

Office of Evaluation and Internal Oversight  
Internal Oversight Division

# Internal Audit Manual



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION

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## Preface to the Audit Manual release May 2019

The Manual's purpose is to meet the needs of auditors, audit management and clients; and should help to produce high-quality audits. It states the principles underlying the UNIDO internal audit function's approach and methodology to audits and advisory services, and the procedures to be employed within.

The Manual is a living document and therefore it will be updated as needed to reflect the latest standards, practices, and procedures that govern internal audit work. It should be noted that this document should serve as guidance. It is not a legally -binding document and no regulations or rulings are imposed by issuing it.

While this Manual is mainly for the Office Evaluation and Oversight's direct use, it will provide further transparency and confidence with all stakeholders.

The Office of Evaluation and Oversight, and its Internal Oversight Division, wish to thank all those who contributed to the preparation of this manual.

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# **Section A: Purpose, Authority and Responsibility**

## **A.1. Introduction**

1. Established by the revised Secretariat structure DGB/2018/02 of 31 January 2018, and in line with Industrial Development Board (the Board) decision IDB.44/Dec.3, the Office of Evaluation and Internal Oversight (EIO) has the overall responsibility for providing UNIDO Member States, the Director General, and management at large, with independent, objective assurance, advice and evaluation designed to add value to and improve the efficiency and effectiveness of UNIDO's operations, internal control framework, risk management, results-based management (RBM) and governance processes. All processes and operations of UNIDO, both at its Headquarters in Vienna and in countries that are recipients of UNIDO's technical assistance, are within the scope of EIO.
2. EIO is responsible for the evaluation function, the internal audit function and the investigation function. The evaluation function is performed by the Independent Evaluation Division (EIO/IED), while the internal audit and the investigation functions are performed by the Internal Oversight Division (EIO/IOD). The evaluation function, the audit function and the investigation function are governed by the [Evaluation Policy \(DGB/2018/08\)](#), the [Charter of the Office of Evaluation and Internal Oversight \(DGB/2019/07\)](#) and the [Investigations Guidelines \(DGB/DGAI.19\)](#), respectively, as well as the [Code of Ethical Conduct \(UNIDO/DGB/\(M\).115\)](#). The activities of EIO are further guided by the Evaluation Manual and the Internal Audit Manual.
3. EIO reports directly to the Board, the Audit Advisory Committee (AAC), and administratively to the Director General.

### **Vision**

*“EIO as trusted partner in governance and oversight, contributes to the achievement of UNIDO's mandate and its strategic objectives towards inclusive and sustainable industrial development”*

### **Mission**

*EIO provides independent and objective assurance, advice, investigation, and evaluation for the purpose of adding value to and improving the efficiency and effectiveness of UNIDO's operations, internal control framework, risk management, results-based management and governance processes. EIO provides evidence-based information that is credible, reliable and useful, enabling the timely incorporation of findings, recommendations, actions and lessons into the decision-making processes at organization-wide, programme, and project level. EIO also assesses the extent to which UNIDO's programmes and projects, as well as thematic areas, correctly address and effectively achieve the stated objectives of the Organization.*

4. The Director, EIO functions as the Chief Audit Executive (CAE), as identified in the core principles of the Institute of Internal Auditors (IIA), including the International Standards for the Professional Practice of Internal Auditing. As the Division that performs the audit and the investigation functions, EIO/IOD's activities include: audits of governance, risk management and internal control processes at Headquarters and country offices, in-country project management and implementation audits, investigation of alleged fraud, corruption, or other wrongdoings in relation to UNIDO's operations, as well as consulting activities and advisory services for the Board, the Director General or Management.

## A.2. The Charter of the Office of Evaluation and Internal Oversight

5. The Charter provides the basis for the development of the audit manual. The Charter defines EIO's:

- (a) Purpose, authority, and responsibility;
- (b) Position within the Organization, including the nature of the CAE's functional and administrative reporting relationship with the Board, the Director General and the AAC;
- (c) Authority for access to records, personnel, and physical properties relevant to the performance of engagements;
- (d) Scope of activities and nature of engagements (assurance and consulting/ advisory; in-country and Secretariat reviews);
- (e) Regulation that the audit function follows, including the 'International Standards for the Professional Practice of Internal Auditing' and the Code of Ethics issued by the Institute of Internal Auditors, Inc. (IIA); and
- (f) Regulation that the investigation function follows, including the 'Uniform Principles and Guidelines for Investigations' endorsed by the Conference of International Investigators for investigations.

## A.3. Purpose of the Internal Audit Manual

6. The Internal Audit Manual sets out the procedures and current practices that guide the conduct of internal auditing in UNIDO. It describes the underlying principles, standards and code of ethics for the professional practice of internal auditing, and describes the Division's audit management process from planning and preparation, to the performance of the audit, reporting of results, and follow-up of recommendations.

7. The Manual also defines the mandatory processes and key outputs at each stage of the audit process to ensure both compliance with the standards and a consistency of audit quality in all the engagements carried out.

## A.4. Nature and scope of audit services

8. The internal audit function provides both assurance and consulting/advisory services. These are differentiated based on the definitions provided by the IIA.

	<b>Assurance</b>	<b>Consulting/advisory</b>
Engagement objectives	Objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter.	Advisory in nature, and generally performed at the specific request of the Director General, senior management and/ or the AAC and the policymaking organs of UNIDO.
Nature/terms of reference	The nature and scope of the assurance engagement are determined by EIO/IOD.	The nature and scope of the engagement are subject to agreement with the owner of the assignment.
Stakeholders	The Director General, Process owners (Secretariat and Country Offices), and report users (Member States, policymaking organs and other stakeholders).	EIO and UNIDO Secretariat.

	<b>Assurance</b>	<b>Consulting/advisory</b>
Relevant internal audit products	<ul style="list-style-type: none"> <li>Country Office audits</li> <li>Process audits (Secretariat)</li> </ul>	<ul style="list-style-type: none"> <li>Formal – review of specific processes, as requested by management</li> <li>Informal/ex-ante – continued involvement in strategic initiatives such as attending Committees or Working Groups as observers and tracking of new material issues.</li> </ul>

## **Section B: Annual Risk Assessment and Work Planning Process**

### **B.1. Purpose of section**

9. This section provides guidance into the overall annual risk assessment and planning [methodology](#) employed by EIO/IOD and how it translates into specific engagements. EIO/IOD prioritizes engagements that give assurance over risks that endanger the achievement of the Organization’s strategic objectives and its reputation and credibility. The section covers:

- (a) Definition of the potential audit universe;
- (b) Quantifying the potential risk associated with each of the defined audit areas based on factors identified for assessing risk;
- (c) Scheduling audits and allocating audit resources according to the priorities established; and
- (d) Approval and monitoring of the plan.

### **B.2. Setting strategic priorities**

10. EIO will develop a strategy for implementation from year 2020, setting out the Office’s priorities for assurance services (comprising audit, investigation, and evaluation services) based on the UNIDO’s strategic plan and budget, and key risks facing the Organization, as well as changes in the United Nations development system. EIO’s strategy will be built on the Organization’s risk register, identified risk domains, [the assurance map](#), as well as inputs from senior management and other key stakeholders in assessing and managing risk. It will be a tool for communicating the value of EIO’s assurance services to the Organization, and provide a basis for identifying synergies and complementarities in the activities performed by EIO/IOD and EIO/IED.

### **B.3. Annual audit planning**

<b>Planning Approach</b>	The audit work plan is aligned with the Organization’s strategy, and EIO’s mission to provide independent and objective assurance, advice, investigation, and evaluation for the purpose of adding value to and improving the efficiency and effectiveness of UNIDO’s operations, internal control framework, risk management, results-based management and governance processes, as described in the <a href="#">Charter</a> .
	The work plan which evolves from EIO’s strategy lists the Office’s priorities for the year in order to provide assurance on the Organization’s governance, risk management and control processes.
	Priorities in the audit work plan are based on key risks that the Organization faces and major initiatives which could adversely impact the achievement of strategic objectives or threaten UNIDO’s reputation and credibility.
	The audit work plan is based, as far as possible, on UNIDO’s own strategic risk analysis. Where risk management processes are immature, the EIO/IOD takes its own objective view of key risks. As a result, audits may be included in the plan, which in EIO/IOD’s professional judgment, target key risks not specifically identified by the Organization.
	Planning process is risk-based, following top-down and bottom-up analysis.



### **B.3.1 Annual risk assessment**

11. The IIA standards recognize that due to resource constraints, it is impossible to have 100 per cent coverage of an audit universe in one year. EIO/IOD therefore establishes risk-based plans to determine the priorities of the internal audit activity, consistent with the Organization's goals, and aligned with the EIO strategy. Audits are prioritized based on the likelihood and magnitude of the associated risks on the strategic objectives of the Organization. However, work undertaken should be sufficiently comprehensive to ensure the effective and regular review of all strategic, operational, financial, and related activities.

12. EIO/IOD's internal audit annual work plan is developed based on a continuous assessment of the Organization's operations. EIO/IOD forms its view on the Organization's risks using both top-down and bottom-up approaches. The top-down approach includes the observations made during meetings of senior management and policymaking organs, and the review of their minutes and key decisions to understand the Organization's priorities, as well as management's and the Board's views on risks. The bottom-up approach includes EIO/IOD's ongoing structured discussions with the Risk Management Committee (RMC), and heads of key business units. EIO/IOD also exchanges views on institutional opportunities and risks with other assurance providers including the External Auditor and EIO/IED. Through its role as the focal point for the Joint Inspection Unit (JIU), EIO/IOD also obtains information on United Nations system-wide risks which may have implications for UNIDO's operations.

13. Combining the information obtained with its own knowledge of risks and controls, as well as the results of previous audits, reviews and investigations, EIO/IOD identifies high-risk processes, functions and entities. These are prioritized and sequenced for review considering urgency and resource availability.

14. EIO/IOD conducts its risk assessment using risk domains which are aligned with the strategic priorities of the Organization. Internal audit's risk assessment and work plan are reviewed by the AAC and is approved by the Director General annually. Refer to the Risk Assessment Methodology for further details on risk assessment or quantification.

### **B.3.2 Scheduling of audits and resource allocation**

15. EIO/IOD's resources are limited and, as such, it is critical that such resources be allocated and utilized in a fashion that results in the greatest benefit in addressing the audit risks. Audit risk is principally associated with the risk that EIO/IOD may not appropriately address certain critical areas/processes or that the audit may not be carried out properly.

16. The Chief, EIO/IOD will assign the audits and tasks to auditors based on the nature and complexity of the audit and internal auditor's experience and special preparation (e.g. specific trainings undertaken by a team member). Factors that may be taken into consideration in allocating tasks include:

- (a) Degree of risk or exposure to loss (UNIDO's investment in the country or process);
- (b) The strategic nature of the process/function or the Organization's operations in a country (e.g. PCP);
- (c) Type of audit (Country Office audit (as desk audit or involving on-site mission), process/functional audit and intensity of the assignment);
- (d) Skills, including language, and availability of audit staff;
- (e) Reduced availability of staff resources due to unanticipated audits and other assignments;
- (f) Availability of resources (e.g. funds, software applications, etc.).

17. Adjustments are made to this allocation based on the judgment and past experience of the audit team. Using this risk assessment approach, the audit man-day budget for each engagement is established. The need for external consultants is assessed on an engagement-by-engagement basis and approval from the Chief Audit Executive (CAE), is required. The annual audit plan is driven mostly by the risks before consideration of resources required to address the risks. The Chief, EIO/IOD regularly reviews the resource needs and measures taken to address any gaps including use of external consultants.

### **B.3.2 Work plan validation process, approval and monitoring**

18. The audit work plan is shared with the investigation function for its input after which it is submitted to the Director, EIO for final inputs, review and clearance. The plan is then submitted to the AAC for their review before the Director General approves the final audit work plan. Relevant aspects of the approved audit work plan are shared with management to further improve coordination, and facilitate audit clients' planning and preparation for the assurance services.

19. The audit plan is continuously monitored by the Chief, EIO/IOD and it is updated to reflect the changes in the risk profile and operating environment, balance competing client requests in terms of timing, the availability of internal auditors, and unexpected urgent management requests.

20. The Director, EIO, and the Chief, EIO/IOD, through various meetings with the respective Department/Divisions of the Organization, will identify changes in the risks profile and operating environments. The annual plan should be reviewed and updated, as needed, to reflect any new intelligence gathered. The Director, EIO will consult the AAC whenever such changes are needed.

## **B.4. Coordination with other assurance providers**

21. EIO will work with other internal and external providers of assurance and consulting services to ensure proper coverage and to minimize duplication of efforts. The Chief, EIO/IOD shall review, or complete if absent, a mapping of the various assurance functions for UNIDO to the key risks, to ensure that these are well understood and taken account in strategic and annual internal audit planning processes, and that gaps can be readily identified and reported. This ensures that there are no gaps/ duplications in the assurance plan and assurance measures undertaken remain efficient.

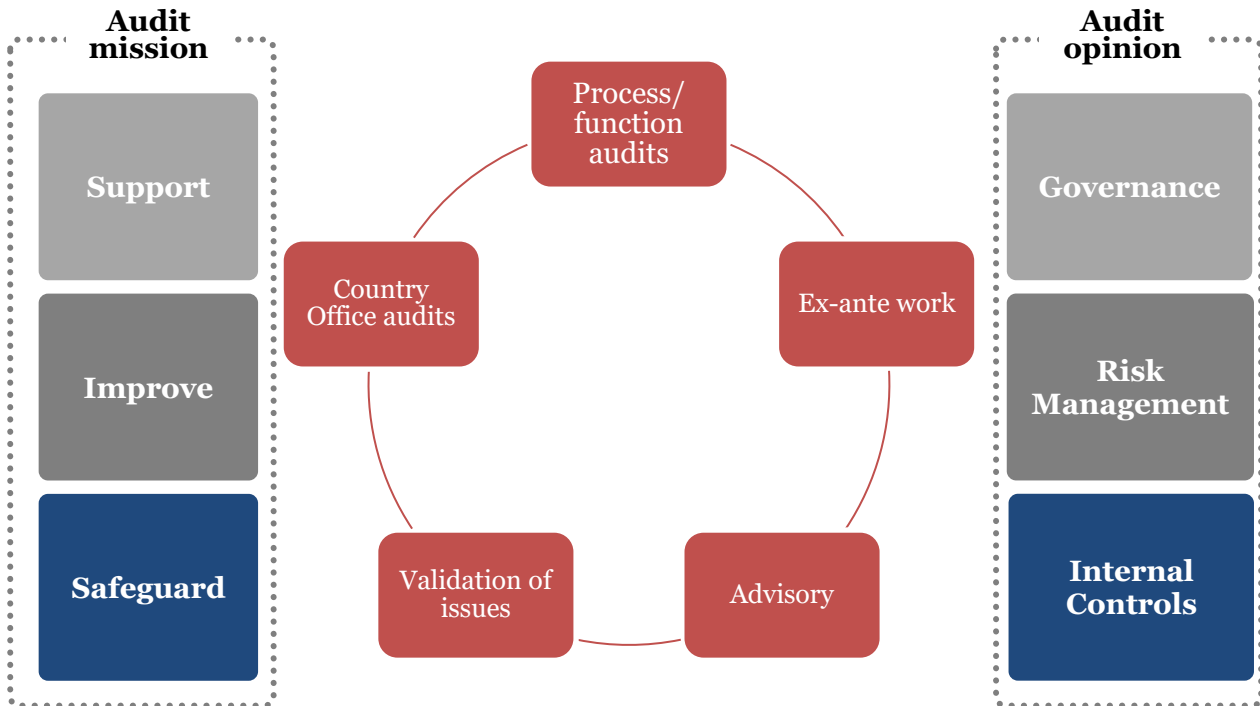
22. For this purpose, EIO/IOD will coordinate and exchanges views on institutional opportunities and risks with other assurance providers including the External Auditor and EIO/IED, on a continuous basis. Through its role as the focal point for the JIU, EIO/IOD will obtain information on United Nations system-wide risks which may have implications on UNIDO's operations.

23. EIO will continue to hold structured discussions with the RMC and other stakeholders.

## **B.5. Outputs of the annual work plan**

24. The annual planning process will result in different activities, as defined in figure 1.0 and para. 25, which will be undertaken by EIO/IOD during any particular year.

Figure 1.0: Key internal audit activities and outputs



25. This annual plan should show audit and non-audit tasks so that the plan reconciles with total available time of internal audit staff:

- (a) Country Office audits – based on the Organization’s strategy, Country Offices and in-country operations with high risks;
- (b) Process/function audits – covering governance, risk management and internal controls over Secretariat processes;
- (c) Advisory - covering agreed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the Organization’s operations. It will also set time aside for unidentified management requests outside the scheduled assurance cycle.
- (d) Ex-ante work – covers EIO’s continued involvement in important strategic initiatives including, as an observer, attending meetings of Committees and/or participating in working groups related to initiatives in the Secretariat.
- (e) Validation of agreed management actions (including follow-up reviews) – covers apprising the Executive Board (EB) and senior management of agreed actions and providing assurance that implemented changes adequately mitigate risks identified in the audit findings.

## **Section C: Managing the Internal Audit Activity**

### **C.1. Purpose of section**

26. This section covers how EIO is positioned, to ensure that it is appropriately independent and objective as it carries out its assurance role, and how it is resourced to ensure that it can adequately discharge the duties and responsibilities assigned to it.

### **C.2. Authority to fulfill mandate**

27. The EIO Charter refers to the rights of internal audit including unimpaired access to all information, explanations, records, assets, etc. that are required to complete audit work. In carrying out the audit function, EIO/IOD shall:

- (a) Have full, free, unrestricted and prompt access to all organizational records (in paper and electronic format), property, personnel, operations and functions that are relevant to the subject matter under review;
- (b) Have access to official e-mail accounts;
- (c) Have authority to communicate with all personnel, at all levels in the Organization;
- (d) Have authority to request any personnel to provide information and explanations that EIO deems necessary to discharge its responsibilities; and
- (e) Obtain independent professional advice and secure the involvement in its activities of outside persons with relevant experience and expertise, if and when deemed necessary.

### **C.3. Audit framework**

28. The EIO Charter requires that internal audits are undertaken in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics promulgated by IIA. The IIA provides for internal audit professionals all around the world authoritative guidance organized in the International Professional Practices Framework as mandatory and strongly recommended guidance. [The Standards](#) consist of:

- (a) Attribute Standards, which address the characteristics of organizations and parties performing internal audit activities;
- (b) Performance Standards, which describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated;
- (c) Implementation Standards, which apply to specific types of engagements, i.e. assurance and consulting activities (attribute and performance standards apply to all internal audit services).

29. Detailed information on the International Professional Practice Framework, including IIA Standards and Practice Advisory, can be found on the [IIA website](#).

### **C.4. Code of ethics and professional conduct**

30. The EIO Charter provides for the adoption of the IIA Professional Practice Framework, and the Director, EIO and all staff of EIO/IOD are obliged to follow the [IIA Code of Ethics](#). The Code of Ethics promotes an ethical culture in the profession of auditing.

### C.4.1. Integrity

31. Internal audit staff should at all times exhibit integrity, i.e. be above suspicion and reproach. This establishes trust and thereby provides the basis for reliance on their judgment. Auditors should:

- (a) Perform their work with honesty, diligence, and responsibility;
- (b) Observe the law and make disclosures expected by the law and the profession;
- (c) Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the Organization; and
- (d) Respect and contribute to the legitimate and ethical objectives of the Organization.

### C.4.2. Independence and objectivity

32. The work of EIO shall remain free from undue influence or interference by management, staff or any party related or external to the Organization. EIO shall determine the scope of its evaluation, internal audit, and investigation activities, performing the work and communicating the results thereof independently.

33. To preserve the objectivity necessary to render impartial and unbiased judgment in the performance of their duties, EIO staff shall **not**:

- Actually have, or have had, in the previous 12 months managerial authority over, or operational responsibility for, any of the activities subject to independent evaluation, internal audit or investigation;
- Design, develop, configure, test, deploy or install systems; draft or design processes, policies and procedures;
- Initiate or approve accounting transactions external to EIO;
- Direct or supervise the activities of any staff member not part of EIO, except to the extent that such staff member has been assigned to EIO or requested to assist EIO staff;
- Perform any other managerial or operational functions for UNIDO; or
- Engage in any activity that could impair, in fact or appearance, their individual objectivity and/or the organizational independence of EIO.

34. EIO staff shall promptly declare to the Director, EIO, through the Chief of the respective division, any impairment, in fact or appearance, of their individual objectivity in relation to an assigned activity. EIO staff shall also promptly report to the Director, EIO, any situation in which an actual or potential impairment of the organizational independence of EIO may reasonably be inferred, or any questions as to whether a situation constitutes an impairment of their individual objectivity or of the organizational independence of EIO.

35. The Director, EIO, shall declare to the Director General, the Board, and the AAC any situation representing an impairment of objectivity or of the functional independence of the internal oversight or evaluation functions.

36. The Director, EIO shall declare and confirm its organizational independence, as well as whether any situation representing an impairment of its objectivity or functional independence occurred, in its annual activity report on internal oversight activities and in its activity report on independent evaluation activities.

37. IOD shall not investigate itself, i.e., concerning allegations of wrongdoing against the Director, EIO and IOD staff. EIO will leave the decision to the discretion of the Director General. If IOD audits or investigates the Independent Evaluation Division (IED), the relevant report will be signed by the Chief, IOD, in order to limit impairments to independence.

38. In the case of findings of wrongdoing against the Director General, EIO will consult the President of the Board and inform the AAC.
39. Each IOD staff must sign, at least annually, a declaration of independence and management of conflict of interest (process will be managed internally by the Chief, EIO/IOD). Every consultant that works with the internal audit function must sign, for every engagement, a declaration of independence and management of conflict of interest.
40. Where threats are identified, the Chief, EIO/IOD will assess their significance and institute safeguards, e.g. changing staff or extra review of working papers/reports; and
41. Staff will not, under any circumstances, solicit or accept gifts from audit clients.
42. EIO considers the following as threats to staff and consultants independence and objectivity:
- (a) Self-interest threat which arises when a staff member/consultant acts in his or her own emotional, financial, or other personal self-interest;
  - (b) Self-review. The threat of bias arising when an auditor audits his or her own work or the work of a colleague;
  - (c) Advocacy. The threat that arises when an auditor acts as an advocate for or against an auditee's position or opinion rather than as an unbiased attestor;
  - (d) Familiarity (or trust). The threat that arises when an auditor is being influenced by a close relationship with the auditee;
  - (e) Intimidation. The threat that arises when an auditor is being, or believes that he or she is being, overtly or covertly coerced by an auditee or by another interested party.

#### **C.4.3. Confidentiality**

43. Auditors will respect the value and ownership of information they receive and should not disclose information without appropriate authority unless there is a legal or professional obligation to do so. Auditors should be prudent in the use and protection of information acquired in the course of their duties. They should not discuss any matters pertaining to the audits performed by EIO/IOD, other than in an official manner. Auditors should take adequate measures to prevent the unauthorized release of confidential material or information in any medium. Such material should be adequately secured from theft, reproduction, or casual observation. Auditors should not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

#### **C.4.4. Attributes of internal audit staff**

44. The Chief, EIO/IOD will ensure that suitable criteria for education, knowledge, skills and experience are established when filling internal auditing positions. The Chief, EIO/IOD will also ensure that the audit team collectively possesses the right knowledge, skills and experience to perform its responsibilities. Similarly, each internal auditor is responsible for ensuring their own competence to carry out their roles.

45. Any skills and knowledge gaps in the existing audit team will be assessed on an annual basis and incorporated in the audit division's annual training plan with appropriate training identified for each staff member. Where applicable, joint training will be held. The following attributes are expected of all internal audit staff members:

<b>Professional proficiency</b>	<b>Due professional Care</b>	<b>Continuing professional development</b>
Possess adequate knowledge, skills and competencies (refer to IIA)	Auditors should use reasonable audit skills and judgment in performing the audit giving consideration to:	Internal audit staff are responsible for continuing their education in order to

Professional proficiency	Due professional Care	Continuing professional development
Practice Advisory 1210-1) to: <ul style="list-style-type: none"> <li>• Carry out their professional responsibilities; and</li> <li>• Comply with the manual and IIA standards.</li> </ul> Demonstrate proficiency by obtaining appropriate professional certifications and qualifications. All audits will be supervised by an appropriate person.	<ul style="list-style-type: none"> <li>• The extent of work needed to achieve the assignment’s objectives;</li> <li>• The relative complexity, materiality, or significance of matters to which assurance procedures are applied;</li> <li>• The adequacy and effectiveness of governance, risk management, and control processes;</li> <li>• The probability of significant errors, fraud, or noncompliance;</li> <li>• The cost of assurance in relation to expected benefits; and</li> <li>• The use of technology-based audit and other data analysis techniques.</li> </ul>	maintain their proficiency. EIO/IOD will adopt a training curriculum that sets out the framework of training activities for staff, to ensure that staff possess the necessary technical knowledge, skills and competencies to be able to carry out the internal audit work.

46. Regular training of auditors will ensure that they have the necessary skills required for the internal audit work. In light of the annual plan, the Chief, EIO/IOD will prepare annual training plans for the Division based on a needs assessment of the audit team. The audit staff will be involved in identifying and mapping out his/her training needs. Each IOD staff is responsible for maintaining his/her training records and keeping HRM informed about trainings undertaken.

## C.5. Enabling tools and systems

### C.5.1 TeamMate

47. EIO/IOD uses the TeamMate auditing software to document all audit work performed, from planning to reporting and also to monitor implementation of recommendations. The software allows users to, amongst others: develop risk-based work plans; manage the audit process by organizing and linking electronic working papers, and supporting documentation; raise issues and recommendations; and manage and monitor implementation of recommendations.

48. The use of TeamMate is mandatory for all audit engagements since it drives audit quality and compliance by guiding auditors on the mandatory steps (minimum expectations) for each engagement, and ensuring consistency in audit approach across different engagements. Mandatory sign-offs have been built in to ensure appropriate reviews are undertaken, and approvals obtained at each phase before commencement of the subsequent phase.

49. EIO/IOD utilizes the following modules of the TeamMate

- (a) TeamStore which serves as a depository for risks, related tests (risk-based audit programmes) and permanent files and allows auditors to link electronic working papers to relevant supporting documentation;
- (b) TeamSchedule for scheduling projects according to EIO/IOD’s approved work plan.
- (c) TeamEWP (Electronic Working Papers) module to manage the audit assignment and maintain audit evidence;
- (d) TeamCentral which serves as a follow up tool on agreed management action plans; and
- (e) TeamTEC for time keeping.

50. The following roles are assigned in TeamMate as general guidance:

<b>Title</b>	<b>Role in TeamMate</b>
Director, EIO	Project Owner
Chief, EIO/IOD	Preparer/Reviewer
Auditor	Preparer/Reviewer
Oversight Assistant	Preparer
TMChampion	Administrator/Project Owner

51. Any changes to these roles will need to be approved by a staff member who is more senior than the one requesting the change. There may be instances where a staff member is requested to play a role different from his/her official title. This will be reflected in the assignment of roles within TeamMate.

### **C.5.2 Other systems**

52. In addition to TeamMate, audit work is performed using standard and specialized tools and systems:

- (a) Each staff member is responsible for monitoring their individual time utilization. Additional responsibility also lies with the auditor (as applicable) to monitor time utilization of consultants:
- (b) Templates and sample documents are stored on a shared drive (G:drive) and is readily accessible to all audit staff to facilitate the sharing of best practice across the different teams for continuous improvement;
- (c) Microsoft Office Suite which comprises of: MS Word, MS Excel, MS PowerPoint, MS Outlook, MS Project, and MS Visio can be used to document audit work.

## **C.6. Audit team structure**

53. The audit team is led and managed by the Chief, EIO/IOD. Engagements are generally led by auditors with the support of the Oversight Assistants, under the supervision of the Chief, EIO/IOD. The Director, EIO has the overall responsibility and provides direction for every audit engagement.

### **C.6.1. Audit meetings**

54. The audit function holds weekly team meetings where updates are shared by the various members. The Director, EIO and the Chief, EIO/IOD meet weekly, and performance issues are discussed to ensure reallocation of resources where necessary. The EIO Office will also hold quarterly meetings to take stock of performance during the period and discuss topical issues.

### **C.6.2. Tracking of auditor time**

55. The audit team consistently tracks staff utilization in TeamTEC. The timesheets within TeamTEC are completed at the end of every quarter by all staff. The Chief, EIO/IOD is responsible for reviewing and approving staff timesheets in TeamMate.

### **C.6.3. Assessment of staff performance**

56. Staff performance is assessed against agreed upon objectives in accordance with [UNIDO's Framework for Staff Performance Management \(SPM\) system \(UNIDO/AI/2012/01\)](#) based in SAP and the [UNIDO Competency Framework \(UNIDO/IC/2011/14\)](#). In line with the SPM framework, high-level corporate goals will be translated and cascaded, through the Director EIO to the Chief EIO/IOD to individual goals of the audit team members. The Director and Chief are responsible for



aligning individual goals with corporate goals and setting specific goals for units and results for individuals with key performance indicators. The ultimate goal of performance management is to motivate, develop and reward staff through clear and fair differentiation of performance. The relevant staff member's responsibilities in performance management include:

- (a) Ensuring they have clear objectives, as well as understand their competency expectations. The auditor should strive not only to meet but to exceed agreed upon objectives.
- (b) Having individual performance/development objectives agreed with the Chief, EIO/IOD to develop or strengthen their skills.
- (c) Discuss performance matters as they arise throughout the year.
- (d) Provide constructive and fact-based feedback to and about colleagues.

57. The Chief, EIO/IOD is the First Reporting Officer (FRO) for all staff in the Division and has responsibility for:

- (a) Ensuring that staff have clear objectives and competency expectations;
- (b) Ensuring that structured and regular feedback is provided in a constructive and fact-based manner;
- (c) Ensuring that staff are aware of their level of performance;
- (d) Addressing performance issues as they arise;
- (e) Performing staff performance assessments in SAP (midterm review and end-of-cycle) in a timely manner;
- (f) Ensuring that effective performance conversations are conducted and documented; and
- (g) When required, develop a Performance Improvement Plan (PIP) for a staff member in line with the SPM Framework.

58. The Director EIO is the First Reporting Officer (FRO) for the Chief, EIO/IOD, and the Second Reporting Officer (SRO) for all other staff in EIO/IOD.

## **Section D: Quality Assurance and Improvement Programme**

### **D.1. Purpose of section**

59. The Standards require the development and maintenance of a quality assurance and improvement programme that covers all aspects of the internal audit activity and continuously monitors its effectiveness. EIO/IOD has developed a [Quality Assurance and Improvement Programme \(QAIP\)](#) for its internal audit function to provide reasonable assurance to its stakeholders that internal audit: (a) performs its work in accordance with the EIO Charter and the Internal Audit Manual and the Standards; (b) operates in an effective and efficient manner; and (c) is perceived by stakeholders as adding value and improving EIO/IOD's operations as well as the Organization's operations and governance, risk management, and control processes.

60. The QAIP is integrated into the structure of the internal audit activity and ensures that quality assessments are undertaken over the entire activity. This enhances the performance of, and value derived from, these activities and ultimately supports the overall organizational success. The Director, EIO is ultimately responsible for the QAIP.

## D.2. Quality built in audit activity

61. The components that are built into the internal audit activity that will drive quality include:

<b>Internal audit activity</b>		
<b>Governance</b>	<b>Professional practice</b>	<b>Communication</b>
<ul style="list-style-type: none"> <li>• Charter defining mandate;</li> <li>• Independence and objectivity;</li> <li>• QAIP aligned with the IIA’s recommended QAIP;</li> <li>• Audit manual aligned to IIA standards for guidance;</li> <li>• Strategic and annual audit plans duly approved and followed.</li> </ul>	<ul style="list-style-type: none"> <li>• Clear roles and responsibilities;</li> <li>• Risk-based audit planning;</li> <li>• Coordination with other Assurance Providers;</li> <li>• Proficiency and due professional care;</li> <li>• Feedback from audit clients about audit engagements ;</li> <li>• Quality control of audit engagements through appropriate supervision throughout the audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Mechanisms for communicating results;</li> <li>• Follow up of agreed action plans;</li> <li>• Stakeholder opinions through client satisfaction.</li> </ul>

## D.3. Continuous improvement through QAIP

### D.3.1. Ongoing monitoring

62. Ongoing monitoring provides assurance that the processes in place within EIO/IOD are working effectively to ensure quality is delivered on an engagement-by-engagement basis. Quality is primarily achieved through continuous monitoring activities, including audit planning and supervision, standard working practices, working paper procedures and signoffs, and report reviews.

63. Engagement supervision: Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. The extent of supervision required will depend on the proficiency of the auditors and the complexity of the audit assignment. Appropriate evidence of supervision should be documented and retained, and should include but not be limited to:

- (a) Providing suitable instructions to the team at the outset of the audit and approving the audit programme;
- (b) Ensuring that all team members fully understand the objective(s) and desired outcomes of the oversight engagement;
- (c) Delegating engagement projects to team members with a clear outline of what is expected from the project;
- (d) Ensuring that the approved audit programme is carried out unless deviations are both justified and authorized;
- (e) Providing appropriate counsel, advice and on-the-job training, based on the experience of the team members;
- (f) Determining that audit working papers adequately support the audit findings, conclusions, and reports;
- (g) Ensuring that audit reports are accurate, objective, clear, concise, constructive, and timely; and

(h) Determining that audit objectives are being met.

64. Review/signoff off at critical stages of the audit process: Key engagement working papers, including draft audit terms of reference, audit programmes and draft reports, shall be reviewed to ensure that they properly support the engagement objectives, that all necessary audit procedures have been performed, and available evidence supports the conclusions in the reports. Evidence of supervisory review may be in different forms:

- (a) The reviewer initialing and dating each working paper after it is reviewed;
- (b) Written records (review notes or e-mails) of questions and comments arising from the review process (especially for report reviews);
- (c) Completing an engagement working paper review checklist; and/or
- (d) Evaluation and acceptance within TeamMate.

65. The table below shows the minimum review matrix for ongoing monitoring of engagements:

<b>Audit Phase</b>	<b>Working papers</b>	<b>Oversight Assistant</b>	<b>Auditor</b>	<b>Chief, EIO/IOD</b>	<b>Director, EIO</b>
Planning	Notification letter	Prepare	Prepare & review	Review	Approve
	Audit Planning Memorandum	Prepare	Prepare & review	Review & approve	Approve
	Audit Programme	Prepare	Prepare & review	Review & approve	Approve
Execution	Audit working papers	Prepare	Prepare & review	Review	Review selected key risks areas
Reporting	Observations worksheet	Prepare	Prepare & review	Review	Clear
	Draft internal audit management letter	Prepare	Prepare & review	Review	Approve
	Final internal audit management letter	Prepare	Prepare & review	Review	Approve
	Final Audit Report – tone and balance	Prepare	Prepare & review	Review & approve & sign-off of WP file	Review & sign-off of report and WP file
Closure of audit	Update MAPs in TeamMate	Prepare	Review	Review & approve	

66. The primary responsible parties may delegate, but are still accountable for the responsibilities. Delegations should be evidenced in working papers.

67. Peer reviews: There will be ongoing review of working papers in TeamMate and audit reports by independent team members and/or the quality champion. These may take two different forms:

- (a) Comprehensive peer reviews to assess key quality attributes associated with each phase of the audit, as additional source of assurance and evidence as to the level of working paper compliance with EIO/IOD’s audit methodology.
- (b) Targeted peer reviews throughout the year focused on specific key work elements of the methodology (including through issues’ follow-ups, and client communications) by the quality champion.

68. Analyses of performance metrics will be established to improve internal audit activity effectiveness and efficiency. Specific checkpoints have been built into TeamMate to drive compliance, quality, and documentation of work. Individual KPIs include a requirement for compliance with TeamMate documentation standards.

69. Client satisfaction surveys: Auditors should obtain feedback from the auditees on the proficiency and effectiveness of work performed. These surveys will be sent to relevant stakeholders in the Secretariat and the Country Offices after the final report has been issued. The specific stakeholders to be surveyed should be approved by the Chief, EIO/IOD.

### **D.3.2 Periodic assessments**

70. A periodic assessment assesses conformance with the EIO Charter and the IIA Standards and whether engagements are undertaken in an efficient and effective manner and that they meet the needs of its various stakeholders. They are in the form of self-assessments undertaken every two to three years by EIO/IOD staff assigned by the Chief, EIO/IOD. During these reviews, the designated personnel shall appraise the quality of the work performed and determine opportunities for improvement. These assessments will:

- (a) Evaluate the infrastructure, including the policies and procedures, supporting EIO/IOD and determine whether audit and advisory services apply best practices;
- (b) Determine whether or not the Division's activities are consistent with its mandates as laid out in the EIO Charter as well as the expectations of key stakeholders. This will include an assessment of approved work plans (including amended work plans);
- (c) Evaluate conformance with the EIO Charter as well as the IIA Definition of Internal Auditing, the IIA Code of Ethics and Standards (for Audit), and where appropriate provide recommendations for improving the professional practices of EIO/IOD;
- (d) Assess ways in which EIO/IOD adds value to the Organization (including a review of feedback on individual audit engagements and reports, from auditees); and
- (e) Review of achievement of performance standards/indicators. These provide insights into the level of audit effectiveness and efficiency.

71. The periodic assessment primarily take two forms:

- (a) Engagement Level (undertaken by Quality Champion): This level addresses assurance related to:
  - (i) Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements;
  - (ii) Planning, fieldwork conduct, and reporting/communicating results conform to the Definition of Internal Auditing, the Code of Ethics, and the Standards;
  - (iii) Appropriate mechanisms are established and used to follow-up management action plans; and
  - (iv) Post-engagement client satisfaction surveys, lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed.
- (b) Activity Level (undertaken through the self-assessment undertaken by staff selected by the Chief, EIO/IOD): This level addresses assurance related to:
  - (i) Written policies and procedures, covering both technical and administrative matters, are formally documented and are aligned to the Standards;
  - (ii) Audit work conforms to written policies and procedures in the manual and the Standards.
  - (iii) Audit work achieves the general purposes and responsibilities described in the EIO Charter;
  - (iv) Audit work meets stakeholder expectations;
  - (v) Audit activity adds value and improves the Organization's operations; and
  - (vi) Resources for the internal audit activity are efficiently and effectively utilized.

## **D.4. External Assessment**

72. External assessments will be carried out every five years by a qualified, independent assessor appointed with guidance from the AAC. The external assessment can take one of two forms: (i) a full scope review or, (ii) a self-assessment with independent validation. The form of the review will be agreed with the AAC<sup>1</sup>. The assessments would conclude two aspects: (i) if the audit function conforms with the Standards; and if so, (ii) the extent to which it does.

## **Section E: Approach and Methodology**

73. Internal audit and advisory services follow a participatory approach which is built on trusted relationships between EIO/IOD and its clients. EIO/IOD staff continually engage audit and advisory clients in the discussion of matters relating to the engagement throughout the audit/advisory engagement process, in order to ensure transparency and also avoid surprises.

74. Internal audit approach and methodology is aligned with the overall objectives of the Organization. It is designed to help achieve the Organization's stated objectives in all the four levels of the integrated results and performance framework (IRPF): (a) Levels 1 & 2 – strategic priorities and contribution to the Sustainable Development Goals (SDGs); (b) Level 3 – programme management effectiveness; and (c) Level 4 – organizational effectiveness.

75. Audit and advisory engagements are performed on the basis on the International Professional Practices Framework for Internal Audit (IPPF) promulgated by the Institute of Internal Auditors, and within the context of UNIDO's rules, regulations and policies. The Charter, the EIO strategic plan, and EIO/IOD's annual risk assessment, as well as its approved work plan constitute the foundation for internal audit and advisory engagements.

76. Each audit or advisory engagement goes through three main stages: planning, fieldwork and reporting. Audit engagements go through a fourth stage, the follow-up of management actions plans (MAPs). Lessons learnt from each stage of the audit/advisory engagement process is used as an input into EIO's strategic planning, as well as EIO/IOD's annual risk assessment and work planning process.

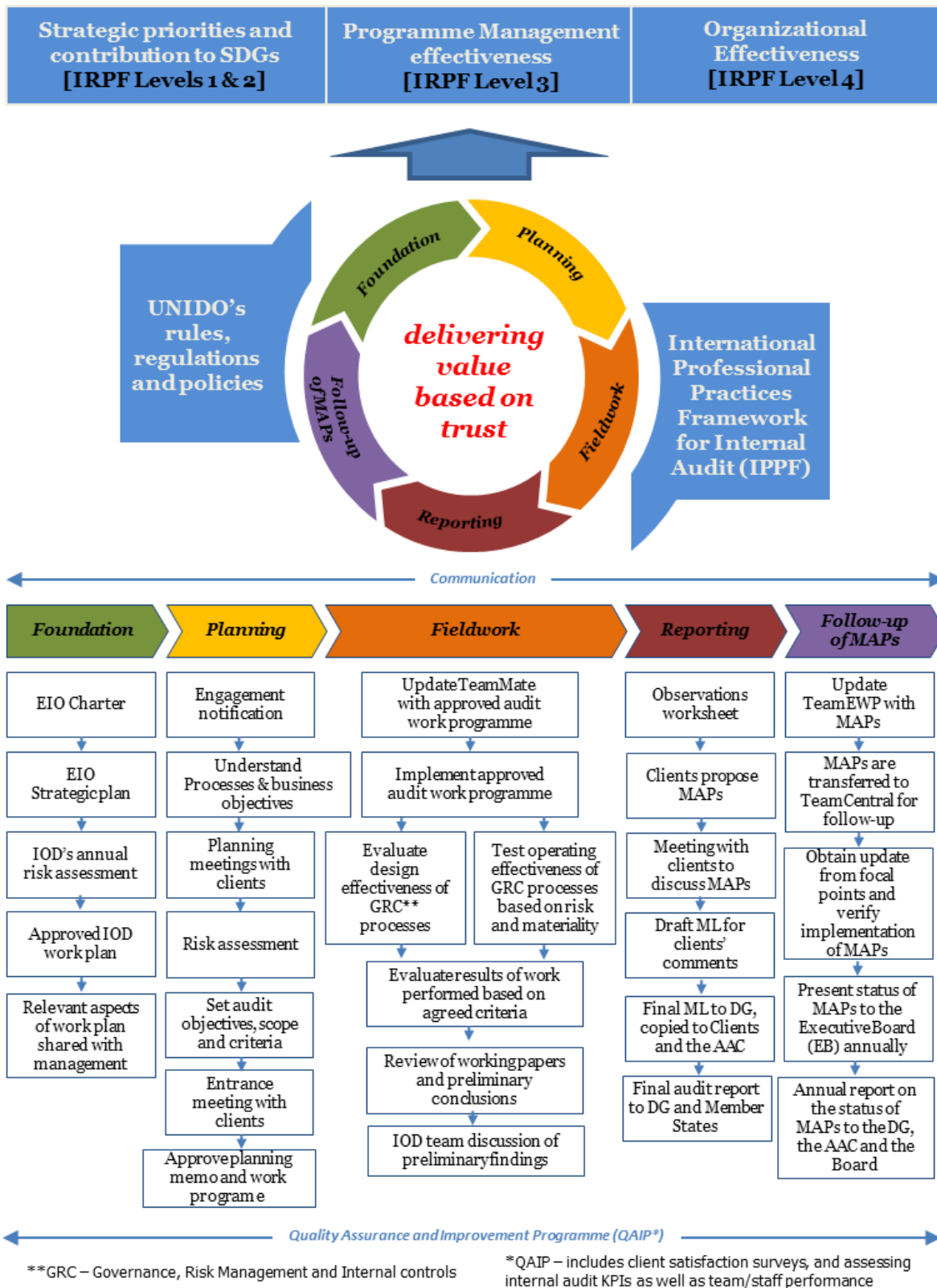
77. To ensure continuous improvement in the value EIO/IOD delivers through its audit and advisory services, EIO/IOD's Quality Assurance Improvement Programme (QAIP) is fully integrated into its approach and methodology.

78. Figure 2.0 depicts EIO/IOD's approach and methodology:

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<sup>1</sup> IOD performed self-assessments with independent external validations in 2014 and 2019.

Figure 2.0: EIO’s Audit Approach and Methodology (“The Internal Audit Wheel”)



## **Section F: Engagement Planning**

### **F.1. Purpose of section**

79. The IIA Performance Standard 2200 deals with engagement planning and requires that: ‘internal auditors should develop and record a plan for each engagement.’ This section guides the internal auditors on how to incorporate key considerations during planning, including:

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

### **F.2. Initiating the engagement**

80. Each audit engagement is formally opened by the issuance of an audit engagement notification drafted by the Auditor-in-charge (AIC) or the Oversight Assistant (where applicable), reviewed by the Chief, EIO/IOD and signed by the Director, EIO. The notification will be sent through the EIO e-mail box or the EIO/IOD e-mail box or staff designated by the Director, EIO or the Chief, EIO/IOD.

81. The engagement notification will indicate the subject matter for audit and the audit timelines. It will also indicate the CAE, the Audit Supervisor, the AIC, and team members. The engagement notification should be sent to the relevant Managing Directors, Directors, Divisional Chiefs, UNIDO Representatives and other stakeholders. The list of stakeholders to be notified will be determined by the Chief, EIO/IOD.

82. This notification will trigger the setup of the audit project in TeamMate. The project is created in TeamEWP by the Chief, EIO/IOD who can delegate to the AIC or the TeamMate Champion. A separate information request, including cut-off dates for documentation submission, should be sent following the initial notification, by the AIC.

### **F.3. Obtain understanding of the entity, process and activities, and perform risk assessment**

#### **F.3.1. Understanding the entity, processes and activities**

83. The AIC is responsible for gathering and analysing information to obtain a good understanding of the audit subject’s business objectives, the environment, and entity-level controls to ensure that a proper risk assessment is performed and the audit methodology is relevant and efficient.

84. This phase involves interviews with key stakeholders at the Secretariat and Country Offices (where applicable) to understand the subject of the audit better as well as a review of background documents, relevant operational policies, previous audit and evaluation reports issued by EIO and other assurance providers including the External Auditor and the JIU. Useful sources of information include: (a) the client’s strategic plan and/or work plan; (b) guidelines, manuals and operating procedures used by the client; (c) UNIDO Financial Regulations and Rules; (d) the

Internal Control Framework; (e) progress or management reports on the activity; (f) Organizational chart, budget and list of staff and consultants; and (g) agreements with external stakeholders (where applicable), including government counterparts and implementing entities.

85. To demonstrate that the internal auditor understands how the process actually operates, the key steps in the process must be documented. This process flow documentation will also facilitate a supervisory review of the working papers. The most common ways of documenting process flows are flowcharts (high-level or detailed) and narrative notes. In deciding on the extent of system documentation, the auditor should assess how much documentation is necessary in order to be able to identify the key controls. At the end of the analysis stage, the auditor should have documented all the key controls, indicating which ones will be relied upon and which ones (that should be in place) are absent. Regardless of the methodology used, documenting the process flows helps provide an understanding that is critical to the next steps in engagement planning. The audit team should invest enough time in understanding and documenting the process to enable a solid assessment of process design adequacy.

86. The AIC should ensure that appropriate templates are used for documenting the audit team's understanding of the entity, processes and activities, and this should be reviewed by the Chief, EIO/IOD. The completed documents should be uploaded into TeamMate on a timely basis.

### **F.3.2. Performing risk assessment**

87. The AIC (and rest of audit team where applicable) after obtaining a good understanding of the audit subject is responsible for conducting an activity level risk assessment to identify risks in the process that may adversely impact the achievement of the objectives of the subject area. The AIC also needs to gain a good understanding and make a high-level assessment of the adequacy and effectiveness of key controls put in place to manage the identified risks. This should include walk-through exercises and limited test checks.

88. The activity-level risk assessment involves, for example, considering business process risks, understanding the control environment, assessing capacity of client staff and management, and assessing adequacy of guidelines, directives, systems and procedures. Controls can include both manual and automated controls. Both types of controls need to be assessed to determine whether business risks are effectively managed.

89. The IIA Standards provide that "Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board." Audit criteria are reliable, objective, useful and complete standards of performance against which the achievement of control objectives can be assessed. Effective audit criteria are relevant, unambiguous and acceptable. The AIC should set out in the audit plan the criteria to be used, which should normally be agreed upon with the client management.

90. The AIC should ensure that a risk and controls matrix is included in the planning memorandum.

### **F.3.3. Fraud risk**

91. The standards require that auditors have sufficient knowledge to evaluate the risk of fraud and how the Organization manages fraud risk (please refer to the [Policy on Fraud Awareness and Prevention \(UNIDO/DGB/\(M\).94/Rev.1\)](#)). Auditors must consider the probability of significant errors, fraud, non-compliance, and other exposures, when developing the engagement objectives. The impact of fraud on the Organization goes beyond losing money but can affect inter alia programme effectiveness, impact, and reputation.



92. While every fraud event will have its own peculiarities, modalities and circumstances, auditors must look out for the existence of opportunities and the ability to commit fraud, indications of which would include the following:

- (a) Weak management, inadequate risk assessment, poorly designed and implemented internal control systems and inadequate monitoring and oversight;
- (b) A poor internal control framework that:
  - (i) Fosters over-reliance on key individuals to control all activities;
  - (ii) Does not ensure staff are properly trained and motivated to understand the substance of their work and its relative importance within the control framework;
  - (iii) Lacks mobility of staff - staff performing the same work year after year;
  - (iv) Lacks transparency in the regulations, rules and procedures applied in the business process;
  - (v) Facilitates collusion among staff.
- (c) Failure to establish adequate procedures to detect fraudulent activity, particularly through regular monitoring processes:
- (d) Red flags related to people working in the Organization e.g. people who:
  - (i) Are in positions of authority overriding existing controls because subordinates or weak controls allow them to circumvent the rules;
  - (ii) Are living beyond their means;
  - (iii) Have unusually close association with suppliers;
  - (iv) Have severe personal financial stress due to debts or losses, addictions to substances or gambling;
  - (v) Rarely take vacations or sick time (and when they are absent, no one performs their work).

93. Auditors are encouraged to use the Fraud Triangle to assess fraud risks. The Fraud Triangle considers: (a) "Opportunity" – the existence of weaknesses in internal controls combined with knowledge and ability to commit fraud; (b) "Pressure" – incentive or motivation to commit fraud; and (c) "Rationalization" – justification of dishonest action, which may be a reflection of a weak "tone at the top".

## **F.4. Determining engagement objectives, scope, criteria and approach, and allocating engagement resources**

### **F.4.1. Determining engagement objectives, scope, criteria and approach**

94. Once the understanding of the audit entity has been acquired and the assessment of risks has been completed, the auditor should be able to clearly articulate what will be audited, why it will be audited, and how it will be audited. At this stage the auditor should determine the following:

- (a) Audit objectives – Define the audit purpose. All planning, evidence gathering, and data evaluation begins with the audit objectives, and the audit ends when the Director, EIO has enough relevant evidence to support a report which satisfies the audit objectives. Audit objectives should therefore be precise and articulate and must be stated in such a way that the auditor is able to draw a conclusion with respect to each of the objectives.
- (b) Audit scope: Lists the areas, processes, activities, programmes or systems within the audit entity that will be the subject of the engagement and to which the conclusions will apply. It is impractical and not cost effective to audit everything and it should therefore be evident in the scope how conducting the engagement as stated will lead to the formulation of conclusions appropriate to the engagement objectives and in support of the Organization's strategy.

Consideration should be given to whether reliance can be placed on the work of other assurance providers.

- (c) **Audit criteria** (especially for reviews): Provides a basis for developing audit observations and formulating conclusions and are reasonable and attainable standards of performance and control against which the auditor will assess the adequacy of systems and practices, the effectiveness and efficiency of operations, compliance with UNIDO Financial Regulations and Rules, agreements, contracts, etc. These should have been discussed and agreed with management prior to the start of the audit.
- (d) **Audit approach**: Ensures that sufficient and appropriate audit evidence is collected in order and in a cost effective manner to enable the auditor to draw a conclusion with respect to each of the engagement objectives, and/or to provide an overall opinion or conclusion for the audit. This will include identifying the most appropriate and cost-effective mix of audit tests and procedures to gather that evidence.

#### **F.4.2. Allocating engagement resources**

95. The Standards require that appropriate resources to achieve engagement objectives are determined as part of the planning process. Staffing an audit engagement should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources. The resources required to carry out the audit work are also dependent on the audit objectives, scope, criteria, and proposed approach. Resource requirements are usually measured in terms of knowledge and skill, budgetary, and time requirements. These should be documented in the audit planning memorandum.

- (a) **Knowledge and skills**: The knowledge and skills required to perform the engagement should be estimated based on the subject matter and the work to be performed. For routine audit engagements, knowledge and skill requirements can usually be formulated in terms of typical auditor levels. For specialized engagements, it may be necessary to specify a required level of expertise and provide an indication of how that expertise might be obtained, e.g. in-house through secondment, or externally through a consultant.
- (b) **Assignment budget**: The budget shows the number of hours or days allocated to the audit, and provides overall guidance for the performance of the audit. The assignment budget should be prepared by the AIC and approved by the Chief, EIO/IOD before the audit starts. It is essential that time is controlled carefully to ensure that it be utilized in the most effective manner possible. The budget process will be broken down into the three phases of the audit (planning, fieldwork and reporting) and split to show internal audit staff time costs and time of contractors. Revisions to the assignment budget should be documented. Changes in the scope of an existing audit, especially those with additional assignment budget implications, should be pre-approved by the Chief, EIO/IOD. In developing assignment budgets, the following should be considered:
  - The team (structure and responsibilities) and the required budget in terms of both time and money;
  - Whether the audit will involve country missions or performed as a desk review;
  - Whether additional resources are needed to meet assignment deadlines;
  - Inclusion of other costs of engagement with other assurance providers that will be involved in supporting the audit;
  - A balance in the time budget allocated between the different phases of the engagement. (Consider having the following ratio: planning (35%), fieldwork (40%), reporting (25%).

## **F.5. Develop audit plan and work programme**

### **F.5.1. Audit Planning Memorandum**

96. The results of the planning process should be documented in an [Audit Planning Memorandum \(APM\)](#). It reflects how, by identifying risks, formulating meaningful objectives, and establishing an appropriate audit scope and approach, the auditor will be able to concentrate audit resources and effort on selected key risk areas that can have a significant impact on the performance and results of the entity being audited.

97. The audit planning memorandum at a minimum should include:

- (a) An overview of the entity, function or key processes/activities (for internal audit);
- (b) Audit objectives and scope (including rationale for selection of entities /functions/ processes/ activities to be reviewed);
- (c) The risk-control matrix (or, if completed and approved separately, inclusion of appropriate references to it);
- (d) Considerations for placing reliance on other assurance providers;
- (e) Materiality, testing and sampling considerations in the audit (where applicable);
- (f) The composition of the proposed team; and
- (g) The assignment budget and time schedule.

98. The APM must be prepared by the AIC, reviewed by the Chief, EIO/IOD and approved by the Director, EIO before commencement of field work and will form the basis for the development of the audit programme.

### **F.5.2. Audit Work Programme**

99. The Standards require that internal auditors develop [Audit Work Programmes \(AWP\)](#) that achieve the engagement objectives. The AWP will document the specific audit steps to be carried out in order to fulfill the engagement objectives and address the key residual risks identified in the APM.

100. The tests and procedures should be structured and described so that it is clear to which criteria and to which audit objective each procedure is directly linked. It will also specify the testing strategies such as targeted testing and statistical sampling, where applicable, and the extent of testing or coverage. To be effective, the audit programme should also be:

- (a) A guide for conducting and co-ordinating the audit work to be done. It should elaborate how the audit plan will be executed;
- (b) A framework for assigning audit work;
- (c) A framework for effectively supervising work and ensuring that the tests planned will provide information that will allow the auditor to draw conclusions related to the objectives;
- (d) A means of self-control for the audit staff assigned;
- (e) A means by which the audit supervisor can review and compare performance with approved plans;
- (f) A systematic plan for each phase of the work that can be communicated to all audit personnel concerned;

- (g) A vehicle to document the exercise of due care and compliance with professional standards and policies.

101. In all cases, AWP's should be recorded in TeamMate prior to the start of the execution stage of the audit. The AWP should be prepared by the AIC reviewed by the Chief, EIO/IOD and approved by the Director, EIO prior to its implementation, and any adjustments approved promptly.

## **F.6. Advisory engagements (special considerations)**

102. EIO identifies the advisory services through the requests from the Director General, AAC or the policymaking organs, and identification of emerging risks from ongoing assignments. The Chief, EIO/IOD in consultation with the Director, EIO assesses the merits of the requests or the risks and will decide whether to engage and if so with what level of resources, and towards what product (memorandum, report, etc.). The advisory engagements accepted by EIO/IOD are added to the audit work plan with the Director General's approval.

### **F.6.1. Terms of reference**

103. The objectives, scope, respective responsibilities, communication, reporting and any other client expectation must be agreed with the relevant request or prior to engagement. The agreed terms of reference must be signed off by the Director, EIO prior to commencement of work.

### **F.6.2. Planning memorandum**

104. A planning memorandum picking relevant aspects of the Audit Planning Memorandum template should be completed.

### **F.6.3. Work Programme**

105. The work programme will vary in form and content depending upon the nature of the engagement and must, in all cases, be formally documented, approved and communicated. The work programme should be reviewed by the Chief, EIO/IOD and approved by the Director, EIO.

## **Section G: Performing the engagement: Guidance on materiality, sampling and testing in audits**

### **G.1. Purpose of section**

106. Auditors are expected to exercise professional judgment in determining materiality, sampling and testing strategies. Guidance is provided in this manual but the auditor should tailor the guidance in the manual to respond to situations encountered in each audit. In exercising judgment, auditors should ensure that at a minimum, the audit work meets professional standards. Proper application of professional judgment may in some situations result in additional or more extensive audit procedures than described in this manual.

107. Many aspects of the audit require technical judgments and auditors should have adequate technical expertise in determining:

- (a) Materiality as one consideration in determining the extent of testing;

- (b) Specifying a minimum level of substantive tests based on the assessed risk, analytical procedures, and controls tests;
- (c) Determining sample method and size for substantive and control testing.

## **G.2. Materiality**

108. Materiality is based on the concept that items of little importance, which do not affect the judgment or conduct of a reasonable user, do not require the auditor to do any work on them. In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the audit report. Materiality therefore sets the level of deviation/magnitude that the auditor considers as likely to influence users of the information or affect achievement of impact of funded programmes or decision-making.

109. Materiality has both quantitative and qualitative aspects. Even though quantitatively immaterial, certain types of weaknesses can have a material impact on the Organization's objectives and should therefore be considered in an audit. The rationale for determining materiality levels should be documented in the planning memorandum and uploaded into TeamMate, and should be approved by the Chief, EIO/IOD.

### **G.2.1. Quantitative materiality**

110. Quantitative materiality is determined by setting a numerical value, the materiality threshold. This threshold serves as a determining factor both in the calculation of sample sizes for substantive testing and in the interpretation of the results of the audit. The numerical value is achieved by taking a percentage of an appropriate base, which both reflect, in the auditor's judgment, the measures that users of the information are most likely to consider important. The base and the percentage and the base are determined by the AIC and approved by Chief, EIO/IOD.

### **G.2.2. Qualitative materiality**

111. Certain types of weaknesses or irregularities or findings may not be quantified but could have a material impact on the Organization's projects/programmes and operations. Qualitative materiality includes items that may either be:

- (a) *Material by nature*: The inherent nature or characteristics of an item or group of items e.g. where a matter contravenes a law or regulation regardless of the amount involved.
- (b) *Material by context*: Matters will be considered material based on impact (potential/actual), including activities that may have serious consequences.

### **G.2.3. Materiality at the different stages of the audit**

112. Materiality as a fundamental concept is applicable across the various phases of the audit:

- (a) Planning: Determining materiality limits helps the auditor to plan the audit so as to ensure that material deviations are detected by audit tests and EIO/IOD's resources are employed economically, efficiently and effectively. Auditing to a stricter (lower) materiality threshold requires more audit testing; however, the auditor must avoid "over-auditing" in areas that do not merit extensive work. As guidance, the bases for determining quantitative materiality for planning and reporting purposes can be total expenditure in the period under audit with materiality levels set between 0.5-1 per cent. For performance results (data), this can be 5-10 per cent.
- (b) Field work: Materiality is used during field work to determine the specific items to test and evaluate effect of exceptions. It also enables the auditor to assess the nature of information

that may require revision in planned procedures. Transactions to be selected for testing should be 5-10 per cent of the overall materiality.

- (c) **Reporting:** The auditor should also report all matters that he/she considers material. The auditor must apply professional judgment taking account of materiality in the context of matters on which he/she is reporting. Overall materiality on which total exceptions will be reported should be 0.5-1 per cent.

### **G.3. Audit sampling**

113. Where testing the whole population is not feasible, the auditor must review a sample of the population. IIA Practice Advisory 2320-3 defines audit sampling as “the application of audit procedures to less than 100 per cent of items within a class of transactions or account balance such that all sampling units have a chance of selection”. Population is defined as the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

114. Audit sampling can use either a statistical or a non-statistical approach. Statistical sampling involves determining the sample size objectively, selecting the samples from the population randomly and evaluating the sample results mathematically, to draw conclusion about the population. A statistical sampling approach must be used if the auditor wishes to extrapolate sample results to draw conclusions about the entire population. On the other hand, non-statistical sampling approach relies solely on the auditor’s professional judgment, and the auditor uses his or her own experience and knowledge to determine the sample size and the method for selecting the samples from the population. Non-statistical sampling (e.g. judgmental samples) may not be objective and the results of such sampling normally pertain only to the sampled items, and cannot be mathematically extrapolated over the population.

115. Effective audit sampling procedures will increase the coverage, focus, and efficiency of audits, and statistical sampling will allow the auditor to provide assurance on processes that impact the Organization’s achievement of its goals and objectives.

116. The auditor is expected to design and select an audit sample, perform audit procedures, and evaluate sample results to obtain sufficient, reliable, relevant, and useful audit evidence to achieve the engagement’s objectives. The size and structure of an audit sample will depend on the specific audit objectives, the nature of the population and the sampling and selection methods.

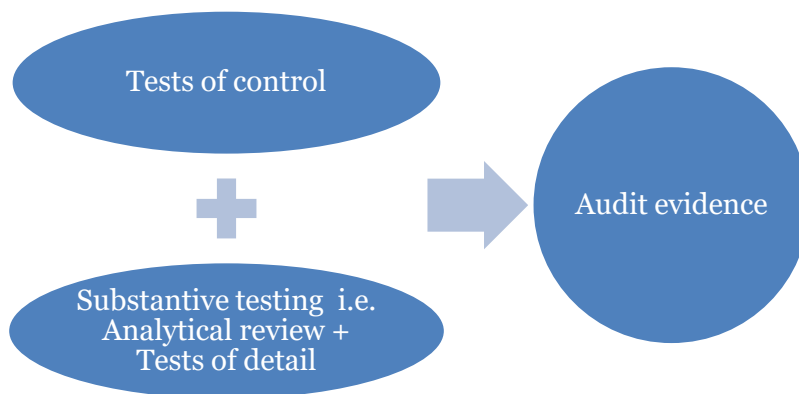
117. The decision to determine sample sizes judgmentally or statistically will depend on audit objectives:

- (a) Statistical or probability sampling allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.
- (b) Judgment sampling - is used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical, or necessary to use statistical sampling.
- (c) Attribute sampling is used when the auditor has identified the expected frequency or occurrence of an event.
- (d) Variable sampling is used when the auditor samples for values in a population which vary from item to item.

### **G.4. Testing strategies**

118. Testing implies the evaluation or measurement of transactions or processes to determine its qualities or characteristics. As a profession, auditors are usually good at modifying procedures to

collect additional evidence when risks are high but not very good at modifying and eliminating procedures and related documentation when risks are low. This section helps the auditor identify the optimal testing strategy that will help them collect sufficient evidence at minimal cost as reflected in the diagram below:



#### **G.4.1. Test of control**

119. Test of control assesses the adequacy and effectiveness of specific controls. This gives the auditor reasonable assurance that the control system as perceived at the planning stage is operational and the auditor can place reliance on it.

#### **G.4.2. Substantive testing**

120. With substantive testing, evidence is gathered in order to evaluate the integrity of individual transactions, processes, data, and other information. If the internal control is effective, then the auditor will use more test of controls and less substantive tests and vice versa. Auditors perform substantive tests when control testing (compliance test) indicate that there is no control or the presence of weak controls. There are two main types of substantive testing performed by EIO/IOD. These are substantive analytical review and test of details. Substantive procedures should be designed during the planning phase in response to the related risk assessment.

121. Analytical procedures help to conduct a more economic, efficient and effective audit. They consist of studying plausible relationships between both financial and non-financial data, whether within the same period and entity and/or from different periods and entities. Such procedures are more helpful in validating reliability than compliance. It helps in analysing relationships for consistency with each other and with the auditor's knowledge of the audit client, or predict values which may be compared to actual values. It also includes the review of identified fluctuations and relationships that are inconsistent with other information or deviate significantly from predicted values.

122. Analytical procedures are more reliable in a strong control environment and because of this may not be applicable in country audits. Various methods may be used when performing analytical procedures. These range from simple comparisons to complex analyses using advanced statistical techniques, for which appropriate computer software may be necessary.

123. There are four main steps to be performed under analytical procedures (if determined as the most effective approach for an entity or audit area):

- (a) Determine expectation: The auditor should determine what the expected outcome of the test should be. This requires use of available data and reliability of the data should be

assessed and documented (e.g. published data by the World Bank and United Nations agencies are generally reliable). This may be an absolute amount or a defined range.

- (b) Determine the acceptable/tolerable difference/range: The auditor determines the reasonable deviations from the expected value or range. This should be based on professional judgement and industry practice where applicable.
- (c) Determine the actual value or range: The auditor determines the actual value based on existing information and compare it to the expected amount. Where the variance is within the tolerable value or range, the auditor may decide no further work is required.
- (d) Follow up on variances: Where the variance exceeds the tolerable deviation, the auditor follows up on the variances with management. All explanations received from management should be corroborated. .

124. Analytical procedures can be used at the planning and execution phases of the audit. It is used as part of the risk assessment procedures, in order to identify areas of potential risk and help design further audit procedures. It can also be used as part of the substantive procedures when their use can be more efficient and provide corroboration as part of the audit.

125. **Test of detail:** Substantive test of details is used where analytical procedures cannot provide conclusive audit evidence. The test of details includes computation, re-performance, examination, inspection, enquiry and confirmation, and observation. In terms of the extent of testing, the auditors should take into consideration whether:

- (a) Examining selected transactions confirms the initial opinion on the systems of risk management and internal control. Samples are selected and examined to see whether the results coincide with the initial audit opinion. The selection should be informed by the identified risks as well as the qualitative and quantitative materiality levels.
- (b) The risk of any losses or deficiencies should be quantified as much as possible. The quantification may not be in monetary terms but percentage or number/frequency of exceptions noted. Quantification makes audit findings more credible.

126. In general, analytical procedures provide a warning that something appears to be wrong, rather than providing positive, persuasive evidence of what is wrong, and thus on their own do not normally provide sufficient, relevant and reliable audit evidence. Therefore the auditor should design and perform some substantive procedures (test of details) for each audit objective. In all areas requiring test of details, EIO/IOD seeks to cover at least 15 per cent (in value) of the audit. The extent may be reduced based on the level of assurance obtained from controls and analytical review procedures.

## **G.5. Working papers**

127. The documentation and review of working papers will follow these general guidelines:

- (a) The preparer will document the work done. This could be an oversight assistant/auditor/consultant, depending on the engagement or specific audit programme step; the preparer will upload the work papers and supporting documents into TeamEWP.
- (b) The AIC is responsible for uploading the work done by team members who do not have access to TeamMate (consultants);
- (c) A senior team member (i.e. senior to the “preparer”) will be charged with reviewing work done.
- (d) The AIC will cross-reference the internal audit management letter or the final report (in cases no internal audit management letter was issued) to the working papers in TeamMate.



### **G.5.1. Importance of working papers**

128. Working papers provide supporting documentation for the entire engagement. They provide a demonstrable link between reports issued and the work performed; they also support the findings, conclusions, and recommendations. Working papers can include text, spreadsheet and presentation documents, photocopied material, computer screen shots, e-mails, photographs, system data extraction programmes and data downloads. Working papers are important because they:

- (a) Justify and provide proof of work conducted;
- (b) Help auditors respond to questions about coverage or results;
- (c) Document reasons for removing observations and/or recommendations that were included in earlier versions of reports;
- (d) Facilitate supervisory quality assurance reviews as well as external practice inspections; and
- (e) Provide supporting evidence when external auditors or other reviewers need to rely on the work of internal audit.

### **G.5.2. Documentation standards**

129. Auditors should maintain working papers in TeamMate. For working papers to be considered as being adequate, they must:

- (a) Be a set of stand-alone documents from which the reader will be able to identify the actions taken by the auditor(s) to satisfy the objectives of the detailed audit programme and prepare the final audit report. Someone should be able to:
  - (i) Clearly see the work carried out, including the nature, timing, and extent of the audit procedures performed;
  - (ii) Understand the source, reason, and conclusions of the work paper;
  - (iii) Reach the same conclusion as the person doing the work;
  - (iv) Have representative and sufficient samples to support a conclusion;
  - (v) Locate all the items needed to retest samples.
- (b) Contain a clear audit trail. Specifics about what was tested and reviewed need to be in the working papers and contain evidence to support report findings. All documents tested do not need to be in the working papers, as long as they can be retrieved later;
- (c) Be properly cross-referenced. Cross-references should stand out clearly and provide direct and prompt access to trace conclusions back to the original audit tests and the evidence gathered and vice versa;
- (d) Be signed by the preparer and the reviewer in line with quality assurance standards:
  - (i) Be created as the audit progresses, not at the end.
  - (ii) Have all matters “closed”, i.e. not include any open items or “to do lists” that are not resolved;
  - (iii) Have sufficient and compelling evidence to support audit conclusions.

130. Because the results of several audit tests will be summarized to form a conclusion with respect to one or more criteria or objectives, the results of each audit test and the evidence gathered should be documented to ensure that the following information is evident:

- (a) The engagement objective and criterion to which the test is linked;
- (b) The sources of information used to design the test;

- (c) The means by which the test was conducted;
- (d) The test results and their analysis; and
- (e) The conclusions drawn and the recommendations made.

### **G.5.3. Review of working papers**

131. An important part of the audit function's quality control programme is a timely and thorough review of working papers. All working papers will be independently reviewed to ensure that there is sufficient evidence to support conclusions, document the extent of audit work performed, ensure that all audit objectives have been met, as well as substantiate compliance with applicable auditing standards. Working papers should contain documented evidence of supervisory review (i.e. review of the working papers by at least one more senior member of the audit function).

### **G.5.4. Maintenance of engagement documentation**

132. As far as possible, the audit team should maintain electronic supporting documentation to ease document retrieval and referencing. Supporting documentation directly linked to reported findings should be maintained in TeamMate. All hardcopy documents should be properly filed.

133. EIO/IOD will retain ownership of all working papers including those generated by consultants. The working paper files should be appropriately secured and access limited only to authorized personnel. Any requests for access from members outside EIO/IOD should be subject to the approval of the Director, EIO/IOD in consultation with legal counsel, where necessary.

134. Engagement documentation will be maintained in line with [IOD's Documents Retention Policy](#).

## **G.6. Collecting and analysing audit evidence**

135. Internal auditors are charged with securing sufficient evidence to support their audit findings and to be of any use, this evidence must be reliable, i.e. the information should be accurate, without bias and if possible produced by a third party or obtained directly by the auditor.

### **G.6.1. Compelling evidence**

136. Audit evidence is the information collected, analysed, and evaluated by the auditor to support an audit finding or conclusion. The decisions, on which type of evidence to seek and on how much evidence is enough, require professional judgment. To support the exercise of such judgment, knowledge of the concepts underlying evidence is necessary. These include the below.

137. Practice Advisory 2310-1 underpins the need for good information to support the audit process and states that:

- (a) Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Evidence is considered to be sufficient if a reasonably informed unbiased person would agree with the auditor's findings and conclusions, i.e.:
  - (i) The auditor is seeking reasonable, but not absolute assurance and, conclusions (i.e. evidence does not have to prove the position beyond any question, but it must clearly and convincingly outweigh opposing evidence);
  - (ii) Incomplete data may result in the inability to reach reasonable conclusions (e.g. documents may be lost or deliberately concealed, or the auditee may be unaware of the existence of key documents);

- (iii) Examination of extensive evidence may be uneconomical, inefficient, and ineffective (i.e. since the weight of individual pieces of evidence determines their collective quality, a few items of highly weighted evidence may be more persuasive than many items of less convincing evidence); and
  - (iv) Evidence shall be reasonably representative of the population being reviewed or addressed (i.e. the selection of items for examination should be the result of objective, acceptable sampling methods).
- (b) Competent information is reliable and best attainable through the use of appropriate engagement techniques. When considering the reliability of evidence, the following factors should be considered:
- (i) Evidence obtained from a credible independent source provides greater assurance of reliability than evidence secured from the auditee;
  - (ii) Evidence obtained by auditors through physical examination, observation, computation, and inspection is more reliable than evidence obtained indirectly;
  - (iii) Documentary evidence is usually considered more reliable than oral evidence;
  - (iv) Reliability of evidence increases when it is confirmed by another source; and
  - (v) Statements made by audit clients are more reliable when they are confirmed in writing.
- (c) Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement; and
- (d) Useful information helps the Organization meet its goals.

### **G.6.2. Methods of collecting evidence**

138. Audit evidence can be collected using a variety of tools and techniques. Auditors should consider the most appropriate, as well as the most practical and cost-efficient, method for collecting relevant information. These include:

- (a) Interviews: They define the issues, furnish evidence to support audit findings, and clarify positions between auditors and auditees on engagement findings and observations. Interviews can also be used to solicit the opinions and experiences of stakeholders. Adequate preparation and good skills are needed to use interviews effectively in building or confirming audit evidence.
- (b) Audit tests: Testing implies placing selected activities or transactions on trial to reveal inherent qualities or characteristics. Audit tests are developed and conducted for either compliance, i.e. to assess the adequacy and effectiveness of controls, or substantive verification purposes, i.e. as a detailed examination of selected transactions.
- (c) Surveys are structured approaches to gathering information on a defined set of common factors from a large population. The key element in any survey is the existence of a structured, tested questionnaire, regardless of whether the survey is administered in person, by telephone, on the Internet, or by mail.
- (d) Inspection consists of confirming the existence or status of records, documents, or physical assets. This provides highly reliable evidence of the existence or condition of materials.
- (e) Flow charts are graphic representations of a process or system and provide a means for analysing complex operations. A system flow chart would provide an overall view of the inputs, processes, and outputs while a document flow chart provides more detail and therefore would assist in identifying value added activities and critical controls.
- (f) Observation entails looking at a process or procedure being conducted by auditee staff. Many service transactions and internal control routines can only be evaluated by seeing the

auditee perform them. Whenever possible, two or more auditors should be present to make observations in order to provide additional support to the observations.

- (g) Confirmation involves a request, usually provided in writing, seeking corroboration of information obtained from the auditee's records or other less reliable sources.
- (h) Analysis consists of examining information obtained and using it to corroborate other findings or to compare auditee execution against performance indicators and policies, past operations, similar operations in other organizations, and legislation.

### **G.6.3. Validating the findings from the evidence collected**

139. The audit team should engage continuously with the operational staff of audited entities and with each other to obtain clarification on matters arising. Open and timely communication during the audit will also help reduce the tension that auditees will naturally feel when their work is subject to external scrutiny. Progress reporting helps:

- (a) To check the validity of audit results and conclusions before they become formally reported;
- (b) To alert auditees to matters they might need to address immediately or to changes in audit scope;
- (c) To offer an opportunity to auditees to clarify or provide more information on points raised by the auditor in a timely fashion; and
- (d) To help build a relationship with the auditee that facilitates the gathering of information helpful to the audit.

140. Notwithstanding the above, auditors should use judgment as to the amount of detail or certain areas of audit they might disclose to auditees during the course of the audit engagement. There may be cases, such as red flags requiring investigation of potential fraud or significant non-compliance, or where communication with auditees may need to be limited or managed so that confidentiality is maintained and audit evidence preserved, and the integrity of an investigation process is maintained.

141. The audit team should provide regular updates to the Chief, EIO/IOD on the progress of the audit. The frequency of progress updates should be agreed with the Chief, EIO/IOD. The AIC will use professional judgment in deciding whether or not to escalate emerging issues immediately or include in the regular updates to the Chief, EIO/IOD. Matters that give indications of the possibility of fraud or misconduct should be brought to the immediate attention of the Chief, EIO/IOD.

## **G.7. Root cause analysis**

142. Root cause analysis is defined as the identification of why an issue occurred (versus only identifying or reporting on the issue itself). In this context, an issue is defined as a problem, error, instance of non-compliance, or missed opportunity. Examples of audit issues include: ineffective operations, misuse of resources, inadequate safeguarding of assets, and exceeding the delegated authority.

143. Root cause analysis benefits the Organization by identifying the underlying cause(s) of an issue. This approach provides a long-term perspective for the improvement of business processes and internal controls. Without the performance of an effective root cause analysis and the appropriate remediation activities, an issue may have a higher probability to reoccur. It is important to recognize that there are often multiple, related or unrelated, causes of an issue.

144. In certain circumstances, root cause analysis may be as simple as asking “five whys.” For example: The Procurement Division received a limited number of responses to a solicitation exercise.

- (a) Why? *A limited number of vendors was invited to participate in the solicitation.*
- (b) Why? *Only few new vendors were added to the vendor roster in the recent period.*
- (c) Why? *Vendor registration process was lengthy and cumbersome.*
- (d) Why? *Management did not establish targets and timelines for the vendor registration process and did not monitor the process against these timelines.*

145. By the fifth “why,” the auditor should have identified, or be close to identifying, the true root cause. More complex issues, however, may require a greater investment of resources and more rigorous analysis. The resources spent on root cause analysis should be commensurate with the impact of the issue or potential future issues and risks. Auditors may not have all the skill sets necessary to conduct the specific root cause analysis under consideration. When the anticipated time commitment or necessary skill levels exceed what is available within the internal audit activity, EIO/IOD may request management to conduct a root cause analysis. Further discussions on root causes may be held with management at the reporting stage.

146. In general, action plans may be issue-based or root cause-based. However, merely fixing the issue does not address what caused the issue to exist and does not improve the overall governance, risk, and control environment. Therefore, wherever possible, agreed action plan should address the underlying root cause of the issue identified. Finding and appropriately addressing the root cause will reduce (and optimally eliminate) the future recurrence of the issue<sup>2</sup>.

## **Section H: Engagement Reporting**

### **H.1. Purpose of section**

147. This section provides guidance to the auditors on the key processes pre- and post-audit report writing that will ensure good quality output is produced by EIO to add value to, and contribute improvements in the Organization’s processes.

### **H.2. Fact checking (throughout the engagement)**

148. Auditors should fact check as often as possible during field work but, at a minimum, this must be done on a weekly basis with operational staff. This continual engagement with clients is expected to ensure transparency and avoid surprises. This should be evidenced by sending a follow up e-mail to relevant staff confirming the issues discussed and any agreements on the accuracy of observations and/or the provision of more clarifying information. The auditor will copy the Chief, EIO/IOD (if required) and the focal point of the audit at the Secretariat and/or the UNIDO Representative (if it is a Country Office audit). If the work is being performed by an Oversight Assistant, the AIC will be copied in the e-mail.

### **H.3. Issue observations worksheet**

149. As soon as fieldwork is completed, the AIC will prepare an observations worksheet to be reviewed by the Chief, EIO/IOD and cleared by the Director, EIO before it is issued to the audit

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<sup>2</sup> For details refer to IIA Practice Guide on Audit Reports (October 2016)

clients. The observations worksheet, which contains EIO/IOD's preliminary findings from the audit, provides audit clients an opportunity to provide further information to validate the preliminary findings and/or help put the findings in the right context. It also provides EIO/IOD and the audit clients an opportunity to brainstorm to identify and agree on feasible management action plans to address the risks relating to the audit findings.

150. The observations worksheet should be sent in advance to allow adequate time for the audit clients to prepare for the MAPs meeting. A timeline for receiving clients' comments on and inputs into the observations worksheet as well as proposals for MAPs should be communicated to the audit clients by EIO/IOD. The distribution list for the observations worksheet should be prepared by the AIC and approved by the Chief, EIO/IOD. The AIC will incorporate comments and inputs that may be received (where appropriate) and the updated version of the observations worksheet reviewed by the Chief, EIO/IOD and cleared by the Director, EIO will be sent to the audit clients before the exit meeting.

#### **H.4. Conduct MAPs meeting**

151. The MAPs meeting should be held with officers with the right level of authority to take decisions regarding actions that need to be implemented to address the audit findings. This will usually comprise Managing Directors, Directors, Chiefs, UNIDO representative (in case of Country Office audits) and operational staff who are directly involved in the process, function or activity that was audited. The Chief, EIO/IOD and the AIC should ensure that all relevant stakeholders attending the MAPs meeting received the final observations worksheet and are informed of the iterative process by which the final observations worksheet was developed.

152. As much as possible, discussions at the MAPs meeting should focus on agreeing Management Action Plans (MAPs) that address root causes of issues identified, and clearly indicate ownership and date for completion. The Chief, EIO/IOD will determine the format of presentation at the meeting and the relevant documents (including PowerPoint slides) will be prepared by the AIC. The Oversight Assistant is responsible for organizing the meeting (including inviting stakeholders, reserving appropriate meeting rooms, pre-testing of PowerPoint slides) under the supervision of the AIC, as may be deemed appropriate by the Chief, EIO/IOD.

153. The Chief, EIO/IOD should ensure that relevant audit working papers are reviewed before the exit meeting.

#### **H.5. Issue draft internal audit management letter**

154. Based on the comments obtained from audit clients during the exit meeting, a draft internal audit management letter would be prepared by the AIC, reviewed by the Chief, EIO/IOD and approved by the Director, EIO before it is shared with the audit clients for validation of audit findings and confirmation of the agreed MAPs (discussed during the meeting described above), as well as any additional comments or information which should be considered by EIO/IOD.

155. The distribution list for the draft internal audit management letter should be prepared by the AIC and approved by the Chief, EIO/IOD. The AIC should ensure that the appropriate report template is used for the [internal audit management letter](#).

#### **H.6. Issue final internal audit management letter**

156. Upon receipt and consideration of management's final comments, the Director, EIO will issue a final management letter to the Director General, copied to the audit clients. It is worth noting that the final internal audit management letter may contain audit findings and agreed MAPs at all four levels of significance, namely: "Critical"; "Very Important"; "Important"; and "Desirable". Kindly refer to section H.9. for the definition of these ratings.

157. The final management letter should be prepared by the AIC, reviewed by the Chief, EIO/IOD and approved by the Director, EIO/IOD. The final management letter should also be shared with the AAC.

## **H.7. Issue final audit report**

158. The final audit report will be issued concurrently to the Director General and Member States as per Board decision IDB.44/Dec.3. This report will contain the high priority audit findings and agreed MAPs (i.e. those ranked as “Critical” and “Very Important”) reported in the final management letter.

## **H.8. Use of personal information and names in audit reports**

159. To address concerns relating to the protection of personally identifiable information, findings in draft and final audit reports should not contain names of third parties, either individuals or corporate or other entities (including suppliers, vendors, staff members, implementing partners). This practice is important as EIO/IOD should maintain confidentiality of the parties involved and help prevent EIO/IOD being held responsible for any potential reputational damage to the entity mentioned in the reports. While the General Data Protection Regulation of the European Union does not directly apply to the United Nations and specialized agencies, EIO/IOD is mindful of possible implications the regulation may have for the processing of personal data of natural persons in the European Union.

## **H.9. Rating of audit findings and MAPs**

160. EIO/IOD rates audit findings and MAPs as follows:

- (a) **Critical** – Audit finding reveals fundamental weakness in the audited process/ function/ entity that is detrimental to UNIDO as a whole. Implementation of the MAP requires immediate action.
- (b) **Very Important** – Audit finding reveals fundamental weakness in the audited process/ function/ entity that is detrimental to the whole process/ function/ entity. Implementation of the MAP requires prompt action.
- (c) **Important** – finding reveals a significant weakness in the whole audited process/ function/ entity or a fundamental weakness in a significant part of the process/ function/ entity. Management action is required as soon as possible, but without compromising the timing of implementing “Critical” or “Very important” MAPs.
- (d) **Desirable** – non-implementation of action plans is not detrimental to the process/function or entity. Reporting on reasons for non-implementation in the course of follow-up is required.

## **H.10. Audit conclusions**

161. EIO/IOD will use a four-tier rating scheme for its audit opinion or conclusion in each audit report and/or on each audit objective beginning year 2020. The ratings will be proposed by the AIC, reviewed by the Chief, EIO/IOD and approved by the Director, EIO. Where necessary, a special meeting should be held between the Chief, EIO/IOD, the Director, EIO and relevant Managing Directors and/or Directors affected by the audit to discuss the final rating, if the exit meeting is not deemed as the appropriate forum for such a discussion.

162. The ratings are shown in the table below:

Ratings	Definition
Effective	<b>No issues or few minor issues noted.</b> Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.
Partially Effective	<b>Moderate issues noted.</b> Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.
Needs significant improvement	<b>One or few significant issues noted.</b> Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.
Ineffective	<b>Multiple significant and/or (a) material issue(s) noted.</b> Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised.

## Section I: Engagement Closure

### I.1. Purpose of section

163. This section guides the auditors on the key processes and checks that need to be made before closing off an engagement.

### I.2. Engagement file completion

164. Prior to engagement closure, the AIC should ensure that all areas of the engagement file are completed and reviewed, including full documentation in TeamMate. The Chief, EIO/IOD should sign off on all significant risk areas identified by the audit team including a final completion step linked to all findings. Once the report has been finalized, but before issuance of the final report, the Director, EIO should provide the final sign-off that allows closure of the engagement file. The file should be frozen within 60 days after issuance of the final audit report.

### I.3. Follow-up of Management Action Plans (MAPs)

165. MAPs must be created by the AIC or a team member in TeamEWP with clear timelines and appropriately assigned within 30 days after issuance of the final report. After finalization procedures of the audit in TeamEWP MAPs are automatically transferred to TeamCentral for follow up. Evidence of agreement to the MAPs as documented in the final report should be uploaded into TeamMate.

166. As part of its follow-up process, EIO/IOD will verify the implementation of all the agreed management actions reported in the final management letter twice every year. Internal audit staff responsible for follow up on management action plans ensures that focal points in the various departments are notified and updates on progress are received in a timely manner to ensure an effective follow-up process. When and where focal points report that MAPs have been implemented, the information/evidence received is shared with the relevant AIC for verification.



The outcome of the AIC's verification should be documented in TMCentral for review and approval by the Chief, EIO/IOD.

167. The outcome of EIO/IOD's follow-up process will be reported to the Director General, the Executive Board and the AAC. EIO/IOD will furthermore inform on the outcome of this process in its yearly activity report to the Board.

#### **I.4. Referring matters for investigation**

168. Due to the small size of EIO/IOD staffing, it is important to underline that the internal audit and investigation functions are separate and distinct. The aim of internal audit activities is not to detect potential wrongdoings but to provide assurance on the appropriateness of internal controls, UNIDO's risk management framework and governance processes.

169. The AIC will inform the Chief, EIO/IOD and Director, EIO as soon as potential fraud, corruption or other wrongdoings are identified. Upon discussion the Chief, EIO/IOD and AIC will agree on whether: (i) additional audit work needs to be done on the identified area(s), bearing in mind requirements of para. 137; or (ii) refer the matter for investigation.

170. In the latter case, the AIC will prepare a note detailing the potential fraud, corruption or other wrongdoing identified, with supporting documents if any. The note will undergo the formal intake process, evaluation, and investigation, if warranted, in accordance with the Investigation Guidelines (DGAI19 dated 16 January 2012).

#### **I.5. Performance assessments and feedback**

171. Performance assessments should be done for staff and consultants for every engagement. Audit teams will obtain clients feedback after the final management letter has been issued using the "[Customer Satisfaction Survey](#)" template.

172. The audit unit will also carry out satisfaction surveys on an annual basis for a sample of audits carried out during that period.



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