effective organisation of the GoUK.

#### 13.3.4 Reporting

As per the **International Standards for the Professional Practice of Internal Auditing (Standards)** issued by IIA

##### **1320 – Reporting on the Quality Assurance and Improvement Program**

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.

- Conclusions of assessors.
- Corrective action plans.

**Interpretation:**

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

321. In order to ensure the better coordination and the development of a quality Internal Audit services across the State of Uttarakhand, Finance Department shall implement appropriate follow up actions to ensure that recommendations made in the internal and external assessment reports are implemented in a reasonable time frame. External assessment report shall be accompanied with a written action plan.



## Chapter 14: External Agencies

322. This chapter describes about the appointment of External Agencies for conducting Internal audits on behalf of DoA. The chapter has been divided into the following sections:

14.1 Legal Mandate.

14.2 Special Points for Consideration for Internal Audit by an external agency.

### 14.1 Legal Mandate

323. The Uttarakhand Audit Act 2012 mandates the Government of Uttarakhand, under section 3(6), to conduct audits through outsourcing to External Agencies which can be any eligible firm, company or institution, society.

As per the International Standards for the Professional Practice of Internal Auditing (Standards) issued by IIA:

IIA Standard 2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the Internal Auditor, the provider must make the organization aware that the organization has the responsibility for maintaining an effective Internal Audit activity

### 14.2 Special points for consideration for Internal Audit by the external agency

#### 14.2.1 Roles and Responsibilities

324. The roles and responsibilities of External Agencies are to:

- Thoroughly understand and strictly follow the provisions mentioned in Uttarakhand Audit Act, 2012
- Strictly adhere to the audit process and methodology elaborated in this manual while carrying out the audit.
- Meet the terms and conditions mentioned in their respective contract and Expression of Interest (EOI)
- Ensure that no change is made in the audit team without permission of DoA. Further, in the case of Special Audit and Fraud & Forensic Audit, no change in the audit team shall be done without permission of the Finance Department.
- Carry out the Audit through OAMS only.

- Strictly comply with the clauses of confidentiality, data protection and intellectual property rights which shall be included in their contract.
- Attend the training programs scheduled for external agencies by DoA.
- Not indulge in follow-up and compliance activities for the observation made by them.
- Support Expert Committees for Quality Assessment in carrying out quality control of audit work carried out by them.
- Strictly adhere to guidelines and notifications issued by DoA or Finance Department from time to time.

#### **14.2.2 Standards**

325.Ensure conformance with Code of Ethics of the DoA.

326.Carry out Internal Audit in accordance with Auditing Standards promulgated by the Institute of Internal Auditors.

#### **14.2.3 Audit Reporting and approval process & Documents**

327.The roles and responsibilities of External Agencies are to:

- Submitting the draft Internal Audit Report to their Concern Supervisory Officer in DoA for review and finalization which would in turn submit the same to concerned Expert committee for Quality Assessment for review & finalization. (refer section 10.3 of this manual)
- Strictly adhere to the timelines mentioned in this manual/annual audit plan with respect to the execution of audit, reporting, incorporating the responses provided by Supervisory Officer /Expert Committee for Quality Assessment etc.
- Upload of all the working paper, documents and audit evidence collected during the audit on OAMS. They shall submit all the original documents and working papers to DoA without keeping any copy, either in soft or hard form, with them. However, in case there is any requirement for the external agency to access such documents, they may obtain the same from DoA through a written request.