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INTERNAL AUDIT HAND BOOK

FOR CENTRAL CIVIL MINISTRIES /DEPARTMENTS

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
CONTROLLER GENERAL OF ACCOUNTS
INTERNAL AUDIT DIVISION

PREFACE

The Office of Controller General of Accounts has adopted a multi-pronged strategy to strengthen the institutional mechanism governing the internal audit practice in Government of India and a roadmap for its modernisation. The Generic Internal Audit Manual, extensive in its coverage of various aspects of engagements from planning to reporting, released on 30th September, 2014 was intended as a tool to guide the internal audit engagements. In today's fast changing competitive world, it is essential for an auditor to keep themselves abreast with the latest developments taking place around them. This Hand Book on Internal Audit of Central Civil Ministries/Departments of Government of India facilitates the discharge of next level audit functions in an effective and professional manner.

The Handbook of Internal Audit will facilitate government internal auditors to strengthen themselves to achieve new heights of value addition to the functioning of Ministries/Departments. The focus on globally relevant areas like risk based internal audit, IT audits, gender audits and governance will open new channels for increased professionalism and value addition. The different topics covered in this Hand Book, are not merely theoretical, but are adapted from current practices of Government Internal Auditors; both in developing and developed economies.

The increased scope cast on Internal Auditors also increases responsibilities on them to perform their duties in line with ethical values and professional norms. This enhances the need for objectivity, competence, proficiency and adherence to ethical values, in conduct of their work. These are enunciated in the core principles and guidelines applicable to the internal audit function. This Hand Book will not only show the path but will also upgrade the skills of the internal auditor to contribute effectively in the contemporary Government environment.

I would like to acknowledge the sustained effort of the Internal Audit Division O/o CGA for development of Hand Book on Internal Audit of Central Civil Ministries / Departments. My appreciation to all the officers who have given their valuable suggestions and feedback, contributing to the shaping of this Hand Book.

Further, the collaboration with The Institute of Internal Auditors (IIA) – India, represented by Deepak Wadhawan and Nikhel Kochhar, for development of this Hand Book on Internal Audit of Central Civil Ministries / Departments of Government of India remained appreciable especially in introducing the International Professional Practice Framework (IPPF) in the perspective of the Government of India mechanism.



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Controller General of Accounts

New Delhi
1st March, 2018

ACRONYMS

AAO	: Assistant Accounts Officer
AO	: Accounts Officer
ACL	: Audit Command Language
ATR	: Action Taken Report
CA	: Controller of Accounts
C&AG	: Comptroller and Auditor General
CAAT	: Computer Assisted Audit Techniques
CAE	: Chief Audit Executive (refers to Pr. CCA/ CCA/ CA)
CCA	: Chief Controller of Accounts
CIPFA	: Chartered Institute of Public Finance and Accountancy
COSO	: Committee of Sponsoring Organizations
CVC	: Central Vigilance Commission
Dy.CA	: Deputy Controller of Accounts
DDO	: Drawing and Disbursing Officer
ERM	: Enterprise wide Risk Management
IAW	: Internal Audit Wing
ICAI	: Institute of Chartered Accountants of India
IDEA	: Interactive Data Extraction and Analysis
IIA	: Institute of Internal Auditors
IPPF	: The International Professional Practices Framework of the IIA
ISSAI	: International Standards of Supreme Audit Institutions
IT	: Information Technology
Pr.CCA	: Principal Chief Controller of Accounts
PPS	: Programmes, Projects and Schemes
Sr. AO	: Senior Accounts Officer

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Chapter I

1.0 Introduction to Internal Audit in Central Civil Ministries/Departments

Contents

- Civil Accounting Organisation and Government Internal Audit.
- The Secretary as the Chief Accounting Authority responsible for financial management and internal controls.
- Inspection and Audit of Grantee Institutions.
- Redefined Charter of Financial Advisers.
- Guidelines on Internal Audit of Central Civil Ministries and Departments.
- Internal Audit – Definition, Mission and Core Principles

Guidelines References

Guidelines On Internal Audit Principles for Effective Auditing in Central Civil Ministries/Departments, Code of Conduct and Ethical Guidelines in Government Auditing, Independence and Objectivity, Use of Professional Judgement, Nature of work, Assurance Services.

Reading Guidance

The Chapter explains the background of the CGA organization, objectives of internal audit and the Guidelines issued by CGA for Effective internal auditing at Central Civil Ministries.

1.1 Background

1.1.1 India has a unique culture and is one of the oldest and greatest civilizations of the world. Mark Twain (*Samuel Langhorne Clemens, better known by his pen name, Mark Twain*), said "India is the cradle of the human race, the birth place of human speech, the mother of history, the grandmother of legends and the great grandmother of tradition. Our most valuable and most instructive materials in the history of man are treasured up in India only". Social responsibility has been an accepted convention in India for ages although most often its manifestation was to be found in philanthropy and community welfare initiatives. Nowadays public expenditure has increased and how the money is spent and the quality of services it provides is an important issue to users of public service and simultaneously tax payers including management. The Audit Institutions play an important role in enhancing good governance for public assets, to foster integrity, transparency, accountability within the public entities. The Internal Audit function is a key component of Public Financial Management.

1.1.2 The delinking of Accounts from Audit was culminated into action on inception of 5th Five Year Plan (1974 -1979). Considering the changes essential to improve administrative performance in relation to the requirements of the Fifth Plan, a Group of Ministers (GOM) was constituted in January, 1973. This GOM set up a sub group on 27th February, 1973 to assist and advise on financial management reforms. The sub group of eight members headed by the then Finance Secretary Shri M P Yardi was known as "Yardi Committee". The Yardi Committee submitted its report on 14th August, 1973 which was endorsed by Group of Ministers on 4th September, 1973.The committee while recommending the 'Departmentalization of Accounts' also proposed Management Accounting System (MAS) and suggested strengthening of Internal Audit System in line Ministries/Departments. Two ordinances namely, The Comptroller and Auditor General's (Duties, Powers and conditions of Service) Amendment Ordinance, 1976 and Departmentalization of Union Accounts (Transfer of Personnel) Ordinance, 1976 were promulgated by Shri Fakhruddin Ali Ahmed, the Hon'ble President of India on 1st March, 1976. The Civil Accounts Organisation head by Controller General of Accounts came into existence on 1st April, 1976.

1.1.3 The role and responsibilities of the Civil Accounting Organisation were outlined in the 'The Allocation of Business Rules' vide notification No. CD-896/80 dated 27th September, 1980 in Annexure 2.3 of the notification. The Controller General of Accounts is empowered to frame or revise accounts related rules and manuals apart from overseeing the maintenance of standards of accounting in addition to other business like preparation of Annual Financial Statements – The Finance and Appropriation Accounts of the Union of India etc. The Government of India constituted a High Powered Committee headed by Shri S B Lal in April, 1989 to review the functioning of the Scheme of Departmentalisation Accounts. The High Powered Committee concluded with some of the major benefits accrued from the Scheme of Departmentalisation which included qualitative improvement in Internal Audit.

1.1.4 The Secretary who is the Chief Accounting Authority of the Ministry/ Department, in terms of the Rule 70 of the General Financial Rules-2017 shall be responsible and accountable for financial management of his Ministry or Department and to ensure that the public funds appropriated to the Ministry or Department are used for the purpose for which they were meant. The Chief Accounting Authority is responsible for ensuring that his Ministry or Department maintains full and proper records of financial transactions and adopts systems and procedures that shall at all times afford internal controls in addition to ensuring of other checks and balances enumerated in the provision of this Rule to avoid unauthorized, irregular and wasteful expenditure.

1.1.5 Rule 72 of General Financial Rules-2017 provides that by virtue of the provisions of Article 150 of the Constitution, the Accounts of the Union Government shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India, prescribe. The Controller General of Accounts in the Ministry of Finance (Department of Expenditure) is responsible for prescribing the form of

accounts of the Union and States, and to frame, or revise rules and manuals relating thereto on behalf of the President of India in terms of Article 150 of the Constitution of India, on the advice of the Comptroller and Auditor General of India.

1.1.6 In terms of the Rule 236(1) of General Financial Rules-2017, the accounts of all Grantee Institutions or Organisations shall be open to inspection by the sanctioning authority and audit, both by the Comptroller and Auditor General of India under the provision of AG (DPC) Act 1971 and internal audit by the Principal Accounts Office of the Ministry or Department, whenever the Institution or Organisation is called upon to do so and a provision to this effect should invariably be incorporated in all orders sanctioning Grants-in-aid.

1.1.7 Para 12.2.1 of the Civil Accounts Manual provides that the Internal Audit Unit will work directly under the Pr. CCAs /CCAs /CAs (with independent charge), with overall responsibility remaining with the concerned Financial Adviser and the Secretary of the Ministry/Department. The Principal Accounts Office, the Pay and Accounts Offices as well as the offices of the D.D.Os in Ministries/Departments, Indian Missions and other Govt. of India offices abroad, shall be within the jurisdiction of internal audit. In addition to these offices, internal audit shall be required to audit the implementing agencies for various schemes and programmes of the Ministry/Department.

1.1.8 The Scheme of Budgetary and Financial Control and Delegation of Powers was outlined by Ministry of Finance vide O M No. 10(29)-E.Coord/73 dated 6th October, 1975 with subsequent instructions from time to time. The Indian economy has matured and needs to match the fast growing economies of the world. In such scenario, the Scheme has been redefined and the Redefined Charter of Financial Advisers outlining the features of the Revised Scheme of Integrated Financial Advisers was annexed with the O M No.5(6)/LandC/2006 dated June 1, 2006. The redefined charter talks about moving beyond the narrow myopic confines of compliance / regulatory audit to focus on assessment of adequacy and effectiveness of Internal Controls and Soundness of Financial Management, Identification and Monitoring of risk factors, Critical assessment of economy, efficiency and effectiveness of service delivery mechanism to ensure value of money and providing an effective monitoring system to facilitate mid-course corrections.

1.1.9 In recent times, Internal Audit concept has undergone a sea change to its definition and scope of coverage. The modern approach suggests that internal audit should not be restricted to compliance and proprietary related issues alone, but also on issues such as cost benefit analysis, resource utilization, systemic improvements and performance enhancements. The Risk Based Internal Audit approach requires that internal audit, in conjunction with implementing agencies, undertakes a risk assessment exercise of their projects, schemes and activities. This measure is a paradigm shift in approach and calls for induction of better skills and knowledge levels.

1.1.10 Risk is a fact of life and very much part of organisations, where operations are necessarily conducted by different people at different locations. Closely linked to the concept of control is the pre-emption of fraud in accounting, in reporting and in misappropriating funds and assets. Internal control according to one of its earliest definitions comprised "the plan of organisation and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed guidelines".

1.1.11 Internal audit is conducted in diverse legal and cultural environments within organisations that vary in purpose, size and complexity. All auditors must pay attention to the possibility of suspicious transactions related to money and other illegal activities.

1.1.12 Policy, planning and execution are prone to inadequacies unless supported by a system of inbuilt controls. This is only possible with a highly effective internal control system. The system should be such that it constantly endeavours towards the non-occurrence of errors rather than remaining a tool of corrective or follow up action. Excellent guidance to auditee by the internal auditor directed towards the philosophy of achieving perfection and ensuring value for money.

1.1.13 Information Technology (IT) is now pervasive in Government functions. Though manual transactions do co-exist in less numbers they have been substantially replaced by digital transactions. The new approach of audit has to cover the traditional areas and the new / emerging technology areas in order to establish the overall compliance with the audit objectives.

1.1.14 The principle approval to Controller General of Accounts to proceed with Digitization of Government Accounts through Public Financial Management System (PFMS) was accorded and conveyed vide Ministry of Finance Office Memorandum No.49(7)/PF-I/2014 dated 2nd December, 2014. The Office Memorandum provides the deliverables and timelines for digitization of Government Accounts which includes that receipts and payment of Government of India needs to be taken on board in PFMS. Both Direct and Indirect Tax receipts, which were on standalone system of RAMS and REVACT respectively are required to be integrated with PFMS. Interface with State Treasuries and Accountant General's offices and Reserve Bank of India for capturing expenditures under Consolidated Fund of the States enabling online clearance memos from RBI and IG advices to be completed enabling tracking in real-time progress / expenditure on transfers to States / UTs and generation of MIS, 100% e-payments, direct payments to all payees through integrated bank interface and processing of e-advices for central transfers to the States/UTs under the Centrally Sponsored Schemes / Central assistance to State Plans (CASP) are some of the key components of the office memorandum dated 02.12.2014.

1.1.15 The Committee on Digital Payments constituted by the Ministry of Finance, Department of Economic Affairs under the Chairmanship of Shri Rattan P. Watal has recommended a medium term strategy for accelerating growth of digital payments in India. An advisory was issued by O/o CGA vide Office Memorandum No. 1-115/MF.CGA/ITD/2014-15/1255-92 dated 13th September, 2017 to ensure that no stand-alone software applications shall be developed for payments and receipts in Ministries/Departments under their control and the proposal for integration of such existing applications with PFMS platform are forwarded to the O/o CGA in pursuance to the decision taken in the meeting Chaired by Additional Secretary (Expenditure), Ministry of Finance held on 27th July, 2017.

1.1.16 The Eleventh Five Year Plan (2007-12) states the Government's commitment to undertaking gender audits and in recent years, some efforts have been made by a few agencies including the Ministry of Women and Child Development to intervene in the audit phase of the budget cycle. Gender Budgeting as a tool for achieving gender mainstreaming has been adopted by the Government of India in 2005. It is a process of incorporating a gender perspective at all levels and stages of the budgetary process/planning/policy/programme/legislation formulation, assessment of needs of target groups, allocation of resources, implementation, impact assessment and prioritization of resources. It entails dissection of the Government Budgeting to ensure that the priorities of women (and men) are taken into account and the gender commitments are translated in to budgetary commitments.

1.2. Internal Audit Function

1.2.1 The need for an Internal Audit function in Ministries/ Departments primarily stems from the need for objective feedback to Government through periodic review of risks, internal controls and governance. A primary function of an internal audit practice is the evaluation of the effectiveness of other controls.[1]

1.2.2 Effective internal audit is practiced by adherence to certain core principles of internal auditing enunciated by the IIA. These are detailed later in this chapter.

1.3 Definition of Internal Audit

1.3.1 The **Institute of Internal Auditors** (IIA)[2] has developed the definition of internal auditing, as follows: -

[1]Internal Audit is '*a managerial control which functions by measuring and evaluating the effectiveness of other controls' (*The Institute of Internal Auditors, Florida, USA).
[2]www.iia.org

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

1.3.2 Internal Audit can also be explained as an appraisal activity, which is established or provided as an assurance service to the Central Civil Ministries/Departments. Its functions include examining, evaluating and monitoring the adequacy of internal control. In other words, internal audit is a function aimed at evaluating the adequacy and effectiveness of risk management, governance and control processes thereby adding value and improving an organisation's operations.

1.3.3 In the context of Government and public sector functioning, it is equally important to acknowledge that serving public interest must be the overriding objective guiding these operations. It is also crucial to take into account non-financial information relating to gender diversity, IT, Internal Controls, Programme Implementation issues etc. beyond assessing principal financial risks.

1.4 Mission of Internal Audit

1.4.1 The Internal Audit Wings (IAWs) in Civil Ministries/Departments are expected to articulate their Mission for Internal Audit which states what IAWs aspire to accomplish within their Ministry e.g.: **"To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight."**

1.5 Core Principles for the Professional Practice of Internal Auditing

1.5.1 The Core Principles, taken as a whole, articulate the effectiveness of internal audit. For an Internal Audit Wing to be considered effective, all principles should be present and operating effectively. The core principles have been enunciated in the Guidelines for internal audit of Central Civil Ministries/Departments.

1.5.2 To ensure effective internal auditing the internal audit guidelines issued by the CGA are to be followed. These guidelines include basic principles of internal audit as integrity, competence, proficiency and due professional care, objectivity, quality, effective communication and insight. These principles and certain attributes like conformance to Government of India Rules, ethical guidelines, contribution to organizational improvement and adoption of appropriate frameworks are the hallmarks of an effective internal auditor.[3]

[3]Refer Guidelines No. 1, 2, 3,4,5,7 and 8 in Section-A of Para 1.6, Chapter I

1.6 Guidelines for Internal Auditing at Central Civil Ministries of Government of India

1.6.1 Introduction

1.6.1.1 Collectively, the Central Civil Ministries/Departments account for over one-third of the annual Finance Budget of the Government of India with substantial annual financial outlays. Internal auditing is to be conducted by all Central Civil Ministries/ Departments of Government of India, however different Ministries have different audit maturity levels. In order to standardize and also bring internal auditing in line with international standards, the Controller General of Accounts (CGA) has framed ***Internal audit guidelines for effective internal auditing***. These are based on expectations by stakeholders of Government Internal Auditing in India and are aligned with international standards on internal auditing issued by The Institute of Internal Auditors (IIA) as well as benchmarked with global best practices followed by Government internal auditors in other countries.

1.6.1.2 The principal stakeholder of Government audit is the general public. The current times encourage innovative disruption in order to deliver order of magnitude results. Given the current challenges facing Central Civil Ministries/Departments and their programs along with the heightened expectations of the general public, the oversight provided through auditing is more critical than ever. Effective Government internal auditing provides objective analysis and information required to make the decisions necessary to help create a better future for the public by reducing the risks to achieving the Government's objectives.

1.6.1.3 The overarching objective of the Internal Audit Guidelines (IAGs) is to decrease Audit Risk in internal audit at Ministries both at an engagement level, whilst also providing an overall opinion on a particular Ministry's portfolio of significant risks. Compliance with these internal audit guidelines is hence mandatory for meeting the expectations from the Pr. CCA/CCA/CA in their capacity as CAE and the Internal Audit Wings at Central Civil Ministries.

1.6.1.4 Based on their applicability, the *types* of IAGs are as follows

a. *General Guidelines* create a platform for providing objective and risk based assurance;
b. *CGA Level Guidelines* promote effective audit in Central Civil Ministries;
c. *Ministry Level Guidelines* assist the Pr. CCA/CCA/CA in their capacity as CAE in managing the internal audit activity at individual Ministries; and
d. *Engagement Level Guidelines* minimize audit risk while performing the engagement.

1.6.1.5 The purpose of the *Internal Audit Guidelines* is to:

a. Guide the Internal Audit Wings (IAWs) in carrying out an effective internal audit through an objective risk based assurance in the areas of *Governance, Risk Management and Control processes.*

b. To provide a set of best practices which, when followed, mitigate *Audit Risk* to within a tolerable level as specified by the Ministry's Audit Committee. Audit risk is the risk of giving false positives (i.e. giving a positive assurance over a subject matter when there is a substantial issue) or a false negative (where an adverse opinion is given on a subject matter while the actual conditions are satisfactory).
c. Establish the basis for the evaluation of internal audit performance.
d. Foster improved organizational processes and operations.

1.6.1.6 The IAGs are a set of principle-based mandatory requirements consisting of statements of core requirements for the functional practice of internal auditing at the Central Civil Ministries/Departments and for evaluating the effectiveness of performance.

1.6.1.7 The IAGs employ terms as defined specifically in the Glossary to the IIA Standards. To understand and apply the IAGs correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the IAGs use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying functional judgment, circumstances justify deviation.

1.6.1.8 The IAGs apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the IAGs related to individual objectivity, proficiency and due functional care and the standards relevant to the performance of their job responsibilities. Pr. CCA/CCA/CA in their capacity as CAEs are additionally accountable for the internal audit activity's overall conformance with the *Internal Audit Guidelines.*

1.6.1.9 In the IAGs, the word *Program* is used to denote programs, schemes, departments, units, processes, structures, PSUs and any other auditable unit at the Ministry which is the subject matter under internal audit.

Suggestions and comments regarding the IAGs can be sent to:

Deputy Controller General of Accounts
Internal Audit Division, O/o Controller General of Accounts
Room No.206, 2nd Floor, Mahalekha Niyantrak Bhawan
E Block, GPO Complex, INA, New Delhi
email: iad.cga11@gmail.com

1.6.2 Internal Audit Guidelines

1.6.2.1The Guidelines for Internal Auditing at Central Civil Ministries/ Departments of Government of India are enclosed. There are 32 guidelines in 4 Sections to ensure effective internal audit, viz.

I. **Section A - GENERAL GUIDELINES:** General guidelines are framed to lay the foundation for effective internal auditing by decreasing internal audit risk i.e. giving a positive assurance when there is actually a significant issue or giving an adverse opinion when the actual status is fine. This is the platform for providing an objective risk based assurance.

The General Guidelines are as listed below:

1. Internal Audit Principles for effective auditing.
2. Code of Conduct and Ethical Guidelines in Government Auditing.
3. Independence and Objectivity.
4. Proficiency and Due Professional Care.
5. Use of Professional Judgement.
6. Definition of Internal Audit.
7. Nature of Work.
8. Types of Services.

II. **Section B - CGA LEVEL GUIDELINES:** These guidelines are aimed at assisting the CGA, exercise effective oversight over the internal audit activity at the Central Civil Ministries/Departments to ensure that the assurance function adds value at individual Ministries and also support, on an overall basis, the accomplishment of the Finance Budget of the Government of India.

The CGA Level Guidelines are as listed below:

9. Managing Government Internal Audit in Central Civil Ministries.
10. Establishing Best Practices in Government Internal Audit in India.
11. Supporting engagement of Pr.CCAs/CCAs/CAs with the Audit Committees at Ministries / Departments.
12. Technical Support (including Data Analytics) to Pr. CCA/CCA/CAs in their capacity as CAEs at Ministries.
13. Encouraging to maintain Proficiency levels at Internal Audit Wings.

III. **Section C - MINISTRY LEVEL GUIDELINES:** These policies provide guidance to the Pr. CCA/CCA/CA in their capacity as CAE on managing the internal audit activity at the Ministry in order that the internal audit function adds value to the achievement of the Ministry's objectives.

The Ministry Level Guidelines are as listed below:

14. Role of the Pr. CCA/CCA/CA in their capacity as CAE.
15. Reporting by the Pr. CCA/CCA/CA in their capacity as CAE to the Secretary, Integrated Financial Advisor and Audit Committee.
16. Annual Audit plan and 3-year Audit Programme.
17. Communication and approval of internal audit plans.
18. Resource management.
19. Mandatory compliance with internal audit Guidelines.

20. Receiving Technical Support from IA-CoE in O/o CGA.
21. Internal Audit of Governance Processes.
22. Obtaining External Service Providers to support or complement the Internal Audit Activity.
23. IAW's value add to the Risk Management Process.
24. Quality Assurance and Improvement Program.

IV. Section D - GUIDELINES FOR PERFORMING INTERNAL AUDIT ENGAGEMENTS: These guide the Internal Audit Wings on what is expected while performing an internal audit engagement. They also provide a basis for performance appraisal of the internal audit engagement. Compliance with these guidelines would result in minimizing internal audit risk at the Engagement level.

The Guidelines for Performing Internal Audit Engagements are as listed below:

25. Engagement Planning Guideline.
26. Engagement Work Program Guideline.
27. Engagement Supervision Guideline.
28. Guideline on Obtaining Sufficient and Appropriate Evidence.
29. Guideline on Performing Internal Audit Field Work.
30. Guideline on Documenting the Engagement Activities.
31. Guideline on Communicating the result of the Engagement.
32. Guideline on Monitoring Progress and Communicating the Acceptance of Risks.

1.6.2.2 By reading the above guidelines, any incumbent, whether at the Pr. CCA/CCA/CA level or a probationer can, in a few days, form a clear insight of what is expected of him/her. The guidelines are to be read along with the theoretical concepts and explanations contained in the Handbook on Internal Audit of Central Civil Ministries/ Departments. Whilst performing the internal audit activities, reference needs to be made to the practical guidance, contained in the Manual on Internal Audit of Central Civil Ministries/ Departments, which are in the form of practice advisories, checklists, etc.

1.6.2.3 The potential value that effective internal auditing brings to Central Civil Ministries/Departments is significant considering the large annual budgetary outlay that these Ministries collectively expend on a yearly basis. Even a miniscule improvement in achieving objectives can provide a significant yearly impact. Effective performance and governance is clearly a priority at these Ministries and internal audit needs to play its assurance role effectively. Hence, the effectiveness of these internal audit guidelines in promoting effective internal auditing should be tested continuously and changes carried out periodically, as and when required.

CGA's INTERNAL AUDIT GUIDELINES FOR EFFECTIVE INTERNAL AUDITING AT CENTRAL CIVIL MINISTRIES

Section A

General Guidelines

S. No.	Guideline
1	Internal Audit Principles for Effective Auditing
2	Code of Conduct and Ethical Guidelines in Government Auditing
3	Independence and Objectivity
4	Proficiency and Due Professional Care
5	Use of Professional Judgement
6	Definition of Internal Audit
7	Nature of Work
8	Types of Services

Introduction

This Section establishes General Guidelines to be followed in internal audit of Central Civil Ministries/Departments and related organizations of the Government of India. These guidelines are *Audit Risk* minimisation measures as they lay down a solid foundation for objective and risk based assurance services. In order that these guidelines are current to the present environment, the Controller General of Accounts (CGA) regularly reviews the veracity of these internal audit guidelines in promoting effective internal auditing, based on stakeholder surveys at Central Civil Ministries. The CGA also benchmarks these guidelines with changes in global internal audit standards that promotes effective internal auditing.

The application of these internal audit guidelines are through internal audit advisories. In the Handbook on Internal Audit of Central Civil Ministries, these are classified as revenue, social development, operational, administrative and for each classification, the generic risk and control matrices (RCM) and related checklists are to be developed and continuously updated/improved at the CGA's Internal Audit Centre of Excellence (IA-COE).

Guideline No. 1

INTERNAL AUDITING PRINCIPLES FOR EFFECTIVE GOVERNMENT AUDITING IN CIVIL MINISTRIES

The Controller General of Accounts (CGA) issues Internal Audit Guidelines for effective internal auditing, the compliance of which is mandatory. These Guidelines are based on internal auditing principles which are framed and updated by the CGA. These principles must be adhered to in all aspects of internal auditing.

IIA's Core Principles for the Professional[4] Practice of Internal Auditing

The core principles taken as a whole, articulate to effective internal audit. For an Internal Audit Wing (IAW) to be considered effective, all principles should be present and operating effectively. Achievement of the core principles may vary from Ministry to Ministry, but failure to achieve any of the principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission. These core principles are as follows:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives and risks of the programs.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

In order to conform to the principles, some guidelines have been formulated which are being specified below.

Guideline No. 2

CODE OF CONDUCT AND ETHICAL GUIDELINES IN GOVERNMENT AUDITING

The distinguishing mark of a Government Internal Auditor is acceptance of responsibility to serve the public interest. In this regard, the internal auditor must adhere to the Government of India rules and ethical guidelines, issued by the CVC.

The public interest is defined as the collective well-being of the community of people and entities, the auditors serve. Observing integrity, objectivity and independence in discharging their functional responsibilities assists auditors in meeting the principle of serving the public interest and honouring the public trust. The principle of the public interest is fundamental to the responsibilities of auditors and critical in the Government environment.

The ethical principles that guide the work of auditors who conduct audits are:

a. the public interest;
b. integrity;
c. objectivity;
d. proper use of Government information, resources, and positions; and
e. professional behaviour.[5]

[4]It may be noted that use of the word "professional" includes the "function" of internal audit viewed from the perspective of Civil Ministries

[5]Adapted from US Government Accountability Office (GAO), Yellow Book

The Government of India through the various rules and guidelines discusses the behavioral norms for Government officials and establishes an expectation that Government officials would carry out public functions ethically. A periodic evaluation should be made of the compliance of ethics program at the Internal Audit Wings and a yearly declaration of its adherence should be taken from individual internal auditors.

Guideline No. 3

INDEPENDENCE AND OBJECTIVITY

The internal audit activity must be independent and internal auditors must be objective in performing their work.[6] The CGA's Office issues guidance on independence and objectivity, compliance of which is mandatory.

The focus is on the Pr.CCA/CCA/CA and Internal Audit Wings (IAWs) having the organizational independence to be able to carry out the engagements in an unfettered manner and ensure that the internal auditor maintains individual objectivity whereby he/she has an impartial, unbiased attitude and avoid any conflict of interest. Impairments to independence and objectivity can be either internal or external. *Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations such as funding.[7]*

Also organizational independence and individual objectivity should be in fact and appearance. *Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Chief Audit Executive has direct and unrestricted access to senior management and the board.*

This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditor's don't subordinate their judgement on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.[8] At the Central Civil Ministries, the Pr. CCA/CCA/CA in their capacity as CAE and IAWs are subject to administrative direction of the Integrated Financial Advisor. Ministries are encouraged to use the IIA's International Standards for the Professional Practice of Internal Auditing in conjunction with CGA's Internal Audit Guidelines *(IAGs).* Under *IAGs* a Ministry's IAW can be presumed to be free from organizational impairments to independence for reporting internally, if the CAE meets ALL of the following criteria:

a. Is accountable to the Secretary.
b. Reports the audit results to both the Secretary and the Audit Committee.
c. Is located outside the staff or line management of the Ministry.

[6]IIA Standard
[7]Interpretation of IIA Standard
[8]Interpretation of IIA Standard

d. Has access to the audit committee.

e. Is sufficiently removed from political pressure to conduct audits and reports findings, opinions and conclusions objectively without fear of political reprisal.

Guideline No. 4

PROFICIENCY AND DUE PROFESSIONAL CARE

Engagements must be performed with proficiency and due professional[9] care.

Proficiency is a collective term that refers to the knowledge, skills and other competencies required of internal auditors to effectively carry out their functional responsibilities. It encompasses consideration of current activities, trends and emerging issues, to enable relevant advice and recommendations.

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives.
- Relative complexity, materiality or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of governance, risk management and control processes.
- Probability of significant errors, fraud or non-compliance.
- Cost of assurance in relation to potential benefits.

In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analysis techniques**.**

Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

Guideline No. 5

USE OF PROFESSIONAL JUDGEMENT

Auditors must use professional[10] judgement in planning and performing audits, advisory engagements and in reporting the results. Auditors must document significant decisions that affect audit objectives, scope and methodology; findings; conclusions and recommendations resulting from professional judgement.

Exercising professional judgement is a basic expectation from an internal auditor and is the result of independence, objectivity, integrity, proficiency and use of professional skepticism. Additionally internal auditors must demonstrate critical thinking capabilities and develop their own point of view on subject matter under audit in order to arrive at professional judgements.

[9]It may be noted that use of the word "professional" includes the "function" of internal audit viewed from the perspective of Civil Ministries

[10]It may be noted that use of the word "professional" includes the "function" of internal audit viewed from the perspective of Civil Ministries

Guideline No. 6

DEFINITION OF INTERNAL AUDIT[11]

Internal auditing is an independent, objective assurance and advisory 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.

The definition of internal auditing is the statement of fundamental purpose, nature and scope of internal auditing.

Guideline No. 7

NATURE OF WORK

Nature of Work[12]

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.

Governance[13]

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

- Making strategic and operational decisions.
- Overseeing risk management, governance and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of and communicating information among the board, external and internal auditors, other assurance providers and management.

The internal audit activity must evaluate the design, implementation and effectiveness of the organization's ethics-related objectives, programs and activities.

The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the

[11]As per IIA Definition

[12]As per the IPPF. Numerical references (other than Policy numbers) are to the corresponding standards specified by the IPPF. Reference to IIA Standard 2100

[13]As per the IPPF. Numerical references (other than Policy numbers) are to the corresponding standards specified by the IPPF. Reference to IIA Standard 2110

improvement of risk management processes.[14] *Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:*

- *Organizational objectives support and align with the organization's mission.*
- *Significant risks are identified and assessed.*
- *Appropriate risk responses are selected that align risks with the organization's risk appetite.*
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management and the board to carry out their responsibilities.*

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations or both.

The internal audit activity must evaluate risk exposures relating to the organization's governance, operations and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, guidelines, procedures and contracts.

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

During advisory engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

Internal auditors must incorporate knowledge of risks gained from advisory engagements into their evaluation of the organization's risk management processes.

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Control[15]

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

The internal audit activity must evaluate the adequacy and effectiveness of controls in response to risks within the organization's governance, operations and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.

[14]Reference from IIA Standard 2120

[15]Reference from IIA Standard 2130

- Compliance with laws, regulations, guidelines, procedures and contracts.

Internal auditors must incorporate knowledge of controls gained from advisory engagements into evaluation of the organization's control processes.

Guideline No. 8

TYPES OF SERVICES

Based on the Engagement Objectives, the Internal Audit Wing (IAW) performs assurance services (to meet audit objectives) and advisory services. These services are performed by using the appropriate frameworks and procedures.[16]

Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system or other subject matters. The nature and scope of an assurance engagement is determined by the internal auditor. Generally, three parties are participants in assurance services:

1. the person or group directly involved with the entity, operation, function, process, system or other subject matter — the process owner;
2. the person or group making the assessment — the internal auditor; and
3. the person or group using the assessment — the user.

Advisory services are generally performed at the specific request of Ministry/ Department. The nature and scope of the advisory engagement is subject to agreement with the Ministry/Department. Advisory services generally involve two parties:

1. the person or group offering the advice — the internal auditor; and
2. the person or group seeking and receiving the advice — the Ministry/ Department.

When performing advisory services the internal auditor should maintain objectivity and not assume management responsibility.

The framework/procedures used in internal audit depend upon the objectives to be tested. The Audit objectives vary widely and include assessment of program effectiveness, economy and efficiency, risk and internal control evaluation and compliance review. The procedures used for meeting audit objectives can either be *examination*, *review or agreed upon procedures*. An *examination* is a common procedure followed while assessing internal controls or regulatory compliance to form an opinion on whether the subject matter being audited is in conformance with the criteria in all material respects. In a *review* of any performance area, the internal auditor does sufficient testing to express a conclusion whether any information came to his/her attention that the subject matter is not based on or in conformity with the criteria. In *An agreed-upon procedure* engagement, the Internal Auditor does not express an opinion or a conclusion but only reports the findings based on the *Agreed-upon procedure* applied. Advisory engagements are usually to decrease risk or improve the opportunities for achieving the program objectives. Depending upon the engagement objectives, the appropriate methodology and procedures are used.

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

[16]Reference from IIA Standards

a. significant programs, plans and business objectives will be achieved;
b. financial, managerial and operating information is accurate, reliable and timely;
c. resources are acquired economically and used efficiently;
d. assets are safeguarded; and
e. the organization is in compliance with guidelines, procedures, contracts and applicable laws and regulations.

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

An efficient and effective Internal Audit practice therefore warrants that the Internal Audit Wings in Central Civil Ministries have trained and competent staff and supervisory officers. Simultaneously, its independence should be ensured through an internal audit charter and a clear mandate. The quality of internal audit and performance of the Internal Audit Wings should be assured by instituting an effective oversight mechanism in the Ministry by establishing an Audit Committee in the Ministry and through an external review conducted by the office of Controller General of Accounts. Ultimately, the utility of an Internal Audit practice rests on an adequate appreciation of its role by the Government and an effective follow up system to implement the suggestions of Internal Audit.

Section B

CGA Level Guidelines for Managing Government Internal Audit in India

S. No.	Guidelines
9	**Managing Government Internal Audit in Central Civil Ministries**
10	**Establishing Best Practices in Government Internal Audit in India**
11	**Supporting engagement of Pr.CCAs/CCAs/CAs with the Audit Committees at Ministries/Departments.**
12	**Technical Support (including Data Analytics) to Pr. CCA/CCA/CAs in their capacity as CAEs at Ministries**
13	**Encouraging to maintain Proficiency levels in Internal Audit.**

Introduction

This Section establishes the pre-eminent role of the Controller General of Accounts (CGA) and his/her Office in developing, advocating and promoting the function of Government Internal Audit in the Central Civil Ministries, Government of India.

The Office of the CGA organizes training programmes/issues guidelines from time to time to ensure proficiency in internal auditing, risk management, governance, internal control, information technology audit, data analytics, auditing tools and techniques education, protection against frauds, information security and other knowledge areas.

Mission

The stated mission of the Internal Audit Division (IAD) in O/o Controller General of Accounts in the area of internal audit is to provide *"dynamic leadership*" (initiatives and direction) for the function of Government Internal Auditing in Central Civil Ministries, Government of India and includes:

- Advocating and promoting the culture of objective and risk based assurance in Government internal auditing;
- Advocating and promoting the value that internal audit officers add to the Civil Ministries of the Government Of India;
- Providing comprehensive functional education, capacity building and development opportunities, internal audit guidelines and other functional practice guidance and certification programs;
- Researching, disseminating and promoting to practitioners and stakeholders, knowledge concerning internal auditing and its appropriate role in control, risk

management and governance within the context of the Central Civil Ministries, Government of India;

- Educating Government Internal Audit Officers and other relevant audiences on best practices in Government internal auditing; and
- Bringing together internal auditors from all Government bodies in India whether at a Central or State level to share information and experiences.

Guideline No. 9

MANAGING GOVERNMENT INTERNAL AUDIT IN CENTRAL CIVIL MINISTRIES

The Controller General of Accounts exercises an effective oversight over the internal audit activity at the Central Civil Ministries/Departments to ensure that this assurance and advisory activity adds value of the respective Ministries and on an overall basis, to the accomplishment of the yearly Finance Budget of the Government of India.

The Internal Audit Division (IAD) at CGA Office performs all the activities of a Central function for strengthening the internal audit activity of Central Civil Ministries/Departments of Government of India. They provide oversight and support in capacity building, laying down the internal audit guidelines and procedures. The CGA office reviews the performance of Internal Audit Wings by way of obtaining the Annual Reviews from Central Civil Ministries/Departments. Compiles the information and reports the major findings [Annual Review at a Glance] to the Finance Secretary/Secretary (Expenditure).

Guideline No. 10

ESTABLISHING BEST PRACTICES IN INTERNAL AUDIT

The Controller General of Accounts lays down the best practices for effective internal auditing at the Central Civil Ministries/Departments of the Government of India including Internal Audit Guidelines (IAG) as laid down in the Handbook on Internal Audit of Central Civil Ministries/ Departments.

The New Charter of duties issued by the Secretary, Department of Expenditure, Ministry of Finance lays down the purpose, authority and responsibility of internal audit at Ministries and compliance of the observations should be ensured for speedy settlement. The New Charter of duties and responsibilities is to be adopted by individual Ministries/Departments.

Guideline No. 11

SUPPORTING ENGAGEMENT OF Pr.CCAs/CCAs/CAs WITH THE AUDIT COMMITTEES AT MINISTRIES

The Controller General of Accounts plays a coordinating/supporting role in the interaction of Pr.CCAs/CCAs/CAs (I/c.) of line Ministries /Departments with their respective Audit Committees to create a working relationship between the Audit Committee and Internal Audit, so that an objective and risk based assurance is available for decision making.

In its endeavor for strategic and operational excellence, management takes support from internal audit through their audit, analysis and insight. Internal audit has a synergistic relationship with the Audit Committee which also reviews the governance function. The Pr. CCA/CCA/CA in their capacity as CAE and Audit Committee mutually determine important risks and objectives for the Internal Audit Wings (IAWs). The audit committee is essential for building and supporting an independent, competent and effective internal audit function, while on the other hand, internal audit must deliver high value internal audit services to the audit committee and programs to sustain the needed level of support.

Guideline No. 12

TECHNICAL SUPPORT TO Pr. CCA/CCA/CAs IN THEIR CAPACITY AS CAEs AT MINISTRIES

At the Controller General of Accounts Office, a technical capability to provide guidance and support to the Pr. CCA/CCA/CA in their capacity as CAE and the internal audit activity at the Ministries is delivered through an Internal Audit Centre of Excellence (IA-CoE). This professional guidance will be based on research using surveys, interviews relating to the Ministry/ Area for which the guidance is sought and review of global technical literature for its suitable applicability. The IA-CoE will rapidly develop Data Analytic capabilities and support internal audit of Ministries.

Centre of Excellence in the IAD of the CGA

The CoE in the IAD has the responsibility to be a central repository for propagation of best practices in Internal Audit (including governance, risk and control). It will also function as a support to IAWs in Central Civil Ministries/Departments in meeting their objective of adding value to the functioning of their respective Ministries. This would be achieved by:

- Coming out with a Handbook on Internal Audit in Central Civil Ministries/Departments which explains the conceptual and practical aspects of conducting internal audits by the IAWs and updating the same from time to time.
- Assessing the current level of capability of the IAW and providing direction and support to IAWs in moving up the Internal Audit - Capability Maturity Matrix (IA-CM Matrix).
- Conducting surveys on the state of implementation of the Handbook on Internal Audit within Ministries and Departments.
- Creating a platform for sharing of best practices and case studies.
- Creating clusters of Ministries based on synergistic parameters like programs/social impact, infrastructure, industry, capital markets/financial services, national security etc. to ensure that the synergies of common/similar strategies in internal audit may be leveraged for common gain. Parameters should be devised by the CoE of the IAD with inputs from Ministries concerned.
- Interacting extensively with the professional bodies like IIA on areas of cooperation envisaged under the MoU signed between O/o CGA and the IIA India.
- Working with the professional bodies for identifying outsourced service providers with expertise in Risk Management, Control Evaluation, Governance Audits, Information Security, Data Analytics and such other areas as may be required, from time to time.
- Sustainable capacity building of internal auditors through training, certification, seminars, exchanges etc.

- Creating a help desk in O/o CGA to provide guidance and support to teams of internal auditors across Civil Ministries and Departments. This would be manned over time by a cross mix of staff who are professionally qualified in Internal Audit as IIA's Certified Internal Auditor (CIA) exam, subject matter experts and experienced internal auditors of requisite caliber etc.

Guideline No. 13

ENCOURAGING TO MAINTAIN PROFICIENCY LEVELS IN INTERNAL AUDIT

Through assessment of the internal audit needs at individual Ministries, the Office of the Controller General of Accounts will review plans that ensure proficiency both at an individual Government internal auditor level and engagement team level through Government Internal Auditor certification programs and other certifications conducted by its training and development institute, INGAF. Where the CGA concludes that the resource gap is unlikely to get filled with such trainings and the concerned Ministry carries a significant audit risk, the CGA Office would nominate and/or recommend proficient auditors or outsourced service providers to that Ministry's engagement team for periods of time that it may deem necessary.

The CGA Office continuously assesses skill needs to consider whether the workforce of internal auditors in the IAWs of Central Civil Ministries/Departments has the necessary competencies that match those that are necessary to fulfill particular audit mandates or scope of audits to be performed. The CGA office has a process for recruitment, hiring, continuous development, assignment and evaluation of staff to maintain a competent workforce.

Section C

Ministry level Guidelines for Managing the Internal Audit Wing

S. No.	Guidelines
14	Role of the Pr. CCA/CCA/CA in their capacity as CAE
15	Reporting by the Pr. CCA/CCA/CA in their capacity as CAE to the Secretary, Integrated Financial Advisor and Audit Committee,
16	Annual Audit plan and 3-year Audit Programme
17	Communication and approval of internal audit plans
18	Resource management
19	Mandatory compliance with internal audit Guidelines
20	Receiving Technical Support from IA-CoE in O/o CGA
21	Internal Audit of Governance Processes
22	Obtaining External Service Providers to support/complement the Internal Audit Activity
23	IAW's value add to the Risk Management Process
24	Quality Assurance and Improvement Program

Introduction

This Section establishes requirements and provides guidance for managing the Internal Audit Wing at the Ministry. It identifies the role of the Pr. CCA/CCA/CA in their capacity as CAE and lays down guidelines for interactions with the Audit Committee, Secretary, Integrated Financial Adviser and senior officials at the Ministry. The Section also lays down the minimum requirements for the effective management of the Internal Audit Wing (IAW).

Mission of Internal Audit

The Internal Audit Wings in Civil Ministries are expected to articulate their Mission for Internal Audit which states what Internal Audit Wings aspire to accomplish within their Ministry. An example of the same is provided below:

"To enhance and protect organizational value at the Ministry by providing risk-based and objective assurance, advice, and insight."

Internal Audit Charter

The Internal Audit Charter is the reference point for internal audit activity at the Ministry as it defines the purpose, authority and responsibility. The charter is referenced to the IIA

Definition of Internal Auditing, the Code of Ethics and the Standards (through the CGA Internal Audit Guidelines contained in the Handbook on Internal Audit), thereby aligning the Ministry's Internal Audit Wing with global standards and best practices.

The Internal Audit Charter establishes the position of the IAW within the Ministry's organization, including the nature of the **Pr.CCAs/CCAs/CAs (in their capacity as CAE)** relationship with the Secretary and Audit Committee, authorizes access to records, personnel and physical properties relevant to the performance of engagements and defines the scope of the internal audit engagement.

The CAE prepares the Ministry's Audit Plan in accordance with the guidelines/framework contained in the Handbook issued by O/o CGA. The nature of assurance services and advisory services provided to the Ministry must be defined in the Internal Audit Plan and should be within the Ministry's Internal Audit Wing's capability as assessed using the Internal Audit Capability Maturity Model (IA - CM).

The CAE should present to Audit Committee, an annual review of the Ministry's Internal Audit Plan and whether any changes are required to it. Also, an assessment of the Internal Audit Wing's (IAW's) current status on the Internal Audit – Capability Maturity Model (IA-CM) is also required. This information should also be shared with the Centre of Excellence (CGA-CoE) at the IAD in O/o CGA.

Relationship between the Audit Committee and the Pr. CCA/CCA/CA in their capacity as CAE

The Pr. CCA/CCA/CA in their capacity as CAE formally report to the Audit Committee and there exists a synergistic relationship between him/her and the Audit Committee. The Audit Committee provides oversight over internal audit in that Ministry. They play the role of the chief advocate of the Internal Audit Wing (IAW) in the Ministry by supporting independence, competence and the budget for internal audit. The CAE on his/her part prepares and regularly updates an internal audit plan aligned to the Ministry's objectives.

Reporting by Pr. CCA/CCA/CA in their capacity as CAE at the Ministry

The CAE has a direct reporting relationship with the Integrated Financial Advisor and regularly updates the Secretary on all important matters that come to his/her notice within time.

Guideline No. 14

ROLE OF Pr. CCA / CCA/ CA IN THEIR CAPACITY AS CAE

The Pr. CCA/CCA/CA in their capacity as CAE, must effectively manage the Internal Audit Wing to ensure it adds value to the organization.

The Pr.CCA/CCA/CA in their capacity as CAE will perform all the activities as Head of the Internal Audit Wing (IAW) at the Ministry. These are planning the internal audit, communication and approval of the

plans, resource management, laying down the guidelines and procedures for the IAW, Coordination and Reporting to the Senior Management and Audit Committee and Quality Assurance.

Effectively managed:- *The Internal Audit Wing is effectively managed when it achieves the purpose and responsibility included in the Internal Audit Charter, conforms to the internal audit guidelines as per the Handbook on Internal Audit and regularly considers the trends and emerging issues that could impact the achievement of the Ministry's objectives.*

Adds value:- *The internal audit activity adds value, when it considers the Ministry's strategies, objectives and risks, strives to offer ways to evaluate and enhance governance, risk management and control processes and objectively provides relevant assurance.*

Proficiency:- *The Pr. CCA/CCA/CA in their capacity as CAE. The CAE demonstrates proficiency when he/she is sought upon by senior Ministry officials to discuss risks and controls, frame objectives for data analytics, identify ways to strengthen organizational governance and known for bringing objectivity to discussions/advice.*

Guideline No. 15

REPORTING BY THE Pr. CCA/CCA/CA IN THEIR CAPACITY AS CAE TO THE SECRETARY, INTEGRATED FINANCIAL ADVISOR AND AUDIT COMMITTEE

The Pr. CCA/CCA/CA in their capacity as CAE must report regularly to the Integrated Financial Advisor and periodically to Secretary and Audit Committee on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the internal audit guidelines in the Handbook on Internal Audit. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of management /Audit committee.

The frequency and content of reporting are determined collaboratively by the Pr. CCA/CCA/CA in their capacity as CAE, Secretary and the Audit Committee. 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 management / Audit Committee.

The Pr. CCA/CCA/CA in their capacity as CAE's reporting and communication to management /audit committee must include information about:

- *The audit plan.*
- *Independence of the internal audit activity.*
- *The audit plan and progress against the plan.*
- *Resource requirements.*
- *Results of audit activities.*
- *Conformance with the internal audit guidelines as per the Handbook on Internal Audit and action plans to address any significant conformance issues.*
- *Management's response to risk that in the Chief Audit Executive's judgment may be unacceptable to the Ministry.*

The Pr. CCA/CCA/CA in their capacity as CAE report periodically and at least once a quarter to the Audit Committee on status of the Internal Audit at the Ministry to include progress against the plan,

limitations to independence and objectivity and any challenges being faced by the Audit teams from the Auditee.

Before the commencement of the year, the Internal Audit strategy to achieve the Annual Audit plan is prepared. These include aspects as in-house/outsourcing, assurance/advisory, using subject matter experts, etc. The measures of progress of the Audit strategy are laid down through the Key Performance Indicators (KPIs). Every quarter, the Pr. CCA/CCA/CA in their capacity as CAE will report actual performance against these KPIs.

During these reporting sessions, the Audit Committee will fix the risk appetite for various significant risks including the tolerance levels. The Pr. CCA/CCA/CA in their capacity as CAE needs to report on management's response to risk in both cases of exceeding maximum risk tolerance and below minimum risk tolerance. For each significant risk in a program, scheme or Ministry activity, the CAE will assist the Ministry in framing Key Risk Indicators (KRIs). In every quarter, the CAE will give his written assessment on these KRIs to the Audit Committee.

Internal Audit Capability Maturity Model (IA - CM)

The IIA IA-CM assists the Pr. CCA/CCA/CA in their capacity as CAE to conduct a self-assessment of the Ministry's existing Internal auditing capabilities on six elements, *viz existing services and role of internal audit, existing people management, existing professional*[17] *practices, existing performance management, existing organizational relationships and culture and existing organizational structure*.

Guideline No. 16

ANNUAL AUDIT PLAN AND 3 YEAR AUDIT POGRAMME

The Pr. CCA/CCA/CA in their capacity as CAE should submit to the Audit Committee, a risk based annual audit plan by January 15 which is consistent with the Ministry's goals. The plan should be updated and kept current during the year for significant risk changes in the business environment and risk exposures. This should be accompanied with an updated three year rolling Audit Programme to ensure adequate visibility on the coverage of risks in the Audit Universe.

The list of Auditable units/activities under the **Audit Universe** should be made comprehensive and should include departmental units, cost centres, schemes, programs, guidelines and procedures, contracts and programs, process and systems, Public Sector Undertakings under the Ministry, financial statements, regulatory compliance, etc. The three-year Audit programme and the Annual Audit Plan when read together should reflect the *risk significance and prioritization* of the Ministry's Audit Committee e.g. the frequency of coverage of audit areas on high risk may be one or more times per annum whereas a low risk area may be covered only once in 2 or 3 years.

- The Annual Audit Plan should contain both assurance and advisory activities.
- A three-year rolling Audit Programme ensures adequate visibility on the coverage of risks in the Audit Universe.
- Every year the three year rolling audit programme be updated along with the current year's Annual Audit Plan after considering any revisions in the risk ratings from the last

[17]It may be noted that use of the word "professional" includes the "function" of internal audit viewed from the perspective of Civil Ministries

year's internal audit reports, the Ministry's outcome budget and revisions in the strategic plan documents and other significant changes anticipated in this three year period.

- The Annual Plan should be revised by Feb 15 based on significant impact of the Finance Bill on the Ministry outlay and/or its operations.
- During the year, the Annual Plan should be revised for significant changes that may impact the Ministry's objectives including new directives by the Government of India.

Steps:

- Update the auditable units in the Audit Universe and identify the risks to be covered in them.
- Ensure that frequency of audit is linked to the risk prioritisation.
- For each auditable unit, a list of probable control lapses and frauds in the form of a register be maintained along with the risk mitigation (including anti-fraud measures) and controls.
- During the year, the internal auditor should facilitate the self-risk assessment activity by the Ministry officials and provide support for an updated risk register of the Ministry.

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.[18]

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.[19]

The Chief Audit Executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.[20]

The Chief Audit Executive should consider accepting proposed advisory engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.[21]

Internal Audit Capability Maturity Model (IA - CM)

The IIA IA-CM assists the Pr. CCA/CCA/CA in their capacity as CAE to conduct a self-assessment of the Ministry's existing internal auditing capabilities on six elements, *viz existing services and role of internal audit, existing people management, existing professional practices*[22]*, existing performance management, existing organizational relationships and culture and existing organizational structure*. The strategy and action plans to progress to higher maturity levels needs to be incorporated in the Annual Plans of the Internal Audit Wings.

[18]Reference to IIA Standards

[19]Reference to IIA Standards

[20]Reference to IIA Standards

[21]Reference to IIA Standards

[22]It may be noted that use of the word "professional" includes the "function" of internal audit viewed from the perspective of Central Civil Ministries

Guideline No. 17

COMMUNICATION AND APPROVAL OF INTERNAL AUDIT PLANS

The Chief Audit Executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to the Secretary, Integrated Financial Advisor and the Audit Committee for review and approval.

By March, 1st of every year the Pr. CCA/CCA/CA in their capacity as CAE should present the Annual Internal Audit plan and 3-year rolling audit programme to the Audit Committee, along with the impact of resource limitations. The Audit Committee would then on the basis of its Risk Appetite consider either rolling forward certain audit areas and /or supplement its audit team by engaging external consultants/firms and follow a co-source approach to its auditing activities.

The CAE will at the meeting seeking communication of the Annual Internal Audit Plan, present to the Audit Committee, his/her assessment of the challenges that exist to the internal audit activity and the likely risks that they may face in the three categories of audit failure, false assurance and reputation risk.

Guideline No. 18

RESOURCE MANAGEMENT

The Pr. CCA/ CCA/ CA in their capacity as CAE must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Where the CAE observes any present/future gaps, he/she must bring it to the notice of the CGA Office.

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. 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.[23] Proficiency of the Internal Audit team must be considered, so that any reasonable person can, on going through the annual audit plan arrive at a view that there are adequate resources available to the CAE. Where there are inadequate resources, the *Pr. CCA/CCA/CA in their capacity as CAE* must in writing bring to the notice of the Audit Committee before every meeting on the resource gap and elaborate on both qualitative and quantitative aspects. Under the Agenda item of resource management, the minutes will reflect the resource gap discussion and how these are proposed to be met e.g. through outsourcing, transfer of accounting staff or reduction of audit coverage. Also the competence of the individual auditor must have a mandatory element of critical thinking capabilities.

Guideline No. 19

MANDATORY COMPLIANCE WITH INTERNAL AUDIT GUIDELINES

The Pr. CCA/CCA/CA in their capacity as CAE must follow the Guidelines and procedures as per the Handbook on Internal Audit issued by the CGA and advisories to guide the internal audit activity. During an engagement, where there is a non-conformance, the same should be mentioned in the

[23]Reference to IIA Standards

audit report.

The compliance of the CGA's Internal Audit Guidelines is a mandatory requirement and forms an important part of the CAE's performance appraisal. Where there is a lack of clarity, the CAE must forward his/her query to the CGA's Centre of Excellence (CGA-CoE) in a timely manner for interpretation/direction. The responsibility for achieving the Annual Audit plan remains with the CAE.

Guideline No. 20

RECEIVING TECHNICAL SUPPORT FROM IA-CoE IN O/o CGA.

The Centre of Excellence (IA-CoE) in the IAD in O/o CGA has been set up to provide guidance and support to the Pr. CCA/CCA/CA in their capacity as Chief Audit Executive (CAE) and to the Internal Audit Wings (IAWs) in the Central Civil Ministries. This guidance will be provided by competent staff and outsourced subject matter experts who will carry out research and also review global technical literature for its suitable applicability. The IAWs will support the research through surveys, interviews and insights relating to the Ministry/ Department for which the guidance is sought.

The IA-CoE will also rapidly develop Data Analytics capabilities and support Internal Audit Wings of Central Civil Ministries.

Centre of Excellence in the IAD of the CGA

The IA-CoE in the IAD is a central repository for propagation of best practices in Internal Audit (including governance, risk and control). It will also function as a technical support on internal audit to IAWs in Central Civil Ministries/Departments in meeting their objective of adding value to the functioning of their respective Ministries/Departments.

To achieve this the ***Pr. CCA/CCA/CA in their capacity as CAEs*** of their respective Ministries would need to provide timely information, feedback and seek support/guidance on areas relating to internal audit and related consultancy. This would be achieved by the CAE:

- Preparing their own Internal Audit Manual for their respective Ministries. and updating the same from time to time.
- Facilitating the Ministry in maintaining an updated Risk Register.
- Reporting on the current level of capability of the IAW and seeking direction and support on plans to move up the Internal Audit Capability Maturity Model (IIA-CM).
- Responding to surveys on the state of implementation of the Handbook on Internal Audit within Ministries and Departments.
- Sharing of best practices and case studies from the Ministry with the IA-CoE in IAD.
- Reporting on Annual Plans on internal audit, advisory and capacity building and progress against them.
- Having workshops and meetings with other ***Pr. CCA/CCA/CA in their capacity as CAEs*** and IAWs from synergistic clusters of Ministries to ensure that the synergies of common/similar strategies, issues, risks and learnings in internal audit may be leveraged for common gain. Parameters should be devised by the IA-CoE of the IAD with inputs from Ministries concerned.
- Working with the IA-CoE for identifying outsourced service providers with expertise in Risk Management, Control Evaluation, Governance Audits, Information Security, Data

Analytics and such other areas of competency constraints as may be required, from time to time.

- Seeking advice and support on capacity building of internal auditors through training, certification, seminars, exchanges etc.
- Seeking guidance and support from help desk in O/o CGA on areas of complexity, inadequate competence, consultancy, governance etc., as and when required.

Guideline No. 21

INTERNAL AUDIT OF GOVERNANCE PROCESSES

The Pr. CCA/CCA/CA in their capacity as CAE must report to the Secretary, Integrated Financial Advisor and the Audit Committee on the adequacy and effectiveness of governance processes at the Ministry, toward the achievement of its objectives.

Governance at the Ministry would be the combination of guidelines, processes and structures implemented under the directives of the Secretary to inform, direct, manage and monitor the activities of the Ministry to achieve its objectives. These would also include activities that ensure the Ministry's credibility, establish equitable provision of services and assure that the code of conduct is complied with in accordance with Government rules.

Under Guideline No 7, Nature of Work references from IIA Standards on scope of work relating to governance processes has been made which should be included as part of the Annual Audit plan based on the discussions with the Secretary.

Guideline No. 22

OBTAINING EXTERNAL SERVICE PROVIDERS TO SUPPORT / COMPLEMENT THE INTERNAL AUDIT ACTIVITY

Prior to the commencement of an audit engagement, the Pr.CCA/CCA of Central Civil Ministries, in their role as Chief Audit Executive, must assess whether the audit team has the knowledge, skills, and other competencies needed to perform an effective audit of the subject matter and must fill the competency gap, where it exists through internal resources and/or external service providers. Where required activities should be coordinated with other internal and external providers of assurance and advisory services to ensure coverage and minimize duplication of efforts.

1. Each member of the internal audit activity need not be qualified in all disciplines but collectively the Audit team should possess the requisite competence to conduct an effective audit of that particular engagement. Where there is a gap, the internal audit activity may use external service providers, qualified in disciplines such as risk management, internal auditing, information technology, environmental affairs and other areas as needed to meet the internal audit activity's responsibilities. An external service provider may be engaged by the Audit Committee or the Pr.CCA/CCA of the Ministry or with the support of O/o CGA.

2. The decision to rely on the work of other assurance providers can be made for a variety of reasons, including to address areas that fall outside of the competence of the internal audit activity, to gain knowledge transfer from other assurance providers, or to efficiently enhance coverage of risk beyond the internal audit plan.

3. External service providers may be used by the Internal Audit Wing in connection with, among other things:
   - Achievement of the objectives in the annual plan of the IAW.
   - Advisory on risk management and other matters.
   - Audit activities where a specialized skill and knowledge is needed such as risk management, information technology, data analytics or cyber security.
   - Fraud and security investigations.
   - Evaluation of the internal audit activity's quality assurance and improvement programme.

4. When the Pr. CCA/CCA/CA in their capacity as CAE intends to use and rely on the work of an external service provider, the CAE needs to consider the competence, independence and objectivity of the external service provider as it relates to the particular assignment to be performed.

5. It is advisable for the IAW to document the scope of work and other matters in an engagement letter or contract.

6. The internal auditor should ensure that the work of the other assurance providers is appropriately planned, supervised, documented and reviewed. For this purpose, the Pr. CCA/CCA/CA in their capacity as CAE evaluate the adequacy of work performed, which includes sufficiency of information obtained to afford a reasonable basis for the conclusions reached and the resolution of exceptions or other unusual matters.
7. Significant findings from other assurance providers should be considered in the assurance and communication, the IAW is providing the Ministry. In addition, results of work performed by others may impact the internal audit risk assessment by the IAW.

8. In reviewing actions taken to address recommendations made by other assurance providers, the internal auditor should determine whether management has implemented the recommendations or assumed the risk of not implementing them.

Guideline No. 23

IAW's VALUE ADD TO THE RISK MANAGEMENT PROCESS

The Internal Audit Wing should play a valuable role to assist the Ministry in improving its understanding and management of risk; by providing training and capacity building, evaluating the effectiveness of risk management processes and reviewing significant risk exposures to the governance, operations and information systems of programs/schemes and the adequacy of controls therein.

Under Guideline No. 7, Nature of Work references from IIA Standards on scope of work on risk management processes have been discussed. Pr.CCAs/CCAs in their role as CAEs, gather insights

across the Ministry's activities and hence may be in a position to offer valuable suggestions on Enterprise wide Risk Management (ERM) activities of the Ministry. While internal auditors do not have primary responsibility for ERM implementation or their maintenance, the IAW's activities may include:

- Reviewing the adequacy and effectiveness of the existing ERM processes in the programs/schemes/SBUs of the Ministry and providing recommendations for improvement.
- Reviewing critical control systems and risk management processes and responses for adequacy and effectiveness.
- Advising on the design and improvement of control systems and risk mitigation strategies.
- Implementing a risk-based approach to planning and executing the internal audit process.
- Reviewing the assumptions in management's risk assessments, responses and assurances.
- Providing assurances on the completeness, accuracy and appropriateness of management's classification and reporting of risks.
- Facilitating Risk Self - Assessment workshops.

For this, risk competencies among internal auditors must continue to grow to support the growing expectations from stakeholders. However, where the ERM capabilities of the IAWs are still inadequate, the Pr. CCA/CCA/CA in their capacity as CAE should seek the services of in-house resources from other areas and/or outsourced subject matter experts. The services of the CoE in the IAD of the O/o CGA may be utilised to identify such service providers.

While the risk responsibilities of other functions within the Ministry are growing, internal audit continues to have an important role around risk. Increase in regulations have fuelled the growth in formal risk management. Today internal audit is providing more assurance over risk management as a whole.

Pr. CCAs/CCAs in their role as CAEs, normally perceive the importance of risk management assurance. This indicates there are opportunities to work closer with key stakeholders on expectations around risk management assurance.

Guideline No. 24

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The Pr. CCAs/CCAs/CAs in their capacity as CAEs are responsible for maintaining and developing a Quality Assurance Program that covers all activities of the Ministry's Internal Audit Wings. The CAE must communicate annually, the results of the quality assurance and improvement program to the Integrated Financial Advisor and the Audit Committee. Disclosure should include the scope and frequency of the internal and external assessments, the qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest, conclusions of assessors and corrective action plans.

The form, content and frequency of communicating the results of the quality assurance and improvement program is arrived at after discussion with the Audit Committee.

The results of external and periodic internal assessments are communicated upon completion of such assessments. The results must include the degree of conformance to the CGA's Internal Audit Guidelines (IAGs)**.**

The processes and tools used for ongoing internal quality assessments include engagement supervision, compliance with checklists and procedures, feedback from audit customers and other stakeholders, selective peer review of working papers by staff not involved in the respective audits, project budgets, audit plan completion, cost recoveries, performance metrics etc.

Periodic internal assessments may include more in-depth interviews and surveys of stakeholder groups, to be performed by the members of the engagement team as a self-assessment, preferably by a qualified internal auditor as Certified Internal Auditor or other competent audit professionals currently assigned elsewhere.

An external assessment is done by an assessor engaged by the CGA.

Section D

Guidelines for Performing Internal Audit Engagements

S. No.	Guidelines
25.	Engagement Planning Guidelines
26.	Engagement Work Program Guidelines
27.	Engagement Supervision Guidelines
28.	Guidelines on Obtaining Sufficient and Appropriate Evidence
29.	Guidelines on Performing internal audit field work
30.	Guidelines on Documenting the Engagement activities
31.	Guidelines on Communicating the result of the Engagement
32.	Guidelines on Monitoring Progress and Communicating the Acceptance of Risks

Guideline No. 25

ENGAGEMENT PLANNING

Prior to the commencement of the Engagement, the Internal Auditor must adequately plan the audit so as to achieve the audit objectives and based on this, submit before the field visit, a Terms of Reference (TOR) to the Auditee.

- The Internal Audit Wing develops and documents a plan for each engagement to include objectives, scope, timing and resource allocations.

- **Planning considerations:** While planning the audit, the following aspects are also considered so as to *identify opportunities for making significant improvements*, viz.

    - The objectives of the program/activity under audit and controls to ensure performance/achievement of these program objectives.

    - An assessment of significant risks relating *to*
        - *the activity under audit,*
        - *its objectives,*
        - *resources and operations, and*
        - how the potential impact is kept to acceptable levels.

    - Understanding the Governance, Risk Management and Control process at the program/ activity under audit along with a comparison with a framework like COSO so as to assess and conclude on their adequacy and effectiveness.

- **Engagement Objectives:** Based on the preliminary survey, the internal auditor identifies what the audit intends to achieve through a statement of objectives. Engagement objectives could be thought as questions about the activity/program under audit, for which the auditors seek answers, based on evidence obtained and assessed against some criteria. These questions are usually on the significant risks observed by the internal auditor during audit planning.

- **Engagement Scope** is the subject matter of the program, scheme and activity from where the evidence is to be collected and identifies the type of records, time period, locations, etc. and is the boundary of the auditor's field work.

- **Assigning staff and other resources** should collectively as a team have the requisite proficiency and time availability for accomplishing the audit objectives thereby completing the audit in a satisfactory manner.

Steps:

- During planning, the auditor does a preliminary survey to become familiar with the activities, risks, controls and to identify the areas of emphasis of the program/activity under audit. Comments and suggestions are invited from the staff. Based on the Risk Assessment Report, the auditor frames the Audit objectives and scope and issues a Terms of Reference (TOR) on the engagement to the Auditee.

- A key activity in planning the audit of schemes/programs is that the internal auditor must conduct a preliminary risk assessment of the scheme/program under review and the significant risks must be covered as part of the engagement objectives. In order to accomplish this activity, the internal auditor also considers:

    - the reliability of the scheme/program management's assessment of risk.

    - the scheme/program process for monitoring, reporting and resolving risk and control issues.

    - Scheme/program management's reporting of events that exceed the limit of the Ministry's risk appetite and the Ministry's response to those reports.

    - Risks in related activity to the activity under review.

    - Internal auditors must summarise the results of the review of management's assessment of risk, the background information and any survey work as a separate section titled Auditor's Risk assessment Report (RAR).

Documents:

Before commencement of field work, the following documents need to be in the Engagement's working papers file:

- Audit Planning Memo (APM),
- Preliminary Survey Findings Report,

- Includes Auditor's Risk Assessment Report (RAR)
- Engagement Terms of Reference (TOR).

Guideline No. 26

ENGAGEMENT WORK PROGRAM

The Internal Auditor must prepare a written audit program for each audit and update it as necessary so as to achieve the audit objectives.

Prior to the audit, the internal auditor must develop and documented work program that includes procedures for identifying, analysing, evaluating and documenting information during the engagement to include

- Audit objectives;
- Risks, processes, transactions that are to be examined;
- Nature of testing required;
- Documents the information to be examined and the internal auditor's procedures to be applied on it.

Before commencement of the field visit, the Audit Program should be ready for use in all material respects except the selection of sample size. Also, the Auditee should be informed in advance of the scope of review including interviews, records to be seen, information requirements etc.

Guideline No. 27

ENGAGEMENT SUPERVISION

Audit supervisors must demonstrate adequate oversight on the audit engagement and in a manner to mitigate audit risk.

During field work, the Audit supervisor should be in contact with the field staff and get updates on critical aspects in order to decrease Audit Risk.

The extent of supervision will depend upon the proficiency and experience of the internal auditors and the complexity of the engagement.

Guideline No. 28

OBTAINING SUFFICIENT AND APPROPRIATE EVIDENCE

The Internal Auditor must obtain sufficient and appropriate evidence to provide a reasonable basis for their findings and conclusions on the audit objectives.

Evidence to be collected is around the subject matter under testing. Auditors should identify criteria relevant to the audit objectives that permit consistent assessment of the subject matter.

After establishing the criteria, the auditors should identify potential sources of information that could be used as evidence and choose the appropriate source. Appropriateness is the measure of quality of evidence and includes relevance, reliability and usefulness while concluding on the audit objectives.

Sufficiency is a measure of quantity and whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable. The auditor should determine the amount and type of evidence needed to address the audit objectives and adequately plan the audit work.

Auditors should determine the overall sufficiency and appropriateness of the evidence to form a reasonable basis for the findings and/or conclusions within the context of the internal audit objectives. An overall assessment of evidence is important.

Evidence is not sufficient or appropriate when

- Using that evidence carries an unacceptably high risk that it could lead to improper findings or conclusions.
- The evidence has significant limitations.
- The evidence does not provide an adequate basis for addressing the audit objectives.

When auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should apply additional procedures as appropriate, to include:

- seek independent corroborating evidence.
- presenting the findings and conclusions with a disclosure in the report describing the limitations or uncertainties with the validity or reliability of evidence.
- Determining whether to report the limitations or uncertainties as a finding including any related internal control deficiencies, program deficiencies, etc.

Guideline No. 29

PERFORMING INTERNAL AUDIT FIELD WORK

To obtain sufficient and appropriate evidence, the Internal Auditor must identify, analyse, evaluate and document information within the context of the internal audit objectives. The engagement supervisor must ensure due discussion and adequate consideration of auditee feedback along with a proper closure of the field visit through an Exit meeting.

While obtaining audit evidence to meet the audit objectives, the internal auditor will perform the below mentioned activities for identifying, analysing and evaluating information, viz.

- Gathering input from Auditee staff through survey, interviews, internal control checklist, etc.
- Analysing relationships amongst financial and/or non-financial information through analytical procedures.
- Review of Process maps for evaluating the efficiency of processes and controls.
- Checklists to ensure that the auditor has completed diligently, the audit procedures that were planned to be completed.
- Where required, computerised audit tools and techniques should be used to perform auditing activities, including using
    - Generalised Audit Software (GAS) to perform various analytical procedures on the auditee data.
    - Using continuous monitoring techniques for online real time monitoring of systems and transactions.
- The Pr. CCA/CCA/CA in their capacity as CAE should encourage the usage of computerised working papers and Audit Management software. While using Electronic working papers,

adequate security should be ensured and the working papers should be protected from unauthorised change.

- Auditors need to draw conclusions on the transactions in the activity under audit. By applying statistics, the auditor can test relatively small samples to draw these conclusions. While many auditors may prefer to engage experts for statistical sampling, however, the internal auditor should be proficient in deciding when to use which sampling method, viz. statistical, judgemental, discovery sampling.
- The CAE must control access to engagement records, develop retention requirements for engagement records, regardless of the medium in which these records are stored.
- Before commencing the engagement, the work program should be documented and approved. The work program should include technology based audit and sampling techniques.
- The process of collecting, analysing, interpreting and documenting information should be supervised to provide reasonable assurance that the engagement objectives are met and that the internal audit's objectivity is maintained.

Guideline No. 30

DOCUMENTING ENGAGEMENT ACTIVITIES

Engagement activities should be documented in sufficient detail to enable an experienced auditor with no previous connection to the audit to understand from the audit documentation, the nature, timing, extent and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgements and conclusions.

Auditors need to document significant decisions affecting the audit objectives, scope and methodology; findings; conclusions and recommendations.

The Pr. CCA/CCA/CA in their capacity as CAE needs to approve documentation guidelines which cover governing the custody and retention of advisory engagement records, as well as their release to internal and external parties. These guidelines must be consistent with the Ministry's Guidelines and any pertinent regulatory or other requirements. The Guidelines must cover:-

- Need for Internal Audit Wings to document sufficient, reliable and relevant information to support their engagement results and conclusions.
- Need for controlled access to engagement records. The Pr. CCA/CCA/CA in their capacity as CAE must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.
- Retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

Documenting Information

Internal auditors must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions.[24]

[24]References from IIA Standard 2330 & 2330.A1

The Chief Audit Executive must control access to engagement records. The Chief Audit Executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.[25]

The Chief Audit Executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.[26]

The Chief Audit Executive must develop guidelines governing the custody and retention of advisory engagement records, as well as their release to internal and external parties. These guidelines must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.[27]

Guideline No. 31

COMMUNICATING THE RESULTS OF THE ENGAGEMENT

The Internal Auditors must communicate the results of the audit in a timely manner. Final communication by the internal auditor of the engagement results must contain an opinion and/or conclusion. Where also an overall opinion is issued on an audit area or activity, it must take into account the expectations of the Ministry and must be supported by sufficient, reliable, relevant and useful information. The reason for an unfavourable overall opinion must be stated.

While communicating the results of the audit, the following matters should be taken care of, viz.

- Where certain audit observations are of a nature that, delay in the reporting may impact the achievement of program/scheme objectives, then, the auditor should communicate to the concerned authority, their findings at an early date and even during the course of audit.
- The Audit Report structure should include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans. In case there is a scope limitation, this should be brought out in the report.
- Internal auditors are encouraged to acknowledge satisfactory performance and best practices being followed by the auditee.
- To ensure quality of the Audit reports they must be clear, accurate and concise and issued in a timely manner. The Internal Audit Wing should bring objectivity in the observations and their recommendations should be constructive and complete.
- All reports should be issued by the Pr. CCA/CCA/CA in their capacity as CAE as he/she retains the overall responsibility even if some duties have been delegated to others. Where there is an error or omission in the report, the CAE must circulate corrected information to all the recipients of the earlier communication.
- In case there is full conformance of CGA Internal Audit Guidelines during the audit engagement, this should be mentioned in the report.
- Overall opinions could be ratings, conclusions or other descriptions of results. Such an opinion may be in relation to controls around a specific process, risk or business Acceptance of unit.

[25]References from IIA Standard 2330.A2 & 2330.C1

[26]References from IIA Standard 2330.A2 & 2330.C1

[27]References from IIA Standard 2330.A2 & 2330.C1

Guideline No. 32

MONITORING PROGRESS AND COMMUNICATING ACCEPTANCE OF RISKS

The Pr. CCA/CCA/CA in their capacity as CAE must establish and maintain a system to monitor the satisfactory disposition of the results communicated to the program/scheme management. Where there is inordinate delay in resolving issues, the CAE may conclude that the program/scheme management has accepted the risk of not taking action. The CAE should include these open issues as part of his/her yearly reporting to the Audit Committee on risks unacceptable to the Ministry.

After issue of the audit report, the role of addressing the issues raised and accepted is of the program/scheme management. It is not uncommon that the internal auditor sends reminders to know the follow-up status of these outstanding issues. However, after a reasonable time the Pr. CCA/CCA/CA in their capacity as CAE may conclude that the issues still remaining open imply that the program/scheme management has for the time being accepted the risk of not taking action and hence should be included in the portfolio of unacceptable risks for the purposes of reporting to the Ministry.

Chapter II

2.0 Internal Audits, Risks and Internal Controls

Contents

- ≈ Types of Internal Audit – Compliance, Propriety and Performance Audits
- ≈ Risk Based Internal Audit Methodology (RBIA)
- ≈ An overview of Internal Control Framework
  - Risk, Risk Management & Internal Controls.
  - COSO Internal Control Framework : Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring
  - Assessing Risks
- ≈ Stages of Risk Based Internal Audit: (Exhibit – IV)
  - Stage 1 - Assessing Risk Maturity of Ministry/Department
  - Stage 2 - Production of Audit Plan
  - Stage 3 - Carrying out an Individual Assurance Audit
- ≈ Internal Audit of certain areas - IT Audit, Internal Audit of Governance Processes, Risk Based Auditing & Gender Audit

Guideline References

Guideline on IAW's Value Add to the Risk Management Process

Reading Guidance

The Chapter explains the different types of Audit, The RBIA methodology, risk management and control frameworks. Exhibit IV explains the steps to conduct Risk Based Internal audit. For further reading – Guidance on Risk Based Internal Audit by Chartered institute of Internal Auditors, UK (May 2014)

2.1 Types of Internal Audit

2.1.1 Traditionally, the focus of internal audit in Government has been on compliance with rules, regulations, guidelines and procedures. The change in focus took place with the Revised Charter of Financial Advisors, issued by Ministry of Finance in June 2006, where the remit of Internal Audit was enlarged. While compliance audit remains important, internal auditors are now expected to focus on evaluation of controls with

reference to the risks and to provide an assurance to the Executive Management that controls are functioning in the intended manner and hence there is a reasonable assurance that the goals and objectives of the Ministry/ Department will be achieved.

2.1.2 Internal Audit Wings (IAWs) now conduct three types of audit viz. regularity/ compliance audit, propriety audit and performance audit. They do so by following both the traditional approach and, increasingly overtime, the Risk based internal audit methodology (RBIA). While preparing the Internal audit plan for programs/ schemes, due consideration is given to specific areas relevant to Government, as Information Technology (IT), Risk Management, Governance processes, Gender equality and review of Anti- fraud measures.

2.1.3 **Compliance Audit (Audit of compliance with Rules and Orders)**

2.1.3.1 During Compliance audit, focus is on verifying that the expenditure conforms to the laws, rules, regulations and orders governing the power to incur and sanction expenditure and the procedure to be followed in dealing with Government transactions. Such audits also verify whether the rules and orders regulating the conditions of service and pay and allowances and pensions of Government employees are adhered to.

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

2.1.4 **Propriety Audit**

2.1.4.1 During Propriety Audit, a review of certain actions/events which suggest improper expenditure or waste of resources may be carried out, even if such expenditure is covered under rules and no obvious irregularity may appear to have been committed. Propriety Audit "extends beyond the formality of the expenditure, to its wisdom, faithfulness and economy" (Hallam).

2.1.4.2 Financial audit is conducted as a part of Propriety audit.

2.1.4.3 **Financial Audit**: Review of Financial transactions always has a test of propriety, to identify cases of improper or infructuous expenditures which may have been incurred in conformity with existing rules and regulations.

2.1.4.4 It can take the form of –

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

b. **Fraud and financial irregularity audits**, that are designed to verify the existence and magnitude of suspected fraud and financial irregularities. Internal audit may be requested to conduct a fraud and financial irregularity audit as a result of discovery or suspicion of a fraud or financial irregularity having taken place. It may be noted that IAWs are expected to have sufficient knowledge to identify indicators of fraud.

2.1.5 **Performance Audit**

2.1.5.1 The focus of Performance Audit is to ascertain whether the stated objectives of Ministries/Departments have been achieved with due regard to economy and efficiency in expenditure. This audit examines the relationship between inputs, outputs and outcomes in development schemes and programmes. Auditors gather evidence to assess aspects of program performance beyond financial reporting. In its broadest context, performance audit objectives might assess:

a. **Effectiveness** – evaluates program accomplishments. Has a program achieved its objectives? What are the program's outcomes or results, both intended and unintended? Availability of gender dis-aggregated data is a necessary pre-requisite for measuring effectiveness.

b. **Efficiency** – examines productivity, unit cost or indicators such as utilization rates, backlogs or service wait times. Do operations maximize outputs in relation to costs and other resource inputs (e.g., number of license renewals per staff hour)?

c. **Economy** – examines the extent to which a Government operation has minimized its use of inputs (e.g., money, staff resources, equipment or facilities) consistent with the quality needs of the program. For example, an economy audit may evaluate the validity of a competitive procurement process to ensure that costs were controlled.

d. **Data reliability** – assesses internal controls and reporting for nonfinancial matters, such as performance measures.

e. **Risk assessment** –In the Government, risks go beyond normal financial and operational risks and can include political and societal risks. For instance, some Government risks involve the political and economic consequences of the public's perception of fair and equitable treatment of citizens, animals, the environment, and others. Auditors also conduct risk assessments to select and plan audits.

2.1.5.2 While embarking on a Performance Audit, Internal Audit first gains an understanding of the activities in that area/process and the means by which the program

management exercises control over them. IAW's conduct tests on the Programs/Schemes, keeping in mind certain considerations as:

a. Whether the Performance measurement benchmarks set for the area/process are based on established norms and/or following current frameworks when determining such benchmarks?

b. Whether the ERM system in that program exists, is being followed and effective? Whether adequate monitoring controls exist?

c. Whether the quality of management reports and information flow are adequate for prompt decision making?

d. Whether the outcomes are determinable and reported upon?

2.2 Risk Based Internal Audit Methodology

2.2.1 The Revised Charter of Financial Advisors issued by Ministry of Finance in June 2006 (mentioned in an earlier section), changed the focus in Central Ministries from conducting internal audits of all areas/functions/units/programmes on a predetermined periodicity to an emphasis on internal audits prioritised on the basis of their criticality and risks to achievement of the Ministry's/Department's Guidelines and plans. Over the years, internal auditing has moved to a 'Risk-based approach' where auditing priority is set by ranking risks that impede organisational objectives. While compliance, proprietary and performance reviews are types of audit, Risk based internal audit (RBIA) is a methodology for planning and conducting internal audits and it starts by assessing the Enterprise Risk Management (ERM) system at the specific Program/scheme.

2.2.2 **Relationship with Program office :** Establishing ERM systems has gained prominence. Operational management has over the the last decade started treating Enterprise Risk Management (ERM) as a valuable system for achieving the purpose of managing risks and improving opportunities to achieve the Program objectives. At Ministries, the Program/ scheme Office has the responsibility for maintaining an effective ERM system. While following the RBIA methodology, the first step is that internal audit comments on the Risk maturity at the Program. Hence Internal Audit Wing contributes at the first stage itself by giving an assessment on the ERM activity as a feedback to the Program office.

2.2.3 **Definition:** Risk Based Internal Audit (RBIA) is defined as "a methodology that links internal auditing to the Ministry's overall risk management framework". This methodology allows internal auditing to provide assurance to management that the risk management processes are managing risk effectively; thereby increasing the likelihood of the Ministry meeting its objectives. Every organization is different with

different objectives, processes, systems, structures and culture and so are the related risks. As RBIA is a 'Risk-based approach' each Ministry/ Department/ Program/ Scheme will have a different Internal Audit Plan which will change in the way risks change. There is hence usually no one Internal Audit plan that fits all geographies for a particular scheme. It can so happen that certain geographies can display common risks, however the risk assessment should be done for each unit/geography separately.

2.2.4 **Training on ERM :** Where the risk management framework is not strong or does not exist, the Pr. CCAs/CCAs/CAs in their capacity as CAEs and their IAWs need to promote risk management to improve the system of internal control. Where required, Program Office staff needs to be trained sufficiently in ERM framework to be able to set up an effective ERM system within the Program/Scheme.

2.2.5 **Training on RBIA** : This approach requires that Government internal auditors possess a sound understanding of risk, internal controls, risk management and their various components. Staff expertise is essential and they need to be well versed with the RBIA methodology.

2.2.6 **Internal audit strategy under RBIA :** Under the RBIA methodology, the Internal Audit Strategy depends upon the Risk maturity of the program/scheme.

- Where the Risk maturity is assessed low, IAWs would report the Risk management deficiencies in the ERM, provide advisory services to train Program officers to prepare risk register and prepare the Internal Audit Plan based on the Risk assessment carried out by the internal auditor.
- Where the Risk maturity is assessed as adequate, the IAW would use the Program's risk register, identify significant risks and include in the Internal Audit plan for review.

2.3 Conducting Internal Audit Using RBIA Methodology

2.3.1 The implementation and ongoing operation of RBIA has three stages[28] wherein the CAE shall:

a. Assess the risk maturity of the Ministry/Department.
b. Prepare an Internal audit plan.
c. Carry out individual risk based audits.

[28]The steps are detailed in Exhibit – IV. For further reading, Guidance on RBIA methodology issued by Chartered Institute of Internal Auditors, UK in May 2014 may be referred to.

2.4 An Overview of Internal Control Framework: Risk, Risk Management and Internal Controls

2.4.1 Risk

2.4.1.1 Risk is defined as the possibility of an event occurring that will have an adverse impact on the achievement of an organisation's objectives. Every risk has two components, namely likelihood and impact. Hence, it is necessary that each risk identified is assessed and measured in terms of its impact (significance) and likelihood of occurrence (probability). For example, it is necessary to determine the potential risk impact on the attainment of gender equality benefits of a planned project.

2.4.1.2 For analysing risks, the following questions need to be asked:

i. What can go wrong? (Risk Identification)
ii. What is the probability of it going wrong? (Risk Likelihood)
iii. What are the consequences? (Risk Impact)

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

2.4.1.4 Each Ministry/Department needs to identify its own risks as well as parameters for their categorisation as High, Medium or Low. Refer **Figure 1** for an indicative categorisation of risk likelihood. Similar categorisations would also be required for risk impact.

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

Figure 1

2.4.2 Assessing Risks

2.4.2.1 The usual method of scoring risks is to assign a level (e.g. high, medium, low) or score (e.g. 1 to 3) to the consequence and likelihood of the risk. Where levels are assigned a numerical value, consequence and likelihood scores may be combined (for example, by multiplication or by ranking on a grid) to provide an overall score. So for example, the score of the highest risk would be 9 on this basis, when using a 1 to 3 scoring range. Any risk scoring 6 or above would be considered as a key risk and action must be taken to manage the risk.

An example grid is below.

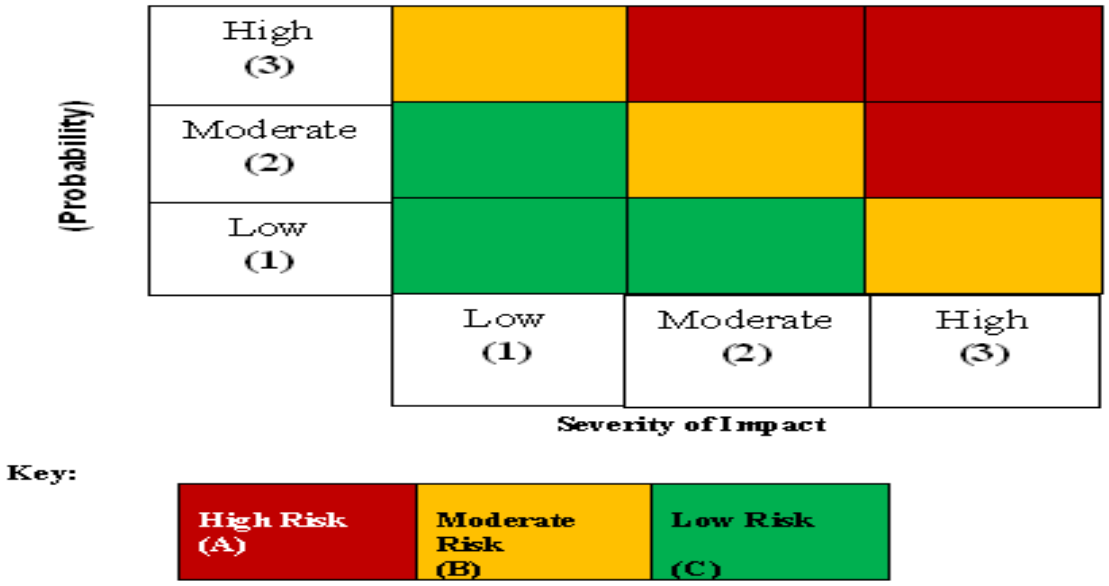


Figure 2

2.4.2.2 Both inherent and residual risks are scored. In a numerical scoring system, the difference between these scores is known as the *control score*, the assessment of control effectiveness or the control co-efficient. The higher the control score, the more important the control. Since risks now have a numerical value, they can be sorted to show the greatest inherent risks, greatest residual risks or those with the greatest control scores.

2.4.3 Risk Management

2.4.3.1 For the Ministry/Department to be protected from the adverse impact of such risks, it is essential that an appropriate response is developed to address these risks. It is therefore necessary that there is a clear identification and assessment of risks, which may impede the ongoing efforts and activities of Ministries/Departments and that there is an appropriate response to these risks. These need to be formally documented in a Risk Register, an example of which is specified in **EXHIBIT VI**.

2.4.4 Controls

2.4.4.1 Simply defined, internal control is the process by which an organization governs its activities to effectively and efficiently accomplish its mission. – INTOSAI.

2.4.4.2 Controls address a risk. They comprise actions taken by Ministry/Department, the Audit Committee, and other parties to manage risks and increase the likelihood that established objectives and goals will be achieved. Some types of controls are:

I. **Preventive** – Prevents or minimizes errors / irregularities from occurring. Examples: Segregation of duties, Dual cheque signing authority, Purchase Policy
II. **Detective** - Highlight errors or irregularities after they have occurred. Example: Bank reconciliation, Audit, Physical Verification of Fixed Assets
III. **Reconstructive** – Which provide effective backup. Example: Disaster Recovery Procedures.

Further examples are also provided in the section on COSO below.

2.4.4.3 Governments have earlier relied upon in-built controls in the governance systems, like "checks and balances" and "segregation of duties" to promote accountability in governance structures and on rules, regulations, guidelines and procedures like General Financial Rules, Receipt and Payment Rules etc. to promote accountability in governance processes. An allied objective is to establish controls that prevent misuse and wastage of resources and facilitate achievement of objectives of Government of India.

2.4.5 Risk Response Strategy

2.4.5.1 After having identified and evaluated the risks, Ministries/Departments need to develop a response to either eliminate the risk or to contain it within acceptable limits. The risk response strategies are as under:

i. transfer,
ii. tolerate,
iii. terminate, or
iv. treat the risk.

2.4.5.2 These are also known as the 4 T's of responding to risks. Obtaining insurance is an example of transferring the risk. A risk may also be tolerated, if the cost of appropriate control is so high as to outweigh the consequential benefits, or when the adverse outcome from the risk is inconsequential. Termination of a risk may be necessitated if there is likelihood that presence of such risk may result in grave consequences or even in complete failure of the project/scheme. This may sometimes call for cessation of the activity itself - a decision not always possible in Governments because of the political and social sensitivities involved.

2.4.5.3 Of the available options, treatment of risks e.g. IT risks, fraud risks, gender based risks through appropriate control activities is often the most obvious choice before Ministries/Departments and hence the most relevant for the purposes of this handbook.

2.4.5.4 Some risks may still remain, even after instituting necessary controls, but it may be advisable to tolerate such "residual risk" especially if the costs to eliminate these are very high and they are found to be within acceptable limits. Acceptable risk is a risk that is understood and tolerated usually because the cost or difficulty of implementing an effective countermeasure exceeds the expectation of loss. What is "acceptable risk" is a judgement that is exercised by the Ministry/Department. Since controls have associated costs, it is important to ensure that the benefits of risk reduction are greater than the cost of controls.

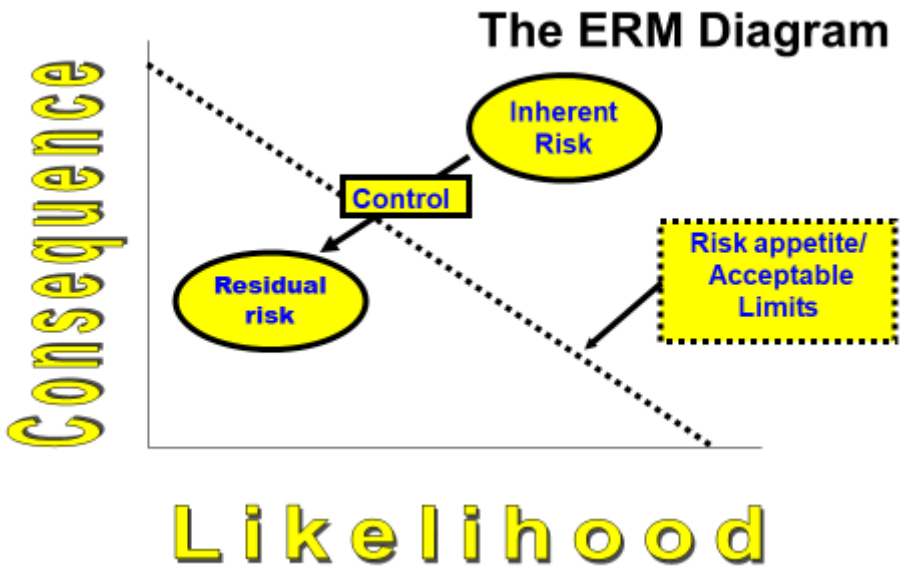


Figure 3

The figure above, adapted from "The Orange Book", explains ERM (Enterprise wide Risk Management) in a simple manner.

2.4.5.5 Understanding of risk management is essential as Internal audit has moved to a 'risk based' approach in their activity. This requires giving a reasonable assurance that risks, which may adversely impact the achievement of the organisational objectives, have been identified, assessed and "controlled" or managed within acceptable levels i.e. within the "risk appetite" of the Ministry. An effective internal audit mechanism would constantly evaluate controls over significant risks, report upon their adequacy and efficacy and ability to advocate mid-course corrections through an institutionalized follow up system.

2.4.5.6 The primary difference between the traditional and modern approach to Internal Audit lies in the explicit recognition of the concepts of “risks”, “controls”, “risk management.” Hence the internal auditor’s understanding and proficiency in the area of Risk Management is a pre-requisite for modern internal audit practice.

2.5 Internal Control Framework

2.5.1 COSO Internal Control Framework

2.5.1.1 Internal Control is an integral process that is operated by a Ministry/Department and is designed to address risks and to provide reasonable assurance that in pursuit of Ministry’s/Department’s mission, the following general objectives are achieved:

a. executing orderly, ethical, economical, efficient, effective and equitable operations;
b. fulfilling accountability obligations;
c. complying with applicable laws and regulations; and
d. safeguarding resources against loss, misuse and damage.

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

a. Control environment.
b. Risk assessment.
c. Control activities.
d. Information and communication.
e. Monitoring.

2.5.1.3 Internal controls are thus a continuous process and not isolated efforts or events, which provide a reasonable assurance that controls are in place to mitigate identified risks. According to the COSO Framework, everyone in a Ministry/Department has responsibility for internal controls to some extent. Virtually all employees produce information used in the internal control system or take other actions needed to affect control. The commitment of people in the Ministry/Department, especially those at the top, is critical to implementation of internal controls within that Ministry/Department. This control environment sets the tone of the Ministry and includes integrity, ethical values of the individuals and of the Ministry as a whole.

2.5.1.4 Risk assessment is the process of identifying and analysing relevant risks, which threaten achievement of objectives and determining the appropriate response. Elements of risk assessment are risk identification, risk evaluation (assessing the likelihood and significance of the risk and then categorising the risk as High, Medium or Low) and risk acceptance (understanding and defining the level of risk the

Ministry/Department is able to live with). This is important because control activities designed to mitigate risks have a cost and hence it may sometimes be prudent to live with a risk – since the costs of eliminating these risks may be much more than the benefits which are likely to accrue from these efforts.



Figure 4

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

Some examples of control activities

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

2.5.1.6 For controls to function effectively, Ministry/Department must receive feedback about control activities in a timely, reliable and also in a gender sensitive manner. Hence, communication should flow down, across and up the Ministry/Department, through all components and the entire structure.

2.5.1.7 The internal control system should also be monitored through a well designed process of review to ensure that it functions in an optimal manner. Monitoring activities normally comprise ongoing monitoring activities and/or separate evaluations. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control is most effective when controls are "built in" and not "superimposed" on the Ministry's/Department's systems and operations. In built controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

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

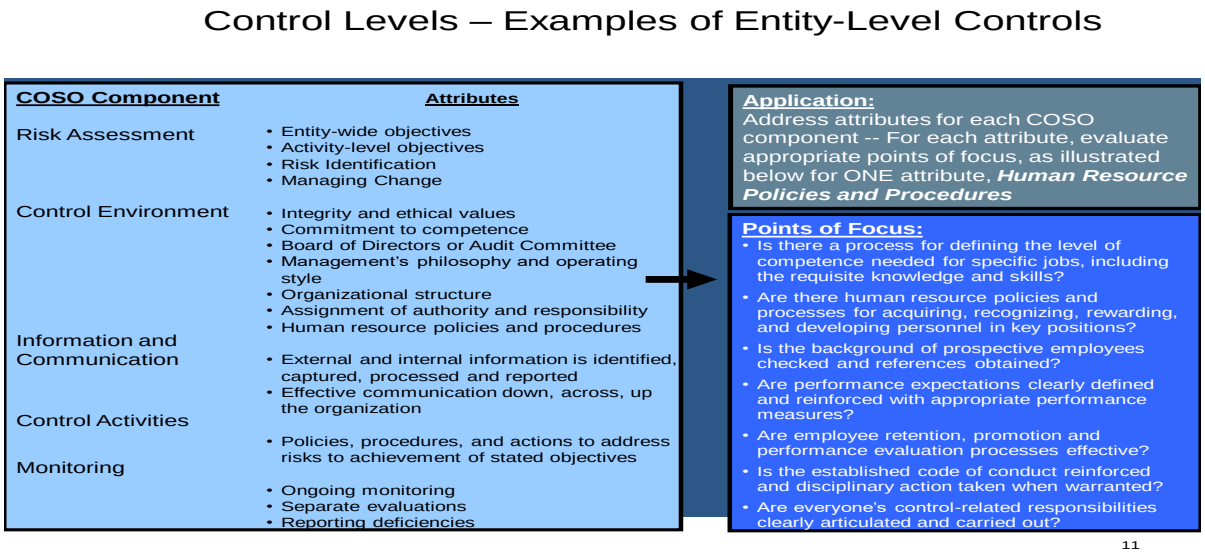


Figure 5

2.6 Internal Auditor's Role in Risk Management

2.6.1 The Pr. CCAs/CCAs in their role as CAEs and Internal Audit Wings can engage in below given activities to be in a better position to meet the growing stakeholder expectations around risk management, viz.

a. **Be advocates for the advancement of formal risk management processes** in the Ministry/Department.
b. **Seek opportunities** to help expedite the implementation of formal risk management and sustain it when it is already in place.
c. Strive to provide assurance on risk management as a whole, not just on individual risks.

d. When providing risk management assurance, ensure the criteria for such assurance is well understood.
e. When conducting a risk-based audit, link the internal audit scope with specific risks faced by the Ministry's/Department's objectives.
f. Continue to increase the percentage of the audit plan focused on risk management.
g. Explore ways to integrate assurance with other internal assurance providers, combined and integrated assurance can be more effective and efficient.
h. Periodically discuss with Ministry/Department, the key risk areas to ensure internal audit's focus aligns with that of the Ministry/Department.
i. Expand internal audit scope to risk-related functions, currently outside of Internal Audit Wings, to ensure appropriate leveraging and reliance on risk assessment efforts at Ministry.
j. The risk assessment should be updated as and when risks arise and not as per specified periodicity.
k. While requests from Ministry/Department should typically be considered for an audit plan, be cautious to ensure such requests do not divert valuable internal audit resources from higher-risk areas.
l. Continue to grow internal audit capabilities around risk to ensure internal audit functions can meet the changing stakeholder expectations of the future in an environment that increasingly becomes more complex and risky.

2.7 Internal Audit of Certain Areas

At the Central Ministries, there are certain common areas which should be covered in the Internal audit plan. Some of them are briefly discussed below and in detail in **Chapter IV**

2.7.1 IT Audit/ Information Systems Audit

2.7.1.1 IT Security is today a key focus for internal audit in digital environment in which the Civil Ministries operate. Information Technology Audit (IT Audit) is used to evaluate an entity's information systems and the safeguards it has in place in order to protect these systems from emerging new risks including Cyber risk. IT Audits, determines whether IT systems have been designed to efficiently and effectively achieve objectives of the respective Ministries / Departments and review the protection of data, IT assets and IT resources. IT audits review attributes of data (confidentiality, integrity and availability), their physical storage, IT assets and resources (technological, physical and human resources) through review of General Controls, Application Controls, etc.

2.7.2 Internal Audit of Governance Processes:

2.7.2.1 **Definition of Governance:** "The combination of processes and structures implemented by the Audit Committee to inform, direct, manage and monitor the activities of the Ministry/Department toward the achievement of its objectives."

2.7.2.2 These would also include activities that ensure the Ministry's/Department's credibility, establish equitable provision of services and assure that the code of conduct is complied with in accordance with Government rules, thereby reducing the risk of public corruption.

2.7.2.3 The Pr.CCAs/CCAs/CAs, in their role as CAE are expected to have a clear understanding of governance and what typical governance processes entail. Since governance, risk management and internal control are interrelated, each Ministry/Department would possess its own unique governance model based on its organisation, guidelines, programs, processes and applicable regulations.

2.7.2.4 The IAWs' activities need to be synergised to support Ministry's/Department's efforts to be accountable and transparent to the public while achieving their objectives effectively, efficiently, economically and ethically. Special emphasis is required by the CAEs on the monitoring mechanism to ensure achievement of Ministry's/Department's Guidelines, plans and budgets based on key financial, operational, social and qualitative parameters, especially when deviations from norms are reported.

Audit of Governance has been discussed in detail in **Chapter IV**.

2.7.3 Gender Audit

2.7.3.1 Gender Audit is used to assess the accountability to and extent of Gender Budgeting accomplished – the integration of gender concerns into the Government's guidelines, strategies, programmes and schemes of all types. It examines whether and at what level Gender Budgeting initiatives have been adopted in the planning, implementation and review of the guidelines and budgetary allocations of the Ministry/Department. The results of Gender Audit can provide learnings to revisit guidelines, programmes and schemes as well as implementing mechanism to ensure Gender Mainstreaming.

Gender Audit is discussed in detail in **Chapter IV**.

2.8 Conclusion

2.8.1 To sum up, the various kinds of audits differ in their focus, scope and approach. Discharge of duties by internal auditors requires not only a change from a compliance-based approach to a risk based audit approach, but also a gender sensitive approach. It also necessitates a detailed knowledge of good governance processes, the working of the various wings of the Ministry/Department, the risks associated with the processes employed by them, controls required to mitigate these risks, an evaluation

of their performance in terms of use of public funds, the output of various activities and of the outcome in the context of stated objectives. In addition to this, the growing use of Information Technology in the functioning of the Central Civil Ministries/Departments in the Government of India necessitates the audit of Information Systems.

Chapter III

3.0 Management of Internal Audit in Government

Contents

- Role of the O/o CGA
- Mission of the CGA
- Organizational Setup
- Reporting by CGA to Expenditure Secretary
- Oversight over internal audit in Central Civil Ministries/Departments
- CGA Level guidelines for managing Governmental Internal Audit in India
- Centre of Excellence in the IAD of the CGA
- Mandate of Internal Audit
- Internal Audit Charter and Model Charter
- Managing the Internal Audit Activity in Central Civil Ministries/Departments: Role of the CAE
- Documentation Policy
- Key Performance Indicators and Dashboards for Evaluating Internal Audit

Guideline References

Guidelines on Managing Government Internal Audit in Central Civil Ministries/Departments, Establishing Best Practices in Internal Audit, Supporting Engagement of Pr.CCA/CCA/CA with the Audit Committees at Ministries/Departments/Departments, Receiving Technical Support from IA-CoE in O/o CGA, Technical Support to Pr.CCA/CCA/CA in their Capacity as CAEs at Ministries/Departments, Mandatory Compliance with Internal Audit Guidelines.

Reading Guidance

The Chapter shows the Reporting levels at Central Government and Ministries. Also the chapter explains the activities to be performed by the designated Chief Audit Executive (CAE) in effectively organizing and managing the Ministry's Internal Audit function.

3.1 Role of the O/o CGA

3.1.1 This chapter establishes the pre-eminent role of the Controller General of Accounts (CGA) and his Office in developing, advocating and promoting the function of Government Internal Audit in India.

3.1.2 The Office of the CGA is the Government internal audit function's voice in India, recognized authority, acknowledged leader, chief advocate and principal educator. The CGA ensures proficiency in internal auditing, risk management, governance, internal control, information technology audit and education.

3.2 Mission of CGA

3.2.1 The Vision and Mission of the CGA, as approved by the Union Finance Minister on 6th August, 2011, specifies the following:

VISION

"As a professional accounting organization, our vision is to strengthen governance through excellence in public financial management".

MISSION

- Administer an effective, credible and responsive system for budgeting, payment and accounting.
- Provide a world class, robust government-wide integrated financial information system.
- “Develop new paradigms of internal audit for improved transparency and accountability”.
- Leverage Information and Communication technology to achieve intended goals.
- Promote professional integrity through a dedicated workforce committed to service ethos.

3.2.2 To facilitate the achievement of the above, the stated mission of the IAD in O/o Controller General of Accounts, in the area of internal audit, is to provide "*dynamic leadership*" for the profession of Government Internal Auditing in India and includes:

- Advocating and promoting the culture of objective and risk based assurance in Government of India;
- Advocating and promoting the value that internal audit officers add to the Civil Ministries/Departments of the Government of India;
- Providing comprehensive professional education and development opportunities; internal audit guidelines and other professional practice guidance and certification programs;

- Researching, disseminating and promoting to practitioners and stakeholders, knowledge concerning internal auditing and its appropriate role in control, risk management and governance within the context of the Central Ministries/Departments of Government of India;
- Educating Government Internal Audit Officers and other relevant audiences on best practices in Government internal auditing;
- Bringing together internal auditors from all Government bodies in India, whether at a Central or State level, to share information and experiences.

3.3 Organizational Setup of Ministries/Departments

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

3.4 Reporting by CGA to the Secretary Expenditure

3.4.1 The Controller General of Accounts has a direct relationship with the Secretary (Expenditure), Ministry of Finance, Government of India and updates him/her on all important matters that come to his/her notice which includes submission of Annual Review. The Annual Review compiled by office of CGA, is a consolidation of the Annual Reviews received from the Central Civil Ministries/Departments in the prescribed format. The Annual Review on the performance of Internal Audit during the previous year is received in O/o CGA by 31st May of subsequent year. The reports received from line Ministries/Departments are analysed and summarised for the purpose of brevity and ease of presentation. The Review depicts the information on different risk factors/ functioning of control systems/financial irregularities in shape of observations. The outcome of Internal Audit through quantifying the recoveries affected in pursuance to the observations of the Internal Audit for the Financial Year under report are also included in the Annual Review to reflect the impact of Internal Audit. The Compiled Annual Report on the performance of the Internal Audit is submitted to the Ministry of Finance, Department of Expenditure. The "Annual Review at a Glance" includes the

brief summary of important audit observations and also reflecting financial implications above Rupees One Crore is also prepared and submitted to the Secretary Expenditure.

3.5 Oversight over Internal Audit in Central Civil Ministries/Departments

3.5.1 The CGA is responsible for oversight over the management of the function of internal audit across all Central Civil Ministries/Departments of the Government of India. This is effected by laying down internal audit guidelines, propagating best practices and providing support to Pr. CCAs/CCAs/CAs. This helps them to ensure proficiency in the management and conduct of their work in their capacity as Chief Audit Executives.[29]

3.6 Mandate of Internal Audit and Audit Committee

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

3.6.2 To provide an effective oversight mechanism for functioning of the Internal Audit Wings in individual Ministries/Departments, an Audit Committee should be constituted in each Ministry/Department. Secretary of the Ministry/ Department would Chair the Audit Committee, the other members of which would include Financial Advisor (Vice Chairperson), Chief Controller of Accounts/Controller of Accounts (Convener/Member Secretary) and Program Division Heads as members. Subject matter experts including a Gender Audit or Internal Audit Expert may also be associated wherever necessary. The alternative could be to enlarge the mandate of existing Standing Audit Committees to include oversight and stewardship of the Internal Audit function as one of its responsibilities. Internal audit contributes to improved governance by reporting on critical risks, internal control problems as well as suggesting questions or topics for the Audit Committee's meeting agendas to ensure that the Committee receives effective information.

3.6.3 The terms of reference of the Audit Committee should include:

a. Ensure development of an effective system of Risk Management within the Ministry/Department and ensure that this system supports the controls, which in

[29]Refer Guidelines No. 9 – 13, Section B of Para 1.6, Chapter I

turn provide a reasonable expectation of achieving the Ministry's/Department's objectives;

b. Supervise the overall functioning of Internal Audit Wing of the Ministry/Department and establish priorities for its functioning;

c. Provide the strategic direction and facilitate availability of resources for effective discharge of responsibilities of the Internal Audit Wing of the Ministry/Department;

d. Approve the Internal Audit Charter and establish the role, responsibility and structure of Internal Audit function within the Ministry/Department;

e. Approve the Annual Internal Audit Plan;

f. Evaluate performance of the Internal Audit Wing of the Ministry/Department and offer guidance, as may be necessary, to improve its functioning and effectiveness;

g. Ensure that internal audit observations and suggestions are implemented by audited units to improve efficiency in operations and compliance with rules and procedures;

h. Determine modalities to resolve key audit issues brought out by the Internal Audit Wing of the Ministry/Department.

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

3.7 Internal Audit Charter

3.7.1 Rule 70 of the GFR (2017) delineates the responsibility for sound financial management to the Secretary of the Ministry/Department and states that being the Chief Accounting Authority s/he shall ensure that his/her Ministry or Department maintains full and proper records of financial transactions and adopt systems and procedures that will at all times afford better internal controls. The Charter of Financial Advisors has also been revised in 2006. The revised charter stipulates that Internal Audit Wings working under the control and supervision of CCAs/CAs, would move beyond compliance/regulatory audit and focus on: -

a. The appraisal, monitoring and evaluation of individual schemes;

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

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

3.7.3 The detailed Internal Audit Manual of each Ministry/Department should have an internal audit charter which is gender inclusive and is approved by the Audit Committee.

3.7.4 A model Internal Audit Charter could be as follows:

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

- Reliability and integrity of financial and operating information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations and contracts.

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

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

Ministry and would focus on compliance with rules and regulations to be followed, in this regard.

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

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

Responsibilities: Programme divisions are responsible for maintaining an adequate system of internal controls to manage risks, which may adversely impact achievement of objectives. Internal audit would provide assurance services to the spending units, the programme divisions and the audit committee in terms of reviewing the adequacy of these systems of internal control. Internal audit may also play an advisory role in facilitating the development of effective systems of risk management and internal control, but ensure that it does not assume the role of management. In addition and subject to the availability of resources, audit would seek to respond to programme divisions' requests for special audits, which may have a specific and defined objective.

Annual Audit Plan: The Internal Audit function is a key component of Public Financial Management within each Ministry/Department. Historically, this function has confined itself to merely ensuring that accounting and related records were properly maintained and the expenditure by spending agencies was made in compliance to laws, rules and regulations. This concept has undergone a sea change and the move towards a Risk Based approach to Internal Audit is a paradigm shift. The planning is an important aspect of every project, and similarly, of performing the Internal Audit function to achieve the objective. In this regard, the guidelines from O/o Controller General of Accounts has been issued from time to time which include recommendations for utilizing 60% of working days for Risk Based Internal Audit of Schemes and 40% of working days for Compliance/Regularity Audit. The Planning for Compliance/Regularity Audit or Risk Based Internal Audit should be made on Risk Based approach. To facilitate smooth conduct of Internal Audit engagements, Annual Audit Plan should be finalized by 15th January every year and a copy of the same should be endorsed to the Internal Audit Division O/o Controller General of Accounts by 15th February.

By 15th of January every year, Internal Audit Wing would submit an Annual Audit Plan, for the next financial year, through the Financial Advisor to the Audit Committee and thereafter perform the audits approved by the Audit Committee, in the manner defined in the audit manual. Annual Audit Plan would be based on the risk assessments carried out by the Divisions and take into account issues derived from the current audit strategy that is approved by the audit committee. Wherever the Divisions have not completed the risk identification

and categorisation exercise, the Chief Audit Executive may make his/ her own assessment in this regard and explain the same in the Annual Audit Plan. A copy of approved Annual Audit Plan should be sent to O/o Controller General of Accounts by 15th of February every year.

Reports: All audit reports should be prepared within one week and issued immediately after the approval of Chief Audit Executive of the Ministry/Department. Reports, which have significant issues, would be circulated with the approval of Vice Chairman of the Audit Committee (A Sample template of Audit Report is given in **EXHIBIT II**). Also, summary of major observations on the basis of work done by the Internal Audit parties during a financial year would be brought out in the Annual Audit Review for the Ministry/Department and would be submitted to the Chairperson of the Audit Committee. This Annual Audit Review should also be submitted to the Office of Controller General of Accounts in the prescribed format by 31st May **(EXHIBIT I).** The programme divisions would be required to take follow-up action on the audit report and significant non-compliance would be brought to the notice of the Audit Committee for adequate action. Reports would be addressed to Head of Department with endorsement to concerned entity of the Ministry/Department.

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

Independence: Independence of Internal Audit Wing of the Ministry/Department would be ensured by providing a clear mandate to it. The performance of Internal Audit would also be periodically reviewed by Pr. CCA/CCA/CA. Results of this assessment will be shared by Chief Audit Executive with the Audit Committee in the Ministry/Department.

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

Independence of Internal Audit Function: The Institute of Internal Auditors (IIA) defines that the Independence is the freedom from conditions that threaten the ability of the Internal Audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence to effectively carry out the responsibilities of the internal audit activity, the Chief Audit Executive (Pr.CCA/CCA/CA) has direct and unrestricted access to senior management and the Board. This can be achieved through a dual reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organizational levels.

In order to maintain the requisite technical standards of accounting in the Departmentalized Accounting Offices, the O/o CGA has the powers to inspect the offices with a view to ensuring that accounts are maintained accurately, comprehensively and in a correct manner. For this purpose, an Inspection Wing (Internal Audit Division) has been set in the office of CGA. The Internal Audit Division is structured in three sections viz. (i) Centre of Excellence (ii) Planning and coordination and (iii) Inspection Wing.

Government entities must establish protection to ensure that internal audit activities are empowered to report significant issues to appropriate oversight authorities. Safeguarding auditor independence is particularly needed when the IAW reports to officials who may also be held accountable for any significant problems. Examples of such protection include statutory requirements that:

- Prevent the audited Ministry/Department from interfering with the conduct of audit work, staffing of the audit activity and publication of the audit report.
- Ensure the CAE reports to the highest executive level in the Government entity and that report distribution requirements ensure the transparency of audit results.
- Require that completed audit reports are made available to the public.

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

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

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

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

3.8 Managing the Internal Audit Activity

3.8.1 Role of the Chief Audit Executive (CAE)

3.8.1.1 In order to effectively manage the Internal Audit Wings, the Pr.CCA/CCA/CA in their capacity as CAE are expected to adhere to CGA's Internal Audit Guidelines laid out in **Chapter I** of the Handbook on Internal Audit to guide the internal audit activity.[30]

3.8.1.2 The Pr.CCAs/CCAs/CAs, in their roles as CAE must effectively manage the Internal Audit Wing's activity to ensure it adds value to the organization. This would include:

i. Establishing a risk-based plan to determine the priorities of the internal audit activity.
ii. Communicating the internal audit activity's plans and resource requirements to the Ministries/Departments for review and approval.
iii. Ensuring that internal audit resources are appropriate, sufficient and effectively deployed.
iv. Establishing guidelines and procedures to guide the internal audit activity.
v. Sharing information, coordinating activities and relying upon the work of other internal and external assurance service providers to ensure proper coverage.
vi. Reporting periodically to Ministries/Departments on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the Code of Ethics and the *Standards*.
vii. Ensuring that the internal audit activity must evaluate and contribute to the improvement of the Ministry's/Department's governance, risk management, and control processes using a systematic, disciplined and risk-based approach.

[30]Refer Guideline No. 19 in Section C of Para 1.6, Chapter I

3.8.2 Managing the Internal Audit Activity in Central Civil Ministries/Departments

3.8.2.1 The Chief Audit Executive must effectively manage the internal audit activity to ensure it adds value to the Ministry.[31]

3.8.2.2 The internal audit activity is effectively managed when:

i. It achieves the purpose and responsibility included in the internal audit charter.
ii. It conforms with the Standards.
iii. Its individual members conform with the Code of Ethics and the Standards.
iv. It considers trends and emerging issues that could impact the Ministry/Department.

3.8.3 Communication and Approval

3.8.3.1 The Chief Audit Executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to concern management for review and approval. The Chief Audit Executive must also communicate the impact of resource limitations.[32]

3.8.4 Resource Management

3.8.4.1 Internal audit resources should be appropriate, sufficient and effectively deployed. Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. 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.[33]

3.8.5 Guidelines and Procedures

3.8.5.1 The Chief Audit Executive must establish guidelines and procedures to guide the internal audit activity. The form and content of guidelines and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.[34]

3.8.6 Coordination and Reliance

3.8.6.1 The CAE should share information, coordinate activities and consider relying upon the work of other internal and external assurance and advisory service providers to ensure proper coverage and minimize duplication of efforts.[35]

[31]IIA Standard 2000
[32]IIA Standard 2020
[33]IIA Standard 2030
[34]IIA Standard 2040
[35]IIA Standard 2050

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

3.8.7 Reporting to Concerned Management

3.8.7.1 The CAE must report periodically to concerned officials and the Audit Committee on the internal audit activity's purpose, authority, responsibility and performance relative 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 concerned officials and/or the Audit Committee.[36]

3.8.7.2 The frequency and content of reporting are determined collaboratively by the Chief Audit Executive, concerned management and the Audit Committee. It depends on the importance of the information to be communicated and the urgency of the related actions to be taken by concerned officials and/or the Audit Committee.

3.8.7.3 The CAE's reporting and communication to concerned management and the board must include information about:

i. The Audit Charter.
ii. Independence of the internal audit activity.
iii. The audit plan and progress against the plan.
iv. Resource requirements.
v. Results of audit activities.
vi. Conformance with the Code of Ethics and the Standards and action plans to address any significant conformance issues.
vii. Management's response to risk that, in the Chief Audit Executive's judgement, may be unacceptable to the Ministry/Department.

3.9 Documentation Policy

3.9.1 The CAE needs to approve a documentation policy which covers governing the custody and retention of assurance engagement records, as well as their release to internal and external parties. These guidelines must be consistent with the

[36]IIA Standard 2060

Ministry's/Department's guidelines and any pertinent regulatory or other requirements. The policy must cover: -

a. Need for Internal Audit Wings to document sufficient, reliable and relevant information to support their engagement results and conclusions.

b. Need for controlled access to engagement records. The CAE must obtain the approval of concerned Ministry personnel prior to releasing such records to external parties, as appropriate.

c. Retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the Ministry's guidelines and any pertinent regulatory or other requirements.

3.10 Key Performance Indicators (KPI's) for evaluating Internal Audit

3.10.1 Monitoring is an integral part of the ongoing and periodic supervision, review and measurement of the internal audit activity. This is to be conducted at various levels of management of the internal audit activity including by the CoE in the IAD of the CGA as well as the CAEs of Civil Ministries/Departments. It is also essential to monitor the outcome of engagement results.

3.10.2 Given below is an indicative list of KPI's which could be used by the CAEs to monitor the performance of IAWs in their Ministry/Department. All six elements of the Internal Audit Capability Model for the public sector have been covered in the sub-heads below.

3.10.3 Services of Internal Audit:

1. Completed Assignment Vs Planned (Reports prepared vs. Plan).
2. Man-days utilized/assignment vs planned (staff category-wise).
3. No. of Consulting Assignments – as % of Total Assignments.
4. No. of RBIA Assignments – as % of Total Assignments.
5. Value of activities covered as a % of value of total activities of Ministry/Department.
6. No. of recommendations made including their categorization as High Med. Low
7. Recommendations linked to improved risk management, governance and compliance (to be specified for each category).
8. Impact of recommendations:
   - Non Recovery of government dues from Central Government Departments / state Government / Government bodies / Private parties.
   - Overpayments.

- Idle Machinery / surplus stores.
- Loss / In-fructuous expenditure.
- Irregular Expenditure.
- Irregular Purchase.
- Non Adjustment of advances.
- Blocking of Government money.
- Non accounted costly stores / Government Money.
- Any other items of special nature.

9. Audit Universe: Manday requirements vs Availability for the period reviewed (Year/ Quarter).
10. Outsourced Assignment Vs Plan.
11. Client Satisfaction Ratings.

3.10.4 People Management:

1. Staff Utilization: Available working days vs. utilisation.
2. Training Plan Vs Actual Training availed (in Mandays for CCA/CA/Sr. AO's/AO's).
3. Staffing of IAW: requirement vs. actual.
4. Staffing of IAW: authorised vs. actual.
5. Staff – appropriately Qualified Vs Total (vs. education / certification requirements).
6. No. of persons recognised for certification/exemplary work (in public functions).

3.10.5 Professional Practices:

1. Assessments of capabilities with regard to IA-CM and Action Plans for improvements identified.
2. Quality Assurance and Improvement Programme (QAIP).
3. Gap analysis with regard to Adherence to Handbook on Internal Audit.

3.10.6 Performance Management and Accountability:

1. Periodicity of flow of information/MIS to:
   - Manage / Conduct / Control IA operations.
   - Account for its performance.
   - Display the results.

2. Feedback on Effectiveness and quality of the IA activity to stakeholders and public.

3. Ability of IAW to meet its objectives/plans across all elements of the IA-CM and routinely monitor progress against targets and value added including:

- Risks mitigated.
- Cost Saving opportunities identified.
- Financial recovery opportunities.
- Opportunities for improvements in governance processes.

4. Development, utilization and periodic review/improvement of a framework for monitoring and measuring performance of the IAWs.

5. Implementation of Quality Assurance and Improvement Programme (QAIP).

3.10.7 Organization Relationships and Culture:

1. Organization Structure - Plan Vs Actual.
2. CAE's relations as part of management team.
3. IA's Capacity to access information and people.
4. Relationships with External Auditors.

3.10.8 Governance Structure:

1. Guidelines and Process to support/resource IAWs:
   - How does the CAE fit into the Organization / Governance structure?
   - Reporting relationship?
   - How is independence assured through mandate/ legislation?
2. Adoption of KPIs and dashboards would facilitate performance measurement, gap analysis and improvement opportunities. It is possible that an IAW may not have the capability to implement all the above if it is at the initial stages of the IA capability model. To improve its capabilities quicker IAWs would need to:
   - Make action plans to implement the above in stages.
   - Seek the support of the CoE in the IAD.
   - Outsource some of the work to competent/experienced service providers.

3.10.9 Audit Committee:

1. Frequency of Meetings.
2. Attendance of Members.
3. Induction of external Subject Matter Experts.

3.10.10 Similarly, appropriate KPIs are to be incorporated by the IAD in O/o CGA to evaluate the efficiency and effectiveness of the IAWs across Ministries/Departments. Consolidation and analysis of such data is expected to be used for overall evaluation of the performance of the Internal Audit Activity across Civil Ministries/Departments of the Central Government. This would help in devising strategies to improve the value addition of the IAWs.

Chapter IV

4.0 Other Domains of Internal Audit

Contents

- ≈ Gender Audit - Introduction, Objectives, Need, Mandate, Audit Process, Planning and Preparing for Audit, Audit Checklist, Conducting the Audit, Reporting and Follow-up and Expected Output.
- ≈ IT Audit Framework for Central Civil Ministries/Departments- An Overview, Support from CoE in O/o CGA, Key Issues, Performing IT Audits and Communicating Results, Audit Planning Considerations, Preparing the Audit Universe, Undertaking Risk Assessment, Preparing the Annual Audit Plan, Performing the IT Audit, Reporting on Risks and Controls, Specific IIA Guidance on IT Audits.
- ≈ Internal Audit of Governance Processes- Definition of Governance, Initiating Audits of Governance, Four Key Objectives, Considerations for Demonstrating Performance Oversight, Detection, Deterrence, Insight, Foresight, Advisory, Assistance and Investigative Services.

Guidelines References

Guidelines on Internal Audit of Governance Processes, Obtaining Sufficient and Appropriate Evidence, Performing Internal Audit Field Work.

Reading Guidance

The chapter helps in obtaining an understanding of Gender Audit, IT Audit and Audit of Governance processes

4.1 Gender Audit

4.1.1 Introduction to Gender Audit

4.1.1.1 It is a well-known fact that women and men have different access to and control over resources. Women and men benefit in different ways from development projects and humanitarian relief efforts. Women constitute about 48% of India's population but they lag behind men on many social indicators like health, education, economic opportunities, etc. Hence, they warrant special attention due to their vulnerability and lack of access to resources. The ultimate goal of the gender equality process is Gender Mainstreaming. Gender Mainstreaming means ensuring that concerns and experiences of women as well as men are integral to the design, implementation, monitoring and evaluation of all legislations, guidelines and programs so that women and men benefit equally and inequality is not perpetuated. The way Government

budgets allocate resources, has the potential to positively transform gender inequalities. Gender Budgeting is an ongoing process to ensure that benefits of development reach women as much as men. Thus, gender budgeting goes beyond allocation of resources for women, to cover tracking the utilization of allocated resources, impact analysis and beneficiary incidence analysis of public expenditure and policy from gender perspective.

4.1.1.2 A number of guidelines and schemes supporting gender equality have been initiated by various Ministries/Departments. But, it is not known as to how these are achieving their commitments towards gender equality. Gender Audit provides the tools to audit the processes undertaken by a Ministry/Department under the various guidelines and schemes. It examines whether and at what level Gender Budgeting initiatives have been adopted in the planning, implementation and review of the guidelines and budgetary allocations. The results of Gender Audit can assess the integration of gender concerns and provide learning and guidelines for Gender Budgeting to revisit guidelines and schemes as well as the implementing mechanism.

4.1.1.3 According to UNICEF - Gender Audit is a tool for evaluating the degree to which gender issues are mainstreamed into a given office or programme. UNESCO defines gender audit as a management and planning tool which support efforts to assess the degree to which gender equality is progressing or women empowerment is addressed in guidelines and programmes.

4.1.1.4 Gender equality means that women and men experience equal conditions for realising their full human potential, and have the opportunity to participate in, contribute to and benefit equally from national, political, economic, social and cultural development. Most importantly, it means equal outcomes for men and women.

4.1.1.5 Through a gender audit, external facilitators work with a work unit to examine all facets of a given subject – be it a policy, a programme or an institution – in order to determine whether gender is incorporated adequately and appropriately into objectives and targets, projects design and implementation and monitoring and evaluation, in order to ensure outcomes and guidelines are aligned with higher-level objectives on gender.

4.1.2 Objectives of Gender Audit

4.1.2.1 The basic objective of gender audit is to provide an unbiased and objective assessment of the responsible and effective utilization of public resources so as to promote gender equity and gender mainstreaming. Gender audit is the assessment of the level of awareness, capacity building and gender sensitization among various stakeholders in order to achieve the objectives of the programmes, projects and schemes (PPS) initiated by various Ministries/Departments.

4.1.2.2 In order to achieve the above objective, Gender audits need to be integrated as part of the internal audits of the Central Civil Ministries/Departments conducted by the Internal Audit Wings.

4.1.3 Need for Gender Audit

a. Gender Audit provides the tools to audit the level of Gender sensitivity inherent in the processes undertaken by a Ministry/Department under the various PPS.
b. It examines whether and at what level Gender Budgeting initiatives have been adopted in the planning, implementation and review of the guidelines and budgetary allocations.
c. Results of Gender Audit can assess the integration of gender concerns and provide learning and guidelines for Gender Budgeting to revisit PPS as well as implementing mechanism.

4.1.4 Mandate for Gender Audit

Mandate for Gender Audit is inclusive both as a part of Compliance Audit and Performance Audit.

a. As Compliance Audit, the objective is to conduct audit to ensure adherence to constitutional provisions and Government regulations and procedures from a gender sensitive perspective.
b. And as Performance Audit, it is a tool for assessment of economy, efficiency and effectiveness of Gender equality in any project or programme. Most Performance Audits do not focus on gender equality results.

4.1.5 Gender Audit Process

4.1.5.1 Similar to any internal audit process, the process of gender audit includes selection of audit topics or planning and preparing for gender audit, issuance of audit engagement letter, entry conference, audit enquiries, data collection, testing and gathering audit evidence, developing audit findings and conclusions, exit conference and developing recommendations.

For a detailed Gender Audit process refer the Internal Audit Manual of the Central Civil Ministries/ Departments of the Government of India

4.1.6 Gender Audit Checklist

4.1.6.1 A gender audit checklist is created during the audit planning stage. The checklist includes questions which the audit seeks to answer apart from ensuring that all essential and valid audit enquiries are dealt with. It helps in covering the key points in

an audit and form a reference document during the audit process. It is prepared based on the data and documents reviewed, which are relevant to the scope of audit as also to test the entire processes and procedures in the life cycle of the selected programmes and schemes. It contains a set of questions or statements that is in conformity with the audit objectives and audit criteria.

4.1.6.2 The checklist should be encoded by serial numbers to maintain the credibility of information and document data for easy access, also identify the source and code of the document on which the inquiry is being made and collect the information and objective evidence required. There are five sections to any audit checklist; (i) scope, (ii) evidence collection, (iii) audit tests, (iv) analysis of results and (v) conclusion.

4.1.6.3 In the context of gender audit, the evidence collection must include sex-disaggregated data if the programme or scheme is beneficiary oriented; and in case of infrastructure related programmes or schemes the consequential benefits must be identified from the programme or scheme proposal documents. Both direct and indirect (proxy) evidence should be collected from the institutional reporting and monitoring mechanisms. It is desirable to mark the gender related components in the checklist to have greater focus during the audit process.

4.1.7 Expected Output of Gender Audit

4.1.7.1 The whole process of Gender Audit is undertaken keeping in mind that it will give the Ministries/Departments of the Government of India:

a. An insight into the status of gender mainstreaming in the scheme/programme implemented by the Ministry/Department,
b. A pool of information on Gender Mainstreaming for discussion and analysis, and
c. A participatory process that builds organizational ownership for the Ministry's/Department's gender equality objective and ongoing plans on engendering the programmes.

4.2 Information Technology (IT) Audit framework

4.2.1 An Overview

4.2.1.1 Internal auditors should have adequate knowledge of key IT risks and controls. While not all internal auditors are expected to have the expertise of those whose primary responsibility is information technology auditing, knowledge of identifying IT risks is essential. The internal auditor should have the knowledge to understand and evaluate the underlying IT related risks in any area/activity that is using an IT platform.

4.2.1.2 IT, telecommunication and digitization are the new norms for Ministry/Department operations. There are many IT based activities carried on daily in

Ministries/Departments including payments through PFMS, using program or scheme based applications (developed by third parties such as CDAC, NIC, etc.) citizen services through e-Governance/e-applications, aggressive digitization of Departmental records, using social media, etc.. Apart from this the managing of big data, which resides in several Ministries/Departments, is increasingly becoming a critical area.

4.2.1.3 An increasingly volatile and hostile information security environment results in cyber-attacks on Ministries/Departments, institutions, etc. which are being regularly reported in the press. At the same time data protection and privacy laws are being framed.

4.2.1.4 To enable the internal auditor to carry on his professional responsibility, this IT Audit framework is prepared to help government internal auditors for planning, performing and presenting IT Audit in Central Civil Ministries/Departments of the Government of India.

4.2.2 Support from the Center of Excellence (CoE) in O/o CGA

4.2.2.1 Many Internal Audit Wings currently do not possess the requisite competencies to conduct IT audits, for which plans will need to be developed. Until Central Civil Ministries/Departments develop the desired IT Audit capabilities, the CoE in O/o CGA should consider:

i. Developing an in-house team to support IT Audit in Ministries/Departments.
ii. Outsourcing IT Audits to specialist firms with the requisite skills.

4.2.2.2 Besides, a library of Sample IT Audit Reports at Central Civil Ministries/Departments is to be compiled by CoE at CGA for use of IT Audit teams across Ministries/Departments.

4.2.3 Key Issues in IT Audits

4.2.3.1 Some specific issues Pr. CCAs/CCAs/CAs in their capacity as CAEs, as well as internal auditors in IAWs, are expected to be aware of are outlined below:

a. **Internal Audit Risk:** Audit risk entails giving a positive assurance where there is a reportable situation or giving an adverse report beyond what the actual situation warrants. Since IT Audits at Central Civil Ministries/Departments are in its early stages, CAEs need to consider the possibility of IT Audit risks. Engaging subject matter experts where required can help to reduce this audit risk.

b. **Technology Environment:** An understanding of the technology environment and how it operates allows Internal Audit Wings to more quickly prepare and revise audit programs.

c. **Auditing In Big Data Environment and Integrated Auditing:** An environment of Big data and an IT platform, requires that assurance be provided on the underlying IT systems and information supporting the government programmes / processes on which work is carried on in the Ministry/Department along with the operational, compliance aspects relating thereto. An integrated auditing approach should be used where IT risks are covered along with operational and compliance audit of that program/scheme.

d. **Identifying IT Risks and Controls:** General computer controls (GCC) are reviewed by internal audit because they form the basis of IT Control environment. If GCC are weak or cannot be relied upon, the auditor needs to alter the testing is these areas. In GTAG -I, the section on Understanding the importance of IT controls lists the categories of controls which can be used to list the control points. For further guidance, reference may also be made to GAIT: Guide to the Assessment of IT General Controls scope based on risk.

e. **Interplay between Manual and Automated Controls:** Ministry/Department processes are not automated from end-to-end. It is important for the internal auditor to understand the hybrid environment of manual and automated controls. For e.g. while reviewing computer generated reports, review of accuracy and completeness of input data will determine, if these reports are reliable for monitoring purposes.

f. **Using Technology for Audit is an opportunity:** Auditors should constantly look for opportunities for automated testing thereby giving rise to CAATs. For e.g. new versions of the Microsoft Windows operating system have a tool known as Security Configuration and Analysis tool which can compare all the configurable security settings of a system against a template of predetermined or desired settings. In IT Audit, the internal auditors should constantly be looking for using technology to automate testing.

g. **Information Security Risks:** Often known as the CIA objectives of Information Security -following the Confidentiality objective ensures that IT systems and information are prevented from unauthorized disclosure, Integrity objective prevents unauthorized modification whilst complying with the Availability objective prevents disruption of services and ensures system productivity.

4.2.3.2 Apart from other aspects the internal auditor needs to be aware of the hazards and vulnerabilities that may exist. For further guidance refer to GTAG 6: Managing and auditing IT vulnerabilities.



Figure 6

4.2.4 Performing IT Audits and Communicating Results

4.2.4.1 IT is intertwined with Ministry/Department programmes, processes and workflows and is considered as a significant enterprise risk. There are many ways to structure and approach a technology audit, but it is of prime importance to understand as to what the IT Audit is trying to accomplish. The basic requirements during planning, performing and presenting IT Audits remain the same as specified in the Guidelines on Internal Audit of Central Civil Ministries/Departments in India.[37]

4.2.4.2 IT Audit Planning Considerations

The internal auditor needs to gain an understanding of the technology environment including the level of IT usage and the quantum of data being generated.[38]

4.2.4.3 Preparing the IT Audit Universe

a. One way to gain an understanding on the IT environment is to prepare a list of the specific technologies. Next is to list the IT processes, controls, activities, etc. against these technologies through which value is delivered to Ministry/Department programmes and processes. A sample is given in the first column in the EXHIBIT V on IT Audit Universe. A complete list is based on evaluation of the overall IT usage landscape.

b. It is useful to benchmark with a standard. Many IT frameworks are available for benchmarking the technology processes in the Ministry/Department. One way is to use a framework such as COSO ERM framework and analyze for each component, both where IT is a source of risk and where IT can be used as a risk management tool.

[37]Refer Guidelines on Internal Audit of Central Civil Ministries/ Departments of Govt. of India, given in Para 1.6 of Chapter I

[38]Refer Guideline No. 25 – 32 on Performing Audit Engagement, Section D of Para 1.6, Chapter I

4.2.4.4 Preparing the Annual IT Audit plan

Once the list of Auditable units/activities is prepared, the timing/prioritization should be done on their risk significance and based on which the Annual audit plan should be prepared and a 3- year rolling audit program prepared as per the CGA – IAG. However, as the IT Risk environment is continuously changing an *emerging risk register* to formally track risks, reportable incidents, etc. desirable, should be maintained and continuously updated. Scheduling a quarterly review of the IT Audit Universe and the Audit Plan for any changes may be required in certain Ministries/Departments. For guidance refer:

a. GTAG 11: Developing on IT audit plan.
b. GTAG 12: Auditing IT projects.

4.2.4.5 Performing the IT Audit

a. The CGA-Internal Audit Guidelines lay down the basic expectations from internal auditors on performing audits. The below mentioned guidelines,[39] are also relevant to IT audits:
    i. Engagement Work Program Guideline.
    ii. Engagement Supervision Guideline.
    iii. Guideline on Obtaining Sufficient and Appropriate Evidence.
    iv. Guideline on Performing Internal Audit Field Work.

b. Audit Programs and Internal Control Questionnaires:
   While assessing the design and operational efficiency of various processes and controls, audit programs and internal control questionnaires are used. The IIA (in its GTAG series), ISACA and Federal Financial Institutions Examination Council (FFIE) have published examples of audit programs and questionnaires.

4.2.4.6 Undertaking IT Risk Assessment

The next key activity in IT Audit is Risk Assessment. The Pr.CCA/CCA/CA in her/his capacity as the CAE should first determine the inherent level of risk over certain key IT processes. For example, the CAE can provide and verify with the key IT Officers, the inherent risk over development, operations, business continuity planning, network, information security and change management. Often, the inherent risk depends on the IT strategy of the Ministry/Department. Where IT Risk Registers exist, they should be reviewed, otherwise the internal auditor should conduct a risk assessment. For guidance refer to:-

a. GTAG 5: Managing and auditing IT risks
b. GTAG 13: Fraud prevention and detection in an automated world

[39]Refer Guidelines No. 26 - 29, Section D of Para 1.6, Chapter I

4.2.4.7 Reporting on IT Risks and Controls

a. When the Pr.CCA/CCA/CA in her/his capacity as the CAE reports on IT as part of the regular audit report, the report typically would include issues related to information security incidents, change management exceptions, project development status, operation incident reporting, capital spending or other metrics that measure key IT risks and controls. Such an approach should provide an integrated and comprehensive approach of all risks and controls — from Programmes and Processes to IT — in one format. This type of reporting generally covers significant issues. For example, it may include the internal audit team not being able to access requested data after repeated attempts, key IT individuals not providing complete or full disclosure.

b. The CGA-IAG contains the following two guidelines which should be followed regarding reporting on IT audits:
   i. Communicating the results of the engagement
   Monitoring progress and acceptance of risks

Various Audit Programs and Internal Control Questionnaires as given by the below mentioned organisations are listed for reference of the CAE

IIA GTAG programs
i. GTAG 2: Change and Patch Management Controls (Critical for organizational success)
ii. Data processing/ application
iii. GTAG 9: Identity and Access Management
iv. GTAG 10: Business Continuity Management

ISACA
i. E-commerce security
ii. Change control
iii. Incident handling

FFIE
i. Business continuity planning
ii. Electronic banking
iii. Information security

4.2.5 Specific IIA Guidance on IT Audits

a. GTAGs : Global Technology Audit Guides
   The IIA has a growing body of practice guides known as the GTAG series (Global Technology Audit Guides), which are available for electronic download on their website. It is recommended that reference be made to relevant sections of these guides while preparing audit plans, programs and checklists and for improving conceptual understanding of IT Audits.

b. GAIT: Guide to the assessment of IT General Controls Scope based on risk.

c. IIARF: A new Auditor's guide to planning, performing and presenting IT audits (IIA Bookstore).

The various Global Technology Audit Guides, GTAGs of IIA are listed for the reference of CAE for audit of IT Framework of the Ministries/ Departments:

i. Information Technology Controls
ii. Change and patch management controls: Critical for organizational success
iii. Continuous Auditing: Implications for Assurance, Monitoring and Risk Assessment
iv. Management of IT Auditing
v. Managing and auditing IT risks
vi. Managing and auditing IT vulnerabilities
vii. Information technology outsourcing
viii. Auditing application controls
ix. Identity and access management
x. Business continuity management
xi. Developing on IT audit plan
xii. Auditing IT projects
xiii. Fraud prevention and detection in an automated world

4.3 Internal Audit of Governance Processes

4.3.1 Definition of Governance

4.3.1.1 "The combination of processes and structures implemented by the Audit Committee to inform, direct, manage and monitor the activities of the Ministry/Department toward the achievement of its objectives."

4.3.1.2 Governance at the Ministry/Department would be the combination of guidelines, processes and structures implemented under the directives of the Secretary to inform, direct, manage and monitor the activities of the Ministry/Department to achieve its objectives. These would also include activities that ensure the Ministry's/Department's credibility, establish equitable provision of services and assure that the code of conduct is complied with in accordance with Government rules, thereby reducing the risk of public corruption. The Pr. CCAs/CCAs/CAs in their capacity as CAEs should ensure that they report on the effectiveness of these processes and activities to achieve the Ministry's/Department's objectives.[40]

[40]Refer Guideline No. 21, Section C of Para 1.6, Chapter I

4.3.2 Initiating Audits of Governance

4.3.2.1 The Pr.CCAs/CCAs/CAs, in their role as CAE, start by attaining a clear understanding of governance and what typical governance processes entail. Governance frameworks, models and requirements vary according to nature of the Ministry/Department and regulatory jurisdictions. Governance does not exist as a set of independent processes and structures. Rather, governance, risk management, and internal control are interrelated.

4.3.2.2 The IAW's role is to support the governance responsibilities of oversight, insight, and foresight.

i. Oversight addresses whether Ministries/Departments are doing what they are supposed to do and serves to detect and deter public corruption.
ii. Insight assists decision-makers by providing an independent assessment of implementation of Government schemes, programs, guidelines, operations and results.
iii. Foresight identifies trends and emerging challenges in implementation of PPS.

4.3.2.3 Internal Audit Wings can act in a number of different capacities to assess and recommend ways to improve governance practices. They can provide independent, objective assessment of the design and effectiveness of governance processes within the Ministry/Department, especially the monitoring mechanisms for achievement of plans, budgets and policy objectives.

4.3.3 Four Key Objectives of Governance processes

4.3.3.1 Governance processes are to be considered during the IAW's risk assessment and audit plan development. The Pr.CCAs/CCAs in their role as CAEs, identify the Ministry's/Department's higher-risk governance processes, which are addressed through assurance engagements described in the final audit plan. The IAW is responsible for assessing and recommending improvements in the governance process to accomplish **four key objectives**[41] **:**

i. To assess how a Ministry/Department **promotes ethics and values**. For this the IAW reviews its related objectives, programs and activities. These could include mission and value statements, a code of conduct, RTI policy, hiring and training processes, an anti-fraud and whistleblowing policy, and a hotline and investigation process. Surveys and interviews can be used to gauge whether the efforts are establishing sufficient awareness.

ii. To evaluate how the Ministry/Department ensures **effective performance management** and accountability, the IAW could look at the guidelines and

[41]Reference to IIA Standard 2110

processes related to objective setting and performance evaluation. The IAW can review associated measurements (e.g., key performance indicators) to determine if they are appropriately designed and executed to prevent or detect inappropriate behaviour and to support actions aligned with the Ministry/Department strategic objectives. Audit Committee meeting materials can often provide evidence on this aspect.

iii. To appraise how well the Ministry/Department **communicates risk and control information** to appropriate areas, the IAW could access internal reports, relevant memos and emails and minutes of meetings to determine whether complete and accurate information regarding risks and controls is distributed timely. Surveys and interviews could gauge the staff's understanding of their responsibilities for risks and controls.

iv. To assess a Ministry's/Department's ability to **coordinate the activities of the** Audit Committee and to communicate among the board, external and internal auditors and management. The IAW could identify the meetings that include these groups (e.g. audit committee and finance committee) and how frequently they occur. Members of the IAW may look at the meeting minutes, work plans and reports distributed among the groups to learn how they coordinate activities and communicate with each other.

4.3.4 Considerations for Demonstrating Conformance

By providing oversight, insight and foresight services, Government auditors help to ensure that managers and officials conduct the public's business transparently, fairly and honestly, with equity and integrity.

4.3.4.1 Oversight

IAWs assist decision-makers in exercising oversight by evaluating whether the Ministry/Department is achieving its objectives and spending funds for the intended purpose. Internal Audit Wings verify Ministry/Department and scheme/program reports of financial and program performance by testing their adherence to the Ministry's/Department's rules and aims. The effectiveness of Ministry's/Department's internal control structure is evaluated to identify and reduce the conditions that breed corruption.

4.3.4.2 Insight

Auditors provide insight to assist decision-makers by assessing which programs and guidelines are working and which are not, sharing best practices and benchmarking information. Thus, the performance of the specific program under audit can be improved. Audits focusing on insight, evaluate whether the policy has brought about the intended results.

4.3.4.3 Foresight

a. The IAWs can identify risks and opportunities arising — such as from demographic trends, economic conditions or changing security threats — and identify risks and opportunities which may impact their Ministry/Department. Besides, a risk-based audit approach which focuses the audit on the Ministry's/Department's overall risk management framework, can help identify and deter unacceptable risks.
b. IAWs must be prepared to recognize and report corruption, abuse of authority or failure to provide equity or due process in the exercise of a Governmental police or regulatory activity.

4.3.4.4 Detection

Detection is intended to identify inappropriate, inefficient, illegal or fraudulent acts that have already transpired and to collect evidence to support decisions regarding criminal prosecutions, disciplinary actions or other remedies. Detection efforts can take many forms including:

a. Audits or investigations based on suspicious circumstances or complaints that include specific procedures and tests to identify fraudulent, wasteful or abusive activity.
b. Audits such as payroll, accounts payable or information systems security audits that test a Ministry's/Department's disbursements and related internal controls.

4.3.4.5 Deterrence

Deterrence is intended to identify and reduce the conditions that allow corruption. Auditors seek to deter fraud, abuse and other breaches of public trust by:

a. Assessing controls for existing or proposed functions.
b. Assessing Ministry/Department specific or audit-specific risks.
c. Reviewing contracts for potential conflicts of interest.
d. Successful detection efforts may also have a deterrent effect.

4.3.4.6 Advisory, Assistance or Investigative Services

a. Auditors may provide objective expert advice in a range of areas in which they possess expertise. They may provide technical advice on issues related to good governance, accountability, ethical practices and anti-corruption programs, effective risk assessment and management, internal controls, sound business processes, information technology systems development and operations, project management, program evaluation and other areas affecting the effectiveness, efficiency and economy of operations. In addition, auditors may provide services (e.g., control and risk assessment workshops) and training in areas such as fraud awareness, performance measurement and control design. They also may provide advice on implementing audit recommendations.

b. Although auditors may, in an advisory role, provide technical advice and make recommendations to management, they may not make management decisions or assume a management role. Moreover, they must maintain independence and objectivity for subsequent audits conducted in any program that has received significant levels of advice or assistance in its formative stages. In other words, auditors should not audit their own work.

Chapter V

5.0 Quality Assurance

Contents

- ≈ Quality Assurance in Internal Audit
- ≈ Benefits of Quality Assurance and Improvement Program
- ≈ Hierarchy of Quality Assurance Elements
- ≈ Key Areas for Performance Evaluation
- ≈ Self-Assessments, Peer Reviews and External Reviews
- ≈ Interface with Statutory Audit
- ≈ Confidentiality of Audit Information
- ≈ Audit Work Papers
- ≈ Ten Things not to say in an Internal Audit Report

Guideline References

Guideline on Quality Assurance & Improvement Program

Reading Guidance

The chapter helps in establishing a Quality Assurance and Improvement Program for Internal Audit at Central Civil Ministries in a manner that the IAW is seen as a trusted advisor.

5.1 Quality Assurance in Internal Audit

5.1.1 As audit engagements review the use of public money, it is imperative that these be conducted with due regard for ethics, economy, efficiency and effectiveness. A quality assurance and improvement programme supports the conduct of internal audits that effectively and consistently result in value-addition to the Ministry's/Department's operations. Quality assurance programme is also necessary to provide assurance that the internal audit activity conforms to prescribed guidance. Understanding the expectations of Ministry/Department and the Audit Committee and reporting on the results of the programme to the Audit Committee represent important steps in developing a performance measurement and continuous improvement process.[42]

[42]Refer Guideline No. 24, Section C of Para 1.6, Chapter I

5.2 Benefits of a Quality Assurance Program

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

5.3 Quality Assurance at a Glance

5.3.1 The quality assurance function can be summarized as shown below:

Hierarchy of Quality Assurance Elements

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

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

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

5.3.4 Key areas on which the performance of internal audit function could be evaluated have been specified in Para 3.10, Chapter III on 'Key Performance Indicators for evaluating Internal Audit'.

5.4 Interface with Statutory Audits

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

5.5 Confidentiality of Audit Information

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

5.5.2 The documented form of Audit Information is referred to as Audit work papers which can be compiled in a permanent audit file or current audit file. (Refer also Para 3.9, Chapter III on 'Documentation Policy').

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

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

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

Current Audit Files contains record of all the audit work schedules and documents relevant to the current audit. These should represent a clear record of the audit process, procedures, findings, conclusions and reports. Current audit files typically include (i) copies of the draft and final audit reports; (ii) significant findings and issues identified during the audit and how

they were resolved; (iii) audit planning documentation; (iv) administration correspondence documents; (v) follow-up of previous audit reports; (vi) updated audit programmes; (vii) supporting documentation for the audit conclusions; (viii) minutes of entry and exit meetings.

5.6 Quality in Reporting

5.6.1 In order to maintain the quality of reporting, the CAE should ensure the following:

Ten Things Not to Say in an Internal Audit Report

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

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

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

2. Don't use "weasel words."

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

3. Use "intensifiers" sparingly.

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

4. The problem is rarely universal.

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

5. Avoid the "blame game."

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

6. Don't say "management failed."

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

7. "Auditee" is old-school.

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

8. Avoid unnecessary technical jargon.

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

9. Avoid taking all the credit

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

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

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

For example:

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

Enough said. And then some.

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

Chapter VI

6.0 Human Resource Management

Contents

- ≈ Human Resource Management & Planning
- ≈ Obtaining External Service Providers to Support or Complement the Internal Audit Activity
- ≈ Staff Skills, Training and Development
- ≈ Professional Development Plan and Components

Guideline References

Guidelines on Resource Management, Obtaining External Service Providers to Support/Complement the Internal Audit Activity, Proficiency and Due Professional Care, encouraging to Maintain Proficiency Levels in Internal Audit.

Reading Guidance

The chapter helps in obtaining an understanding of Human resource management at Internal Audit Department/ IAW

6.1 Human Resource Management

6.1.1 The adequacy and quality of human resources must be an important consideration when designing an internal audit system which is both efficient and effective. Staffing levels, Staff qualifications and Staff utilization rates are critical parameters for evaluation of the performance of internal audit function in a Ministry/Department. The success of any plan or strategy will ultimately be determined by the quality, appropriateness, sufficiency and effective deployment of personnel responsible for its execution.[43]

6.2 Human Resource Planning

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

[43]Refer Guideline No. 18, Section C of Para 1.6, Chapter I

6.2.2 It is therefore suggested that the following parameters should be considered when deciding upon the staffing requirements of Internal Audit Wings –

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

6.2.3 The requirement of manpower for internal audit can be worked out by using these parameters, the number of auditee units identified for annual audit, biennial audit and triennial audit, the audit man-days required and the available working days in a calendar year. Since the numbers would vary from one Ministry/Department to another, generic parameters have been indicated herein and it would be the responsibility of the Pr. CCA/ CCA/ CA i.e. the CAE to form the Audit team.

6.3 Obtaining External Service Providers to Support or Complement the Internal Audit Activity

6.3.1 With increasing complexity of Government operations, internal audit may not have specialized knowledge in all areas. To meet the challenge of complexities and specialization, the CAE should have the authority and resources to hire individuals and firms having requisite skill-sets and expertise to handle various types of internal audit assignments, after adhering to provisions of GFRs and relevant orders issued by Government of India from time to time. The CAE should assess the competency, independence and objectivity of such consultants with reference to factors like Experience, Education, Training and Membership in professional organizations etc. The consultants shall work under the overall control of the CAE and responsibility for the quality and timely delivery of audit shall lie with the CAE.[44]

[44]Refer Guideline No. 22, Section C of Para 1.6, Chapter I

6.4 Staff Skills, Training and Development

6.4.1 With introduction of Risk Based Internal Audit approach in Ministries/Departments, increasing computerisation, focus on technology, governance thrust and the influx of Big Data in Government it is essential that internal auditors are trained extensively in:

a. Evaluation of internal controls.
b. Risk based audit, risk assessment, design and development of risk matrix, mapping risks with controls.
c. Application of professional standards.
d. Sampling techniques.
e. Report writing techniques.
f. Auditing in computerized environment (CAATs).
g. Performance and governance audits.

These skills would help in enhancing the effectiveness of internal audit in delivering the audit objectives.

6.4.2 Knowledge, skills and other competencies is a collective term that refers to the proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as, the Certified Internal Auditor and CGAP designations and other designations offered by professional organisations.[45]

6.4.3 Internal auditors are also responsible for continuing their education to enhance and maintain their proficiency. Internal auditors need to stay informed about improvements and current developments in internal audit standards, procedures and techniques, including the IIA's International Professional Practices Framework guidance.

6.4.4 Maintaining Proficiency would cover the following:

a. The knowledge, skills and other competencies referred to in the policy above include:
   i. Proficiency in applying internal audit standards, procedures and techniques, in performing engagement with the ability to apply knowledge to situations likely to be encountered without extensive recourse to technical assistance.
   ii. Proficiency in accounting principles and techniques, if internal auditors work extensively with financial records and reports.
   iii. Knowledge to identify the indicators of fraud.
   iv. Knowledge of key information technology risks and controls and available technology based audit techniques.
   v. An understanding of Government rules to recognize and evaluate the materiality and significance of deviations from specified practices.

[45]Refer Guideline No. 4 and 13, Section A and B of Para 1.6, Chapter I

vi. An appreciation of the fundamentals of business subjects such as accounting, economics, commercial law, taxation, finance, quantitative methods, information technology, risk management and fraud. An appreciation means the ability to recognize the existence of problems or potential problems and to identify the additional research to be undertaken or the assistance to be obtained.

vii. Skills in dealing with people, understanding human relations and maintaining satisfactory relationships with engagement clients.

viii. Skills in oral and written communications to clearly and effectively convey such matters as engagement objectives, evaluations, conclusions and recommendations.

b. Suitable criteria of education and experience for filling internal audit positions is established by the Pr.CCA/CCA of the Civil Ministry/Department in their role as CAE who gives due consideration to the scope of work and level of responsibility and obtains reasonable assurance as to each prospective auditor's qualifications and proficiency.

c. The internal audit activity needs to collectively possess the knowledge, skills and other competencies essential to the practice of the profession within the Ministry/Department. Performing an annual analysis of these helps identify areas of opportunity that can be addressed by continuing professional development, recruiting or co-sourcing.

d. Continuing professional development (CPE) is essential to help ensure that internal audit staff remains proficient. CPE may be obtained through membership, participation and volunteering in professional organizations such as the IIA; attendance at conferences, seminars and in-house training programs; completion of self-study courses; and involvement in research projects.

e. Internal auditors are encouraged to pursue CPE to maintain their proficiency with regard to the governance, risk and control processes of their Ministry/Department.

f. Internal auditors who perform specialized audit and consulting work — such as information technology, data analytics or systems design — may undertake specialized CPE to allow them to perform their internal audit work with proficiency.

g. Internal auditors with professional certifications are responsible for obtaining sufficient CPE to satisfy requirements related to the professional certification held.

h. Internal auditors not presently holding appropriate certifications are encouraged to pursue an educational program and/or individual study to obtain professional certification.

i. The CAE may obtain assistance from experts outside the internal audit activity to support or complement areas where the internal audit activity is not sufficiently proficient.

6.4.4 The Pr. CCAs/CCAs/CAs in their role as CAE need to ensure that the IAWs build capability and capacity for internal audit, overall and individually to help deliver value. The steps to help deliver value include development and implementation of a professional development plan for the Internal Audit Department that includes key development opportunities for the Department and individual auditors in the IAW as well as:

a. An internal audit strategic competency plan and associated competency process.
b. An internal audit capability model tailored specifically for the Ministry/Department.

6.4.5 The common stages of competency planning are :

a. Establish the vision and desired capability level of the Internal Audit Department.
b. Develop a strategic competency plan.
c. Identify existing competencies.
d. Identify competency gaps.
e. Develop an action plan to fill the gaps encompassing buy, build, retain people strategies.

6.5 The Professional Development Plan

6.5.1 The establishment of a professional development plan is a strategic driver that can be presented to the Audit Committee to support the IAW's investment in this area. The steps for establishing a professional development plan are given below:

a. Review what is happening now, including gaps identified in strategic competency plan.
b. Decide on internal audit's vision, goals, audit plan and the skills that need to be developed.
c. Decide how to develop these skills and incorporate them in a professional development plan.
d. Implement the professional development plan and periodically report the results to the Audit Committee.

6.6 Development Plan Components

6.6.1 The professional development plan should include training programs and address other developmental needs, combining both the development needs for the whole Department together with significant personal development needs of individual auditors.

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

a. Providing challenging, varied assignments;
b. Ensuring quality supervision;
c. Ensuring staff participation in various phases of the audit process;
d. Providing opportunities to lead (in-charge) assignments, starting with more structured engagements;
e. Participating on Departmental improvement task forces, such as preparation for quality assurance review;
f. Rotating through various audit teams (in larger Departments) or audits of various programs, schemes and auditee units; and
g. Participation in annual risk assessment activities.

GLOSSARY

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

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

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

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

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

Chief Audit Executive - The senior most officer (Pr. CCA/ CCA/ CA) in the Departmentalised accounting set up in Central Civil Ministries/Departments/ Departments responsible for internal audit activities.

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

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

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

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

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

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

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

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

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

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

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

Gender Budgeting - An application of gender mainstreaming in the budgetary process. It means a gender-based assessment of budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality. Gender budgeting involves examination of the gender distributional outcomes of budgetary allocations, that is, how these allocations affect the social and economic opportunities of men and women. Reallocations in revenue and expenditure and restructuring of the budgetary process may be necessary in order to promote gender equality.

Gender Mainstreaming – Concerns planning, (re) organisation, improvement and evaluation of policy processes so that a gender equality perspective is incorporated in all development guidelines, strategies and interventions, at all levels and at all stages by the actors normally involved therein. It is a globally accepted strategy for promoting gender equality. Mainstreaming involves ensuring that gender perspectives and attention to the goal of gender equality are central to all activities. Mainstreaming a gender perspective is the process of assessing the implications for women and men of any planned action, including legislation, guidelines or programs, in any area and at all levels. It is a strategy for making the concerns and experiences of women as well as of men an integral part of the design, implementation, monitoring and evaluation of guidelines and programs in all political, economic and societal spheres, so that women and men benefit equally, and inequality is not perpetuated. The ultimate goal of mainstreaming is to achieve gender equality.

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

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

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

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

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

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

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

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

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

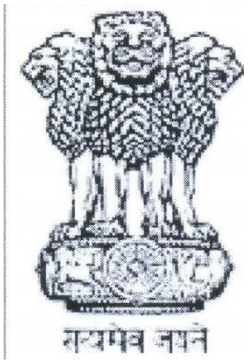
Residual Risk - The portion of inherent risk that remains after management executes its risk management process.

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

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

EXHIBIT I

ANNUAL REVIEW FORMAT FOR INTERNAL AUDIT WING



GOVERNMENT OF INDIA
MINISTRY OF……
PRINCIPAL ACCOUNTS OFFICE
INTERNAL AUDIT WING

ANNUAL REVIEW
ON THE PERFORMANCE OF
INTERNAL AUDIT

……

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4	An overview of Major findings of Internal Audit during the year 2015-16	
5	Sanctioned and working strength of Internal Audit Wing as on 1st April of the financial year under report.	
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FORMAT OF ANNUAL REVIEW FOR INTERNAL AUDIT WINGS

Preface

Note: A Preface in this case, is your chance to speak directly to your Management about why you prepare the Annual Review, what it is about and why it is important. As it is an introduction, a preface should include information about the Annual Review. Give a brief description and just enough to get the reader interested in reading more. Remember to keep it short. You don't want the preface to drag on and on. A good rule is to try to keep it to one page and be sure it is free of spelling and grammatical errors.

CHAPTER – 1

Executive Summary

Note: Remember that your purpose is to provide an overview or preview to Management who may or may not have time to read the whole report carefully. An executive summary should explain why you wrote the report, emphasize your conclusions or recommendations and include only the essential or most significant information to support those conclusions. Executive summaries are usually organized according to the sequence of information presented in the full report, so follow the order of your report as you discuss the reasons for your conclusions. Executive summaries are usually proportional in length to the larger work they summarize, typically 10-15%. Most executive summaries are 1-2 paragraphs.

Performance of Internal Audit during the Financial Year 2015-16

Note: Writing about effective performance objectives starts with understanding what performance objectives are and how they align with and support your organization's goals, objectives, and priorities. The chapter on performance presents the overall performance of Internal Audit Wing in terms of number of auditee units covered including Scheme, Banks and Grantee Institutions vis-a-vis the annual plan / target including Risk Based Internal Audit of different entities during the financial year under report. Also performance of units which are working on merged DDO Schemes, if any.

An overview of Major Findings of Internal Audit during the year 2015-16

Note: This portion of the Annual Review should include the analysed summarization of major findings for the purpose of brevity and ease of presentation depicting the information on major shortcomings in both compliance and Risk Based Audit.

Sanctioned and working strength of Internal Audit Wing as on 1st April of the Financial Year under report:

Category	Sanctioned Strength	In Position
Group 'A'		
Group 'B'		
Group 'C'		
Consultants engaged, if any from the empaneled list.		

Total number of units and their periodicity

Periodicity	**No. of units**
Annual	
Biennial	
Triennial	
Any other	

Targets and achievements in term of Units audited (Other than Banks/ Schemes/ Grantee institutions).

Units due for audit during the year	**Target for audit of units during the year**	**Units actually audited during the year (Annexure-II)**	**Arrear, if any**	**Reasons for arrear**

Targets and achievements in terms of *Schemes* audited

Units due for audit during the year	**Target for audit of units during the year**	**Units actually audited during the year (Annexure-II)**	**Arrear, if any**	**Reasons for arrear**

Targets and achievements in terms of *Banks /Grantee institutions* audited

Units due for audit during the year	**Target for audit of units during the year**	**Units actually audited during the year (Annexure-II)**	**Arrear, if any**	**Reasons for arrear**

Status of outstanding Audit Paras

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

Initiatives taken for settlement of the outstanding Audit Paras

Note: This portion of the Annual Review should include the efforts made by the Internal Audit Wing to settle the outstanding Paras. This section may also include the difficulties faced in getting the replies of the observations from the entities for settlement. The constraints and suggestions, if any, should clearly be indicated in this segment.

Expectations from Management

Note: This should include a brief of < 200words, about the expectations of the Internal Audit Wing from the Management (Ministry / Department) to strengthen the Internal Audit Wing and their skill upgradation to achieve the objectives and meet the expectations of the stake holders.

New Initiatives

Note: This section should include the brief on new initiatives taken by the Ministry / Department, if any, during the year under report in achieving Departments goals and objectives.

CHAPTER - II

(SUMMARY REPORT OF PARAS SHOWN IN CHAPTER III)

(Including Schemes/Banks/PSUs/Grantee Institutions)

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

CHAPTER - III

LIST OF IMPORTANT IRREGULARITIES

(Including Schemes /Banks /Grantee Institutions)

(AMOUNT NOT LESS THAN RUPEES ONE LAKH)

(Detailed guidelines available in Annexure-I attached)

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

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

2. Cases of Over payments

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

3. Cases of idle machine /surplus stores

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

4. Cases of loss/in fructuous expenditure

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

5. Cases of irregular expenditure

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

6. Cases of irregular purchase

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

7. Cases of non-adjustment of advances

(i) Contingent Advances

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

(ii)Travelling Advances

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

(iii) Leave Travel Concession Advances

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

(iv) Long Term Advances

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

8. Cases of blocking of Govt. money

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

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

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

10. Any other items of special nature

Sr. No	Name of office	Para No. of Report	Amount (in lakhs)	Detail of Para in brief (in less than 30 words)
1				
2				
3				

CHAPTER — IV
SCHEME AUDIT
Strategy / approach adopted for conducting the Risk Based Audit:

Note: This section should include the brief description of the methodology / approach adopted for conducting the Risk Based Internal Audit.

Details of auditable units under the Ministry / Department and their periodicity:

Annual:

S.No	Name of Unit
1	
2	

Biennial:

S.No	Name of Unit
1	
2	

Triennial:

S.No	Name of Unit
1	
2	

LIST OF SCHEMES WITH STATUS OF AUDIT CONDUCED DURING THE YEAR

S. NO	NAME OF SCHEME	BUDGETARY PROVISIONS (Rupees in Crores)		Whether audit conducted during the year (Yes/No)
		Plan	Non Plan	

LIST OF AUTONOMOUS BODIES/PSUs/GRANTEE INSTITUTIONS WITH STATUS OF AUDIT CONDUCTED DURING THE YEAR

S. NO	NAME OF SCHEME	BUDGETARY PROVISIONS (Rupees in Crores)		Whether audit conducted during the year (Yes/No)
		Plan	Non Plan	

LIST OF BANKS WITH STATUS OF AUDIT CONDUCTED DURING THE YEAR

S.No	Name of Banks/ Autonomous Bodies	Whether audit conducted during the year (Yes/No)

CHAPTER-V

QUANTIFYING OF OUTCOME OF INTERNAL AUDIT IN TERMS OF ACTUAL RECOVERIES MADE DURING THE FINANCIAL YEAR UNDER REPORT.

(Rupees in lakhs)

S.NO	NAME OF MINISTRY	CASE OF NON RECOVERY OF GOVT. DUES		CASE OF OVERPAYMENT		CASES OF IDLE MACHINERY SURPLYS STORES		CASES OF LOSS/INFRASTRU CTUTOUS EXPENDITURE		CASES OF NON ADJUSTMENT OF ADVANCES		CASES OF BLOCKING OF GOVT. MONEY		PENAL INTEREST ON CASES OF DELAYED		CASES OF EXCESS/DOUBLE REIMBURSEMEN		TOTAL	

Note: This section should include the actual recoveries made during the financial year under report irrespective of the year of observation in the prescribed proforma.

CHAPTER – VI
CAPACITY BUILDING / TRAININGS UNDERTAKEN DURING THE YEAR UNDER REPORT

Note: Brief on efforts made for capacity building / trainings undertaken by officers / staff in various aspects of Internal Audit including risk based internal audit approach.

List of courses with officers trained in Internal Audit during the year:

S. No.	Name of course/training	Name of Institution	Number of officers trained during the year under Report		
			Group A	Group B	Group C

ANNEXURE - I GUIDING NOTE FOR CHAPTER-III

S.No.	Particulars	Specific Guidelines
1	Non-recovery of Govt. dues entral from Govt. Department/ Govt. State govt./ bodies/ Private parties	This should include cases of non recovery of Tax deduction at Source, non recovery of confirmed demand of Central Revenue, Non recovery of penal internal on delayed remittances, non-recovery of penalty from exporters, non-recovery of loan and interest thereon from State Govt./ private parties and non-recoveries of guarantee fee etc.
2	Over payments	This segment includes overpayment of pay and allowances, excess payment of duty drawback/terminal excise duty and excess payment of taxes etc.
3	Idle machinery/ surplus stores	This includes review of installation and operating efficiency of expensive equipments and Machinery with

		physical verification of stores, tools and plant.
4	Loss/in fructuous expenditure	This includes Loss due to embezzlement, loss due to delay in completion of work, loss of stock due to improper storage and spillage, interest allowed for delay in refund order and any avoidable expenditure etc.
5	Irregular expenditure	Expenditure without sanction / beyond the delegated powers of the competent authority.
6	Irregular purchase	Irregularities in procurement of Stores, Machinery and equipment etc. / note following the provisions of the GFRs.
7	Non-adjustment of advances- Contingency advances- T.A. Advance- LTC Advances- Long term Advances-	Includes non-adjustment of advances paid to Government Servants.
8	Blocking of Govt. money	Non utilisation of funds for the purpose it were intended to thus forfeiting the objective of the Scheme/Project.
9	Non-accountal of costly Govt. stores/ money	Assets / stores purchased but not entered in relevant records.
10	Any other items of special nature.	Items not covered under S.No.1 to 9 above.

EXHIBIT II

INTERNAL AUDIT REPORT TEMPLATE



Government of India
Ministry of Finance
O/o Chief Controller of Accounts
Internal Audit Wing
New Delhi
IAR No. MoF/01/2017

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

Internal Audit conducted by
_____
_____
_____
(Write names of Auditors)
From _____to_____

Report Issued on_____

Executive Summary

Remember that your purpose is to provide an overview or preview to Management who may or may not have time to read the whole report carefully. An executive summary should explain and emphasize your conclusions or recommendations and include only the essential or most significant information to support those conclusions. Executive summaries are usually organised according to the sequence of information presented in the full report, so follow the order of your report as you discuss the reasons for your conclusions. Executive summaries are usually proportional in length to the larger work they summarize, typically 10-15%. Most executive summaries are 1-2 pages and would be normally contain the “red" risk category items.

Detailed Audit Report

1. Introduction

1.1 Name of the Auditee (unit audited)

1.2 Period covered under current audit

1.3 Duration of Internal Audit (*Indicate dates*)

1.4 Brief description of duties/functions of Auditee

1.5 Sanctioned strength and working strength

1.6 Budget / Expenditure of the auditee unit

1.7 Status of outstanding Statutory Audit observations

1.8 Status of outstanding Internal Audit Observations

2 Objective and Scope

Elaborate on the objective and scope of the audit engagement

3 Methodology

Elaborate on the methodology employed during the audit engagement.

4 Audit Observations

Each Audit Observation may be structured as described below

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

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

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

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

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

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

9 Action Taken Report

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

Suggested format of the Action Taken Report is given below

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

1. 2. 3. 4.				

Guidance Notes

i. The Executive Summary should be restricted to a few (1-2) pages.

ii. The detailed Audit evidence (all data / information / documents in support of Audit observations) form part of the working papers for each audit engagement and should **not** be annexed to the Internal Audit Report. These however, should be linked / indexed properly and kept in safe custody for any future reference and examination.

iii. Each Internal Audit report should follow the numbering format indicated on the cover page of the draft report template. Audit observations should be so numbered as to facilitate simple referencing subsequently.

EXHIBIT III

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

New Delhi, dated the June 1, 2006

OFFICE MEMORANDUM

Subject: Scheme of 'Integrated Financial Adviser'

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

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

3. This comes into force with immediate effect.

(Adarsh Kishore)

Finance Secretary and Secretary (Expenditure)

To,

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

REDEFINED CHARTER FOR FINANCIAL ADVISERS

INDEX

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III.	Involvement in key Process of Ministries/Departments	11-12
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VII.	Capacity Building	17-18
	ANNEX-I:Copy of OM No. 10(29)-E.Coord/73 dated 06.10.1975 indicating the functions of Integrated Financial Adviser along with the modalities for functioning.	19-21
	ANNEX-II : Provisions under DFPR indicating duties and responsibilities of the Financial Adviser.	22-23

(I) Introduction

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

2. The last thirty years since introduction of this scheme have seen the Indian economy grow from a less developed stage to one of the fastest growing economies of the world. This growth has been the result of well structured economic reforms and conscious policy decisions. The last two decades have witnessed a plethora of reforms in monetary and fiscal management of the country. We have no w reached a stage from where further progress requires a renewed effort. The second-generation reforms are throwing up complex challenges which, inter alia, call for a re-look at some of the institutionalized financial management systems.

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

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

5. The more complex responsibilities envisaged for FAs must be accompanied by corresponding authority and capacity. It would, therefore, be necessary to ensure that FAs are suitably empowered and appropriate measures are taken for capacity building both institutionally and individually. The organizational resources, structure and processes themselves may need to be augmented/modified and I.T. enabled systems, latest financial management practices, knowledge management structures etc. put in place.

(II) Role of Financial Advisers

6. The role of Financial Adviser is now conceived to be akin to the role of Chief Financial Officer in a corporate structure, with specific responsibilities for ensuring fiscal prudence and sound financial management. They would bring requisite financial expertise and overall perspective of financial management of the Government as enunciated by the Ministry Of

Finance, in rendering professional advice to the Secretaries of the administrative Ministries/Departments on all matters which have financial implications.

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

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

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

(i) **Budget formulation:** FAs would continue to be responsible for budget formulation. They would bring in more analytical inputs into the budget formulation process, for improved budgeting and facilitating moving from 'itemized' to 'budgetary' control of expenditure. The present system relies largely on previous year's programme allocations and continuing commitments, without any real evaluation and expenditure analysis. FAs would now increasingly be required to assist the Administrative Ministries/Departments/Departments in moving towards zero based budgeting, and assist in better inter se programme prioritization/ allocation within the indicating budgetary ceilings, based on analysis of expenditure profiles of each programme/ sub-programme and information on cost centres/ drivers, assessment of output, outcome and performance, and status of the projects/ programmes (e.g. priority to last mile projects. Chief Controllers of Accounts / Controller of Accounts (CCAs/CAs) will support them in this function. Such an analysis at the time of initial budget formulation should, over a period of time, help in enforcing hard budget constraints and reducing reliance on supplementaries. As the FAs' internal budgetary exercise becomes more rigorous, their involvement in MoF's budgetary processes will increase.

(ii) **Outcome Budget:** Administrative Ministries/Departments will now be required to prepare their respective 'outcome budgets' by late March each year, on the basis of the 'Annual Financial Statement' presented I the Parliament in February. The outcome budget would reflect the outlays in terms of outcomes, defined in measurable and monitor able terms. Reasonability of budget estimates, vis-à-vis the intend outcomes; will be ensured through specific appreciation of the unit costs of outcomes/delivery. Major schemes should

have built-in provision for their evaluation by independent agencies, which may be appointed by the Administrative Ministries/Departments and / or Planning Commission / MoF. FAs would be actively involved in the preparation of outcome budgets. They would also assist the Administrative Ministries/Departments in clear definition of measurable and monitorable outcomes with specified deliverables, setting up appropriate appraisal, implementation/ delivery, monitoring and evaluation system, and ensuring actual achievement of the intended outcomes.

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

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

(v) **Expenditure and cash management:** FAs would continue to be responsible for expenditure management and cash management. MoF's initiatives for better expenditure management through sophisticated exchequer control mechanisms would also be supported by FAs with improved cash management, through monitoring of monthly cash flows effectively in the context of cash expenditure/ commitments to be agreed to mutually between the MoF and the Ministries/Departments/ PSUs / Autonomous institutions. This would help tighten the system of receipts and payments monitoring, and secure greater convergence of revenue inflow and expenditure outflows, so that borrowing and thus debt charges can be minimized. FAs would also ensure that release of funds to State Governments / other agencies is linked to the scheme-wise / project-wise utilization certificate and audited expenditure of previous years. Utilization certificate should reflect outcomes, or at least the physical outputs. FAs will also ensure that unspent balances with the State Governments and other agencies are not transferred to Public Accounts, and in case such transfer is permitted, these should be duly audited. The expenditure management function would also be closely

linked to the outcome budget. CCAs/ CAs will support FAs in the discharge of these responsibilities.

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

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

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

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

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

(xi) **Monitoring of assets and liabilities:** Each Ministry/Department must have a comprehensive record of its assets and liabilities. FAs would cause appropriate action for

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

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

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

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

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

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

(III) Involvement in Key Processes of Ministries/Departments

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

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

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

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

(IV) Reporting Systems

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

14.FAs would also be required to furnish an 'Annual Outcomes and Systems Report', which would give factual information regarding the outcomes achieved vis-à-vis intended (as per Outcome Budget), policy and systems changes / improvements and action – taken/ results –

achieved in regard to those aspects of FA's role which are not included in the Annual Financial Report.

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

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

(V) Roles and responsibilities of CCAs / CA

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

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

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

i. <u>Receipts, Payments and Accounts :</u>
   - Accurate and timely payments in conformity with prescribed rules and regulations.
   - Timely realization of receipts.

- Timely and accurate compilation and consolidation of monthly and annual accounts.
- Efficient service delivery to the Ministry / Department by the banking system.
- Adherence to prescribed accounting standards, rules and principles.
- Timely, accurate, comprehensive, relevant and useful Financial Reporting.

ii. Internal Audit / Performance Audit

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

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

iii. Other financial management activities :

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

(VI) Interaction between MoF and FAs

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

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

- Implementation / compliance of decisions taken in FM's quarterly meetings.

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

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

(VII) Capacity Building

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

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

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

26. FAs would be the nodal points within their respective Ministries/Departments for all activities relating to Plan, Budget and Programme/ project evaluations. As such, any units in the Ministry/Department currently looking after the functions of undertaking evaluations, preparing Annual/ Five year plans etc. should function under the overall supervision and control of the Financial Adviser.

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

ANNEX-I

F.No.10(29)-E.Coord/73
Government of India
Ministry of Finance
Department of Expenditure
New Delhi, the 6th October, 1975

Office Memorandum

Subject: Scheme of 'Integrated' Financial Adviser

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

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

proposals involving expenditure should facilitate the more effective discharge of the Financial Adviser's responsibility. It is cardinal to the working of the new scheme that the Financial Adviser should be associated with the formulation of schemes from the initial stages. The Financial Adviser will also be responsible for preparation of the Ministry/Department's performance budget and monitoring of progress of schemes against the budget. The maintenance of an efficient accounting system is necessary for this purpose.

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

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

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

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

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

- Officers of services other than the Central Secretariat Service will be treated as on deputation to the administrative Ministry/Department instead of to the Finance Ministry.
- Officers of the Central Secretariat Service including Grade I and selection grade will be treated as transferred to the administrative Ministry/Department.

- Members of the decentralized cadres of various grades of CSS will be transferred on loan basis from their present cadre to the cadre of the administrative Ministry/Department on a purely temporary basis.

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

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

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

Sd/-
(NNK Nair)
Joint Secretary to the Govt. of India

To,

All Ministries/Departments / Departments of the Govt. of India.

ANNEX-II

APPENDIX 2

ITEMS OF WORKS TO BE HANDLED BY INTERNAL FINANCIAL ADVISERS

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

i. To ensure that the schedule for preparation of budget is adhered to by the Ministry/Department and the Budget is drawn up according to the instructions issued by Finance Ministry/Department from time to time.

ii. To scrutinize budget proposal thoroughly, before sending them to Ministry of Finance.

iii. To see that complete Departmental accounts are maintained in accordance with the requirements under the General Financial Rules. It should, in particular, be ensured that the Ministry/Department not only maintains account of expenditure against the Grants or Appropriations directly controlled by it but also obtains figures of the expenditure incurred by the subordinate offices so that the Ministry/Department has a complete month to month picture of the entire expenditure falling within its jurisdiction.

iv. To watch and review the progress of expenditure against sanctioned grants through maintenance of necessary Control Registers and to issue timely warnings to Controlling Authorities where the progress of expenditure is not even.

v. To ensure the proper maintenance of Register of Liabilities and commitments as required under the GFRs to facilitate realistic preparation of budget estimates, watching of book debits and timely surrender of anticipated savings.

vi. The screen the proposals for supplementary demands for grants.

vii. To formulate the foreign exchange budget for the Ministry/Department and to process individual cases for release of foreign exchange in accordance with the instructions issued by Department of Economic Affairs from time to time.

viii. To advise the Administrative Ministry/Department on all matters falling within the field of delegated powers. This includes all powers other than those devolving on a Ministry/Department in its capacity as Head of Office. It has to be ensured by I.F.A that the sanction issued by Administrative Ministry/Department in exercise of delegated powers clearly indicates that they issue after consultation with I.F.A.

ix. To identify, in particular, specific savings in cases of creation of posts and to maintain a Register for this purpose.

x. To scrutinize proposals for re-delegation of powers to subordinate authorities.

xi. To keep himself closely associated with the formulation of schemes and important expenditure proposals from their initial stages.

xii. To associate himself with the evaluation of progress/performance in the case of project and other continuing schemes and to see that the results of such evaluation studies are taken into account in the budget formulation.

xiii. To watch the settlement of audit objections, inspection reports, draft audit paras, etc.

xiv. To ensure prompt action on Audit Reports and Appropriation Accounts, reports of Public Accounts Committee, Estimates Committee and Committee on Public Undertakings.

xv. To screen all expenditure proposals requiring to be referred to Finance Ministry/Department for concurrence of comments.

xvi. To ensure regular and timely submission to Finance Ministry/Department of quarterly staff statements and other reports and returns required by Finance.

EXHIBIT IV

Implementing the Risk Based Internal Audit Methodology

Before commencing the Risk based internal audit, the CAE should do some preparedness activities including presenting to the Ministry the benefits and challenges of implementing the RBIA methodology for internal audit. It is also beneficial to do some background activities including preparing a register that captures the significant risks and audit activities against them, often known as the Risk and Audit Universe (RAU)

The Stages of Risk Based Internal Audit

The implementation and ongoing operation of RBIA has three stages wherein the CAE shall:

- Assess the risk maturity of the Ministry/Department
- Assign the risks to an audit and set up the Risk and Audit Universe (RAU) and draw up a plan for carrying out audits, usually annual
- Carry out individual risk based audits and feedback the audit results into the RAU

Stage 1 – Assessing the Risk Maturity of Ministry/Department

An assessment of the risk maturity will determine the internal audit strategy that will influence the internal audit plan and lead to issuing the first report to the Program/Scheme Management and the Ministry's Audit committee. This should be accompanied with a list of risks (risk registers) compiled by Ministry/Department, which may be incomplete, but with the job title of the person responsible for managing the risks.

Assessment of Risk Maturity can be done using the following steps:

a. **Meet the concerned officials of the Ministry/Department** and find out what processes have been introduced to improve the risk maturity. These processes will include training, risk workshops, questionnaires about risks and interviews with risk managers. The ultimate deliverable from these processes should be a comprehensive risk register. Refer **EXHIBIT VI** for a sample Risk Register.

b. **Assemble the supporting information available**, such as:

i. What are the objectives of the scheme/programme of the Ministry/Department?
ii. What processes are used for assessing risks? (such as by scoring their impact and likelihood, so that they may be prioritised)
iii. How do the Ministry officials define their risk appetite? (The scoring system can be used for inherent and residual risks)
iv. What procedures are used by Ministry/Department officials to enable them to identify all the key risks threatening the Ministry's/Department's objectives?
v. Whether the Ministry/Department officials consider risks and their associated

controls as part of decision-making? (for example in project approval documents)

vi. Whether the risks of the Department/Ministry have been assessed, based on their significance and the objectives that they threaten?

vii. Whether the Ministry/Department has any other documents, including those on its intranet, which indicate the commitment to risk management?

c. Audit the risk management processes. There are some commonly used methodologies for assessing Risk maturity including a Position statement issued by IIA. The risk maturity levels put an organisation to one of the 5 levels, viz Risk naïve, risk aware, risk defined, risk managed and risk enabled. These usually depend upon the design and effectiveness of the Enterprise Risk Management (ERM) system in the entity.

d. Conclude on the risk maturity. CAE should issue a Report on Risk maturity with recommendations. It should include a comparison of the risk maturity as assessed by the Program, if one exists.

e. Levels of Risk maturity. The levels of risk maturity are as follows:-

i. Risk Naïve: (No formal approach developed for risk management).
As with the risk aware Ministry/Department, it will be necessary to promote, or provide consultation on the establishment of a risk management framework. Internal audit should ideally not determine risks without involvement of Ministry/Department officials, nor maintain their own list of risks, as this will reinforce their belief that internal audit is responsible for risk management.

However where the Ministry or Department is not in a position to determine risks or participate in a risk identification exercise with the IAW, the IAW should prepare its own Risk Registers and share them with the Ministry/Department/Programme officials for their feedback. At this stage it may be prudent to communicate that if feedback on these risk registers is not obtained within a reasonable period (to be specified), then the IAW will conclude that there are no comments/feedback forthcoming and its assessment is acceptable to the concerned officials.

For Departments that are subject to regulations concerning the adequacy of risk management, the level of risk maturity in risk aware and risk naïve Department is not acceptable, and the audit committee should be made aware of this. The action above is therefore a short-term solution to producing a limited audit plan.

ii. Risk Aware: (Scattered silo approach to risk management)
No risk register will be available, only a few managers will have determined their risks. Internal audit will act as a support function to undertake a risk assessment (in conjunction with Ministry/Department officials) to determine the work required to implement a risk framework which fulfils the requirements of the Department. Internal audit aims to provide assurance that risks are being managed, or advice as

to how to respond to them. Since this type of organisation does not have a risk management framework, RBIA cannot be implemented. However, individual audits can be driven by risks where Department understands risks, or internal audit has sufficient expertise to identify risks.

iii. **Risk Defined:** (Strategies and Guidelines in place and communicated. Risk appetite defined).
While most Ministry/Department officials may have compiled lists of risks, it is possible that these will not be assembled into a complete risk register. CAE will act as a consultant to facilitate the compilation of a complete risk register. Where risk management is poor, internal audit will have to facilitate the identification of risks, using workshops and interviews. It is probable that some consultation work will be necessary to advise officials about the action to be taken where weaknesses are found.

iv. **Risk Managed:** (Ministry/Department wide approach to risk management developed and communicated).
It is similar to the risk enabled approach and it may be necessary to recommend actions where weaknesses are found.

v. **Risk Enabled:** (Risk management and internal controls fully embedded into the operations).
A complete risk register will be available for audit planning. The emphasis of the audit work will be that the risk management processes are working properly and that key risks are reported and controls are monitored by officials of the Ministry/Department. If weaknesses are found, it is unlikely that a recommendation will be necessary, since officials will be aware of the action to be taken.

The chart below depicts the strategy to be followed by the IAW based on the level of risk maturity of the auditee Ministry/Department.

Audit strategy for different levels of risk maturity

Area	Risk Naïve	*Risk Aware*	*Risk Defined*	Risk Managed	Risk Enabled
Risk maturity report on ERM processes	**No Formal ERM**	**Poor ERM**	**ERM Deficiencies**	ERM Managed Organisation	ERM enabled Organisation
Advisory objectives in RM	To promote, guide, facilitate RM	**To promote, guide, facilitate RM**	To embed RM	To improve RM	Need based improvement (NBI)
Audit Plan based on	Traditional audit plan	Traditional audit plan (TAP)	**Management view on risk (RBIA) and supplement with TAP**	Management view on risk drives audit plant (RBIA)	Management view on risk drives audit plant (RBIA)

Assurance on	Control processes	**Control processes**	**ERM and control processes**	ERM	ERM

Figure 7

Stage 2 – Assign the risks to an audit and set up the Risk and Audit Universe (RAU) and draw up a plan for carrying out audits, usually annual

Having assessed the risk maturity of the Ministry/Department in Stage 1, the auditor can decide what reliance to place on the list of risks provided by Ministry/Department when determining the audit plan. Alternately, it may need to rely on the Risk Registers prepared by the IAW i.e. where the auditor cannot rely on the risks provided, the options noted in stage 1 (Step 5) are available.

At this stage, the Internal Audit Wing has to decide:

i. Which risks should be checked to ensure they are being properly managed?
ii. When should they be checked (this year, next year)?
iii. How should they be checked?

The objective of this stage is to produce an audit plan listing audits to be carried out over a specified period, usually a year. This plan will include all the audits, and other work, which enable the Internal Audit Department to report its conclusions on the risk management processes, as defined by the terms of reference agreed with the audit committee.

To prepare an internal audit plan, CAE should follow these steps:

a. Determine the risks requiring assurance

Obtain the risk register which will include most of the risks above the risk appetite, plus others, scored by a standard system.

Filter the list of inherent risks to remove those where audit is not possible or necessary, as follows (*audit action in brackets*):

i. The risk is within the risk appetite and requires no further work. (*No audit*)

ii. The nature of the risk is such that it cannot be brought within the risk appetite, and will be tolerated. (*Tolerate, consider auditing contingency plans*)

iii. The risk is being examined by a third party, or through internal audit, or through another function. The Department's overall strategy on assurance should provide guidance. (*No audit, assurance from …*)

iv. The risk is being managed within the risk appetite, as evidenced by previous audit work. Taking into account the risk evaluation, audit results, monitoring of controls by Ministry/Department officials, changes in the area concerned, and the time since the last audit, internal audit can provide assurance that risks will remain within the risk appetite, without doing any audit work. A date outside the plan may be recommended for the next audit. (*Assurance available. Next audit…)*

v. The remaining risks are those on which assurance is required and these will form the basis of the audit plan. These risks, and those filtered out, will be included in the report to the audit committee, so they are aware of how *all* the risks are being managed. Note that risks where the response is *terminate* or *transfer* remain in the plan, in order to provide assurance that the appropriate action has been taken and the risks no longer exist, or are within the risk appetite.

b. Allocate risks to audits

i. Categorise the risks. If there are a large number of risks, it will be useful to categorise them. Categorising will group the risks into a logical order and assist in compiling the audit plan and also prevent duplication. The primary aim of categorisation is to aid the planning of internal audit. Useful categorisations are:

- **By objectives:** This links audit directly to the objectives threatened by the risks, whose management is being checked by the audit.
- **By risk owner:** This method can be used for audits in specific locations.
- **By programme/operations unit:** This is useful where the Department/ programme/ scheme has a number of physically independent units, whose processes are self-contained.
- **By processes:** Planning, fund transfers, implementation, monitoring, etc.
- **By type:** such as governance, financial, external, operational and compliance.

Rationale for use of a particular type of categorisation may be useful for preparing future plans.

ii. Link risks to audits. There are two methods which can be used to link risks to the audits which will check their management:

- **Group the risks**, for example by objective or process, and decide the audits that will provide assurance on the management of these risk groups.
- **Set up an Audit Universe**, for example where each audit is allocated to a unit or process, and assign the risks to be assessed to these audits. It does require a check to ensure that the management of all the risks is being audited.

iii. Where the **response to risks** is not treatment (controls), other actions might be required. This is noted in the *Response* column:

- **Risks are to be tolerated**: the audit committee should be aware of this and the possibility of providing assurance on contingency plans be considered.
- **Risks are transferred (for example by insurance)**: assurance should be provided that all risks are transferred and robust processes exist to ensure any appropriate new risks are captured. Where it is considered that risks have been outsourced, for example information system risks to a third party supplier, it will be necessary to identify the new manager of the risk and that any compensation for their failure to manage risks is adequate and set out in the contract.
- **Risks are terminated:** assurance might be necessary to confirm that risk has disappeared.
  Every risk should have a response; every response can be audited.

iv. Consider the list of audits identified. Are there any missing that the internal auditor would consider essential to check the management of significant risks? Their absence may indicate that some risks are missing from the risk register.

c. Draw up the Proposed Annual Audit Plan

i. **Selection of risks**. At this point the risk and audit universe shows risks, their scores and the audits linked to them.

ii. **Selection of risks to be covered this year**. There will be a range of scores and in drawing up the audit plan, guidelines will have to be established about which risks to cover and how often.

iii. **Audits to be planned**. At this stage, the individual risks that are to be examined, have been determined. Since the management of several risks is included in one audit, the audits may be prioritised by adding up the control scores of the risks included.

iv. **Additional audits.** All the audits to be included in the plan should have now been determined. However, many organisations like to add audits based on criteria other than risk. Such criteria might include: areas subject to change; mandatory audits; audits requested by concerned officials of the Ministry/Department.

d. Allocate resources

The number of days required to complete each audit is estimated. The total of days required to audit all the controls over the risks is summed and compared to the resources available. If resources are insufficient to complete the plan, an increase in

staff should be considered, alongside other options, such as reducing the number of audits.

e. Finalize the audit plan

The audit plan can now be extracted from the Risk and Audit Universe. This should provide the audit committee with:

i. Which are the risks where assurance will be provided on the risk management processes, by carrying out the audits in the plan?
ii. Which are the risks where assurance will be provided based on audit work from previous years?
iii. Which are the risks where consultancy work will be carried out to assist Ministry/Department officials in reducing the risks to below the risk appetite?
iv. Which risks are not covered, due to guidelines or resource constraints?
v. Whether the plan is in accordance within the scope?

f. Update the risk and audit universe

This should be done regularly**,** at least every three months, on the basis of re-assessment of risks done by Ministry/Department and conclusions drawn from audit reporting during this period. The impact on the audit plan should then be considered.

Comprehensive RBIA depends on a risk management framework being available in an organisation and, in particular, on the existence of a complete risk register. Since these don't exist in risk aware and risk naïve Ministries/Departments, the emphasis must be on internal audit promoting risk management.

Stage 3 – Carrying out an Individual Assurance Audit

The audit work should be able to provide assurance that:

i. Ministry/Department has identified, assessed and responded to risks above the risk appetite.
ii. The responses, especially the system of internal controls treating the risks, are effective in reducing the inherent risks to below the risk appetite.
iii. Where residual risks are above the risk appetite, action is being taken to reduce them to within the risk appetite, or the board has been informed that they will be tolerated, transferred or terminated.
iv. Risk management processes are being monitored to ensure they continue to operate effectively.

For each of the risks covered, the audit should give reasonable assurance that:

i. The risk is being managed to within the risk appetite of the Department or,
ii. Action has been agreed to bring the risk within risk appetite or,
iii. The risk will have to be tolerated or,
iv. The risk is being terminated or transferred, or
v. The risk is not being managed within the risk appetite, and no suitable action is being taken.

In order to be able to provide assurance that the risks are being effectively managed, the CAE shall follow the given steps:

a. The CAE should determine the Risk Maturity as per the steps given in Stage 1.

b. Decide on the approach. Depending on the above conclusions, decide on the audit approach.

i. Where areas concerned are **risk managed**, or **risk enabled**, detailed audit work is unlikely to find missed risks and deficient controls. The emphasis should be on auditing the risk management processes, for example resources, documentation, methods and reporting.

ii. Where the area is **risk defined,** audit work will include verifying whether risk management processes work effectively, but detailed audit work will be required to ensure that all risks have been identified and tests carried out to ensure controls are operating.

iii. Where areas are **risk naïve or risk aware**, risk driven audits will be possible, but will require training and risk workshops to determine risks in the areas concerned.

c. Carry out the audit.

i. Carry out the audit work.
ii. Discuss the issues raised with concerned head of Ministry/Department and issue the audit report.
iii. Update the risk and audit universe from time to time.

The results of the audit are used to advise Ministry/Department on updating the risk registers with actual status of residual risks.

d. Summarise the audit conclusions for the audit committee. The nature and timing of this summary will depend on the scope of governing the Internal Audit Wing.

Risk Based Internal Audit Plan

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. The following IIA standards refer to the risk based audit planning process:-

IIA Standard 2010: The Chief Audit Executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

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

IIA Standard 2010.A1: The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of concerned management and the board must be considered in this process.

IIA Standard 2010.A2: The Chief Audit Executive must identify and consider the expectations of concerned management, the board, and other stakeholders for internal audit opinions and other conclusions.

IIA Standard 2010.C1: The Chief Audit Executive should consider accepting proposed advisory engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

EXHIBIT V

SAMPLE SURVEY TO IDENTIFY VULNERABLE AREAS OF THE TECHNOLOGY PROCESSES DEPLOYED TO DELIVER VALUE TO BUSINESS PROCESSES

Rate the dependency of the activity on IT systems and information:

HIGH/ MODERATE / LOW

A. IT STRATEGY

1. Is there a strategic plan at the Ministry/ scheme to leverage IT for improving its workflow, etc.?
2. Are cost effective IT solutions being periodically tracked?
3. Where the Program/Scheme is being extended in other states, is IT infrastructure and resource also being planned and ramped up?

B. PERSONNEL MANAGEMENT

1. Is there adequate skilled manpower to execute activities in time? Is the policy on temporary staff adequate to ensure adequate IT staff?

C. BUSINESS CONTINUITY/ DISASTER RECOVERY PLANNING (BCP/DRP)

DRP is usually associated with long outages as floods, earthquakes, other natural calamities while BCP is for shorter outages where business continues after a disruptive event through restoring core activities including critical information and systems

1. Comment on the DRP/BCP process
2. Comment on the potential disruptive register and the sequence of the DRP/BCP.
3. Comment on the 'disaster recovery simulation' and the communication flow'

D. PACKAGE IMPLEMENTATION/CHANGE MANAGEMENT

Where these activities have taken place or planned to take place a review of the process becomes mandatory

1. The defined sub-processes are being followed, viz. change request, change review, change deployment, testing, approval, deployment, follow-up and validation.

E. USER PROVISIONING AND SEGREGATION OF DUTIES (SOD)

User provisioning refers to the process of signing, modifying and removing user access to systems based on current job responsibilities.

1. Check for a defined process for user provisioning and its compliance.

Segregation of duties (SOD) is usually a set of rights based on the role.

1. Check if there is a role based access control
2. Check for segregation of duties conflicts in the role design and macro situation
3. Comment on the adequacy of the role based access control design after considering the complexity of networks, applications, databases, etc.

F. CONFIGURATION MANAGEMENT

Configuration management is creating a baseline and then change management process for configurable settings within the IT systems

1. Can you say that it is a well - controlled environment?
2. Are the baseline settings well documented, after being analyzed with reference with control points?
3. Check to see whether existing systems in line with baseline settings
4. Are there any new parameters which need to be considered for baseline settings?

G. OPERATIONS

H. Check for compliance on whether operations regarding day-to-day activities are performed in a planned manner, to include

i. Job scheduling
ii. Help desk
iii. Incident management
iv. Daily maintenance and updating of systems

I. SECURITY

1. Test for existence and adequacy of physical security?
2. Test for existence and adequacy of logical security?

J. MONITORING

1. Test for existence and adequacy of monitoring activities of the IT environment
2. Test for existence and adequacy of monitoring controls for effective operations

K. INTEGRATED AUDITING

Integrated auditing involves testing the underlying IT controls along with determining that operational, financial or compliance controls are effective and efficient to support business processes. Hence if the operational controls over payroll are strong however the database security is weak then the risk of fraud still exists.

1. Identify areas where integrated auditing is required.

L. CONTINUOUS AUDITING

1. List opportunities for continuous monitoring/continuous auditing.

Sample for preparing an IT Audit Universe

Name of the Ministry/Department			
Name of the Program, Scheme			

	Date : Ver No: Prepared by:		
	Audit Universe Database		
Inventory of specific technologies and processes to manage them		**Significant Risk areas**	**Testing Program Ref**
A		B	C
A. Application Systems			
1. Project planning and management			
2.			
3. Application management			
4. Application security and configuration			
B. Business Continuity Planning			
1. Data Backup and Recovery			
2.			
3.			
C. DATABASES			
1. Database design			
2.Database configuration			
3			
D. Business Process IT Controls			
1. Application Configuration			
2. Application Security			
3. User Access and segregation of duties			

E. IS Operations			
1. Job Scheduling			
2. Performance monitoring			
3. Event management			
4			
F. Information Security			
1. Security policies and standards			
2.Security Admin			
3.Logical access			
G. Hardware			
H.			

EXHIBIT VI: Sample Risk Register for Ministries/Departments

Category (Function)	Risk Description	Risk Assessment Rating		Existing Control	Residual Risk Rating		Required Control	Control Owner	Timeline for Implementing.
		Impact	Likelihood		Impact	Likelihood			
Negative consequences on women	Interventions like DBT increase the economic empowerment of women, resulting in increased levels of domestic gender based violence (GBV). Agencies lack understanding, commitment and/or skills to promote meaningful women's empowerment beyond tokenistic participation (e.g. one off workshops)	High	Medium	Gender mainstreaming and gender sensitive program responsibility of Partner Agencies.	High	Medium	NGOs must demonstrate their readiness to address the risk of GBV, including gender strategies and clear 'Do no Harm' protocols. NGOs will include gender sensitive indicators in monitoring plans to track unintended negative consequences. Local partners will be encouraged to increase the number and responsibility of women and youth on their staff/boards.		
Child Protection standards breached	Poorly defined or poorly implemented child protection standards	Medium	Low	NGOs have child protection guidelines. One child-focused NGO has a child protection officer.	Medium	Low	All Partner Agencies must have a child protection policy. Training on the Child protection policy will be included in the planning workshop. NGOs working with children must undertake activity level child protection risk assessments and implement appropriate risk mitigation strategies. NGOs bear responsibility to ensure compliance of local partners.		
Program activities cause environmental damage	Small scale infrastructure, irrigation and other agricultural activities have potential to cause environmental damage.	Low	Low	Agriculture interventions were small scale and promoted sustainable land management. No incidents of environmental were recorded	Low	Low	Implementing agencies comply with Government and international standards (such as international environmental agreements) on environmental protection .		

Aid funds are used for fraudulent purposes	Weakness in financial management systems by a recipient individual, organisation or institution, do not adequately protect finances against fraud or detect fraudulent activity	Medium	Low	Partner selection includes assessment of governance arrangements, financial systems, and integrity checks. Grants to be structured in tranches and paid after acquittal of earlier tranche (therefore only one tranche/advance is ever at risk of fraud, diversion or non-performance). Capacity building and resources dedicated to strengthening financial management, governance and management Accounting procedures and annual reports are documented in line with Ministry Guidelines. Implementing partners all undertake audits on an annual basis and copies of these are provided to the Programme Division.	Medium	Low	The independent risk review found financial monitoring systems used by partners to be robust and comprehensive. NGOs monitor and follow up local partner reporting on fraud, conflict of interest, corruption and incident reporting.		

Delay in project	Steering Committee unavailable. Identified triggers: • Steering Committee meetings repeatedly rescheduled due to lack of availability;	High	High	No existing control.	High	High	Highlight strategic connection - link Project Objective to relevant Agency strategic objectives		
Delay in project	Inadequate funding to complete the project Identified triggers: • Funding is redirected; • Costs increase (poor quality materials/ inaccurate cost estimates) Staff reject new procedures Triggers include • Staff don't participate in training (not prepared for new roles); • New procedures not applied (work-arounds still used).	Medium	Low				Re-scope project, focusing on time and resourcing		
Training Programme	Unable to deliver classes due to building services failure	Medium	Low	Building maintenance programme "Early notification" fault reporting process Alternative venue	Medium	Low	Supplier audit Planned general inspection process		
Reputation	Loss of essential information due to IT failure Unable to access data or provide reports/information to external regulators/stakeholders. Unable to monitor performance	Medium	Low	Maintenance regime Systems "backed up" and information stored off site	Medium	Low	System tests and auditing data protection systems		
Human Resources	Unable to deliver quality services due to our inability to attract and retain high calibre staff	High	High				Staff support Staff development Recruitment and selection Succession management programmes Communication and news letters		

Delivery of Service	Unable to deliver services within the resources available to the Council to meet obligations and service standards, including keeping the current year's budget within the approved budget framework	High	Unlikely		High	Unlikely	Development of a budget strategy and budget options to reduce spending by around . Directorates are required by the budget framework to bring forward mitigating measures where practical to address adverse budget variances – at each budget monitoring		
Data Protection:	Risk of breach of data by inadequate data handling and not adequately preventing and minimising security incidents, including ICT incidents, resulting in loss ofdata, unlawful sharing of data, reputational damage and significant financial penalties levied by the Information Commissioner's Office.	Moderate	Medium	Ongoing corporate training programme for data protection, raising awareness with staff groups of the need to handle personal data securely,	Medium	Low	Roll out training corporately and introduce e-learning refresher training module. Need to test application of training by officers Need identified to update data protection suite of guidelines		
Property Risk	Failure to maintain the condition and services of buildings resulting in injury to individuals and/or non-compliance with relevant legislation or unavailability of asset.	High	Low	The comprehensive review of assets has included a program of condition surveys that has informed a prioritised program of works approved and implemented. Proactive planning and monitoring takes place on a monthly basis by Asset Committee	High	Low	Review of Building Management responsibilities to ensure that responsibilities are clear and adequate. Action Plan developed. Training Plan is in place. Annual internal audit of items in high risk properties.		

Safeguarding (children)	Risk of death or injury to children, through inappropriate care or attention	High	High	Routine audit process underway, reviewed monthly. Prepare Children's Social Care Improvement plan with focus on improved record keeping, compliance with procedures and acting on poor performance indicators. Monitored monthly	High	High	New Notification process for top ten high profile cases Ensure that Assessments are recorded, timely and accurate External audit of case work, leading to practice improvements		
Health and Safety Training	Health and Safety Training has not been completed by staff and managers leading to a risk of injury and litigation	Low	Low		Low	Low	Audit of health and safety training to identify gaps. Review of numbers who have completed Level 1 to ensure accuracy and programme of training to be agreed. Discussions with Learning and Development Team to agree a system to monitor training and refreshers		
Poor partner performance	Poor management due to inexperience with market based approaches to development; lack of quality private sector interest in program; lack of synergy between partners	High	Medium	Ministry works through civil society partners so does not rely on ministries for program implementation.	High	Medium	Civil society organisations will be monitored and rated by an approved rating agency/system		