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DEPARTMENT OF MANAGEMENT AUDIT

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Ministry of Finance and Planning
 The Secretariat, Colombo 01.

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 Date } 09.06.2009

Audit and Management Circular DMA/2009(1)

To all Secretaries to the Ministries and Heads of the Departments,

Guidelines for Internal Auditing

Each secretary to the Ministry is responsible for the management of the Ministry and the Departments under its purview as the Chief Accounting Officer and is accountable to the Public Accounts Committee with regard to the institutions under him. Similarly each Head of a Department is also responsible as Accounting Officers accordingly.

As a measure to further strengthen the support provided by the Treasury to the Chief Accounting Officers and Accounting Officers in fulfilling the above responsibilities, the Department of Management Audit has been established as a Treasury Department since 2008.02.01 as per the decision No. 08/200/306/012 of the Cabinet of Ministers dated 2008.01.25.

Independent Internal Audit Units which operated in the Ministries and Departments have already been organized under the supervision of the respective Line Ministry. In order to further strengthen this position the Department of Management Audit would provide guidance to Internal Audit unit under each Ministry.

01. Independence of Internal Audit

As specified in Financial Regulation 134(1) the Internal Audit Unit should be independent of the control of those who are responsible for or are actually carrying out the financial and accounting operations of the department, as well as those engaged in the execution of schemes and projects or performance of work and services rendered by the department.

Ministry Internal Audit Units must be directly responsible to the Secretary to the Ministry and Department Audit Units must be directly responsible to the Head of the Department.

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02. Objectives of Internal Audit

Objectives of Internal Audit Units are clearly spelled out under F.R. 133 and each accounting officer is responsible for planning out their audit activities so that those objectives are achieved.

03. Internal Audit and Investigations Division

Internal Audit Units has to be established directly under the Accounting Officer with the leadership of a senior member of the Sri Lanka Accountants Service, in every Ministry and in every Department where the duties of which are large enough to justify a separate Internal Audit Unit. The Ministry Internal Audit unit must supervise the Internal Audit units of the organizations under the Ministry and conduct the internal audit of the small departments. It is necessary to employ a sufficient number of staff in the Internal Audit units.

04. Scope of Internal Auditor

Scope of Internal Audit with regard to financial transactions of the organization has been included in F.R. 133(2). Action has to be taken according to paragraph 29 of Chapter XLVIII of part 2 of the Establishment Code with regard to any discrepancy or fraud revealed by any audit report or any special investigation report conducted by the Internal Auditor according to F.R. 133(2) VIII. The function of the Internal Audit here will be purely that of a reporting agency.

05. Audit Committees

An Audit and Management Committee consisting of the following members must be established in each Ministry covering the Ministry office and the Departments under its scope.

06. Composition of the committee

- | | |
|---|---------------|
| 1. Secretary to the Ministry | - Chairperson |
| 2. Chief Accountant of the Ministry | - Member |
| 3. Representative from the Department of Management Audit | - Member |
| 4. Internal Auditor of the Ministry | - Convener |
| 5. Representative of the Auditor General | - Observer |

It is advisable that this committee is chaired by the Secretary to the Ministry and participated by each Head of Departments so that they could focus personal attention to efficient operation of the committee and also the high risk areas of financial discipline reported by the Auditor General and the Internal Auditors and immediate remedial action could be taken.

The Departments with Internal Audit Units also could establish similar committees chaired by the Head of the Department. A representative from the Auditor General could serve as an observer in this committee and while a representative from the relevant Ministry Internal Audit could participate as a member of the committee.

Methodical minutes of the meetings has to be maintained so that to implement and review the recommendations of the committee.

Encouraging the efficient utilization of the common resources of the organization, including human resources, and promotion of people friendly services are also duties of this committee.

Representatives of the Treasury will provide necessary guidance to these activities and report the progress and important issues surfaced to the Director General of Management Audit.

Every Audit and Management Committee should meet at least once in a quarter obtaining the participation of the Heads of Department so that immediate remedial action decided by the committee could be implemented. Suggested Terms of Reference for Audit and Management Committee is attached as Annex 01.

07. Internal Audit Programmes

So that to ensure effective performance in the organization, the Internal Auditors should consider systems analysis, performance evaluations, and special investigations in addition to the traditional financial audit.

Ministries must plan out their internal audit activities covering all areas such as approved annual estimates of each organization, action plan, new budget proposals, foreign aided projects etc. , so that limited audit resources are effectively deployed.

Serious attention has to be focused on auditing high risk areas of the organization. The high risk areas has to be identified out of the processes established for accomplishment of the objectives of the organization, taking into consideration, how they would affect the organization, the probability of occurrence of unfavorable events and weaknesses of the control mechanisms established to prevent such occurrences. Continuous changes taking place in the financial and management environment of the organization has to be taken into consideration and accordingly the Internal Audit Programme has to be developed.

It is important to pay special attention to FR 133 and 134 in this connection. Obtaining the advice of the staff of the Auditor General is also beneficial. These issues must be discussed in the very first meeting of the Audit and Management Committee of the year and approval of committee has to be obtained for the Internal Audit Programme.

Internal Audit Programme must be prepared before the 31st of January each year and copied to the Auditor General and to the Director General of Management Audit.

Format of the Internal Audit Programme could be adjusted according to the requirements of the organization and a sample format which could be used for this purpose is attached herewith as Annex 02.

08. Staff Training for Internal Audit and Questionnaires

Internal Auditors must provide necessary training for the staff employed. Questionnaires has to be prepared and provided to assistant staff so that to get the activities specified in the audit programme done by them.

09. Internal Audit Plan

Each Internal Audit Unit must submit an Internal Audit Report once in a quarter and it has to be presented for discussion at the audit and management committee.

Audit reports to be prepared for a year and target dates for presentation of them are as follows;

Preliminary assessment report	31 st January
1 st Quarter report	30 th April
2 nd Quarter report	31 st July
3 rd Quarter report	31 st October
4 th Quarter report	28 th February Next year
Summary for the year	30 th March Next Year

Institutions which prepare different individual internal audit reports due to the nature of the organization, such as for divisional offices or for particular incident audited etc., must summarize the audit reports and summary has to be presented to the audit and management committee.

In preparing Preliminary Audit Report and Quarterly Audit Reports attention must be focused on the Annual Audit Programme and related audit observations issued. However a general list of items to be reported on, in addition to above, is attached herewith as Annexes 03 to 07. Suggested subject areas in these attachments have to be suitably revised according to the risk areas and current environment of the organization, by the Internal Auditors.

Your cooperation in this subject is very much appreciated. You may kindly advise Internal Auditors to contact the Department of Management Audit for further guidance.

This circular will be effective over all other circular instructions issued on this subject from time to time.

Sgd. P.M.P. Fernando
Director General of Management Audit
For the Secretary to the Ministry
of Finance and Planning

Copy: Auditor General

**Proposed Terms of Reference for the Audit and
Management Committee**

1. Determination of the scope of the Internal Audit Unit.
2. Preview and approve the annual audit plan and the work programme. Annual audit plan should be prepared by the Internal Auditor in consultation with the External Auditor / Auditor General.
3. Review and evaluate the internal control systems covering accounting, financial and operational aspects based on internal audit reports.
4. Review external auditors' report and take corrective measures as may be required, to avoid repetition.
5. Review of preliminary internal financial statements including budget, review reports and evaluate cost effectiveness, performance and meeting targets.
6. Review of annual financial statements for compliance with accounting standards.
7. Ensure timely Submission of final accounts, annual reports etc.
8. Interactions with the Internal Auditors and External Auditors.
9. Ensure that the senior management staff is familiar with the statutory and other rules and regulations.
10. Create awareness on requirements of compliance with Treasury Circulars and other directives.
11. Review all human resource and other resource development matters and submit reports for decisions.
12. Review matters pertaining to staff discipline, elimination of waste and corruption and make the organization cost conscious.
13. Review compliance with statutory and other rules and regulations.
14. Review internal auditors' report and systematically and ensure, prompt action on shortcomings pointed out.
15. Review of implementation of recommendations of the Committee on Public Enterprises (COPE) and Committee of Public Accounts (COPE).
16. Submit summary of recommendations to the Secretary to the Ministry concerned / (Board with regard to Public Enterprises) for necessary action.
17. Monitor actions/ratifications based on recommendations of the Committee.
18. Submit report on the Committee' Performance for inclusion in the annual report/Administration report.
19. Review the annual Procurement Plan, Action Plan and Corporate Plan.

Internal Audit Plan for the Year

Ministry / Department of.....

Serial No.	(2) Area	(3) Activity	(4) Objective of the Activity	(5) Internal Audit (IA) Activity	(6) Risk Rating	(7) Timeframe for Internal Audit Operation				(8) IA Resource to be used – e.g. Man Hours	(9) Remarks
						Q1	Q2	Q3	Q4		

* Please see the reverse of this paper for explanations.

Explanations of the columns on the reverse:-

1. Serial No - Reference of the activity shown on the Annual Management Action Plan of the organization
2. Area - Planned areas according to the Annual Management Action Plan.
3. Activity - Activities under each area identified in the Annual Management Action Plan.
4. Objective - Expected results expected to be achieved by doing the activity.
5. Internal Audit activities planned by Internal Auditor to evaluate achievement of objectives.
6. Potential Risks identified by the Internal Auditor against achieving the objectives.
7. Timeframe for the internal audit activities in Quarters (Three months period).
8. Resource allocation to implement the internal audit plan, based on the risk rating and available controls.
9. Any other remarks such as reporting criterion.

A Guideline which could be based for Internal Audit Preliminary Report

General Items

1. Check the delegation of authority under F.R 135. Obtain a copy.
2. Check whether an Annual Action Plan has been prepared for the organization. Obtain a copy.
3. Have securities been kept for officers handling cash according to F.R 880? Has the procurement plan prepared according to paragraph 4.2 of National Procurement Agency circular number 8/5/2006 of 25th January 2006. Has procurement time table been prepared? Has cost estimate been prepared according to 4.3 of above circular?
4. Has salary register (PE register) been updated according to F.R 453? Whether the allowances additional to those paid with the salary are included in the ledger? Has unpaid salary register been maintained according to the F.R 290?

If Government Payroll System computer software is used for salary preparation, check whether the following controls and techniques are used?

Passwords

1. Has the first password been retained with accountant or an authorized staff officer?
 2. Has the second and third passwords been given only to the Chief Clerk and Salary Clerk respectively?
 3. Are passwords changed, once in three months? When were the password changed last?
 4. Are passwords changed when the officers are transferred?
 5. Does the accountant himself do the monthly Payroll Process after monthly salary changes are entered by salary clerks?
 6. After such Payroll Processing does the accountant print the account summary immediately, and keep it with him and reconcile when cheques are signed?
 7. If SLIPS system is used check whether the amount of SLIPS cheque is lesser than the total of all payment cheques and compare bank accounts of the salary ledger with the bank accounts of the SLIPS list to ensue the payments have been made to the correct bank account.
 8. Has reconciliation statement is been examined to verify the differences in amount debited to the ledger with that of the previous month?
 9. Check whether the officer who prepares salary is employed to prepare bank reconciliation statement or to pay salaries in cash?
 10. Obtain an independent confirmation from the relevant banks with regard to officers whose salary is paid through the banks.
 11. Has sufficient backup copies are taken and kept in a safe place outside the organization?
5. Does the organization use the latest version of the CIGAS program for accounting? Does it use the developments and control mechanisms introduced? Check the followings if computer accounts are used and sufficient manual books of accounts are not maintained.

I. Whether the following printouts are filed of record in place of cash book?

Daily

- (A) Daily cash summery
- (B) Daily payments details
- (C) Daily receipts details
- (D) Daily payments classification
- (E) Daily receipts classification

Monthly

- (A). Appropriation vote ledger
- (B). Detailed ledgers
- (C). Account summery
- (D). Imprest accounts
- (E). Deposits Details
- (F). Imprest advance Details
- (G). Auto journal entries
- (H). loan and interest installments of advance B account
- (I). Bank reconciliation details

6. Has the imprest account been fully settled to the end of the previous year? Any unsettled imprest balance with regard to previous years? If so, note the balances and years.

7. Expenditure Control

- 1. Are there any excesses in provision without proper authority according to F.R 65(1). Examine the authority.
- 2. Have actions been taken to obtain approval for excesses in provisions according to the F.R.66.
- 3. Check the reasons if there are any saving of provisions.
- 4. Are there any liabilities brought forward from the previous years? Check the registers.
- 5. Have operations of the advance B account been done within the specified limits? If not so has action been taken to revise the limits according to F.R. 503.
- 6. Are there any unsettled opening balances in general deposits, traveling advances and other advance accounts? If so obtain an age analysis. Has general deposit account balance been reconciled according to sub heads?

8. Asset Control

- 1. Have board of surveys been finalized for the two years prior to the previous year?
- 2. Have preliminary actions been taken to conduct board of surveys as at the end of the previous year? Have inventory books been balanced and boards of survey members been appointed?
- 3. Have inquiries been conducted on the losses according to the F.R.? If so, check progress?
- 4. Check the procedures to follow regulations in F.R and related circulars with regard to asset management.
- 5. Have vehicle cost report been prepared and forwarded to the internal audit?

9. Other issues which attention must be focused
 1. Have gazette notifications, circulars and clarification been issued for implementation of the previous year's budget proposals? Has a register been maintained for budget proposals?
 2. Check the audit query register.
 3. Obtain a list of audit queries which have not been replied
 4. Check the petty cash imprest.

10. Projects

Document the following information if there are projects funded by foreign aid or local funds.

- a) Name of the project
- b) Name of the project director
- c) Project office address
- d) Telephone number Fax number
- e) Objectives of project
- f) Date of commencement of project Date of ending of the project
- g) Total project cost
- h) Donor country or organization
- i) Foreign aid category
- j) Does foreign aid accounted through monthly account summery
- k) Financial progress as at the date of audit
- l) Have final accounts been furnished for any past projects, Have asset transfers been finalized

11. Property loans which were issued by banks.

1. loan installment
2. Interest portion charged from officer
3. Check the procedure for identifying and remitting to bank the interest portion to be paid by the government
4. Has PSPF memberships are obtained for relevant officers? Have contributions been deducted accordingly?

12. Examination of personal files

1. Check the entries are certified by a staff officer according to paragraph 02.2 of PA circular 2/2005
2. Check the personal files are updated according to annex 1 of PA circular number 14/2005

13. Check the following in relation to leave

- I. Check whether leave registers are updated?
- II. Are there any officers who have obtained no pay leave last year?
- III. Have recoveries been duly informed to the accounts branch?
- IV. Have all no-pay with regard to last year been completely recovered?
- V. If those officers who were on pay have been transferred, whether no-pay details were duly informed to the new station.

1st Quarter

1. Annual estimate
 2. Final accounts such as, Appropriation Account, Advance B Account, Revenue Account, Deposit Account etc.
 3. Annual Action Plan
 4. Annual Procurement Plan
 5. Asset management and Board of Survey
 6. Efficiency of internal control system of all administration matters including, finance and establishment
 7. Preliminary actions to implement new proposals in the annual budget
 8. Effectiveness of mechanisms used to identify risk and risk management
 9. Quarterly vehicle cost reports
 10. Reconciliation of accounts
 11. Analysis of Expenditure
-

2nd Quarter

1. Financial and physical progress according to the Annual Estimate, Procurement Plan and Action Plan
2. Whether the presentation and content of annual performance report is in accordance with action plan? Has annual performance report been prepared according to the relevant circular?
3. Economy, effectiveness and efficiency of all Assets including vehicles, computers, fax, multimedia and photo copy machines
4. Efficiency of internal control systems used to prevent misuse of assets
5. Accuracy, relevancy and timeliness of monthly financial and other reports
6. Follow up action of board of survey recommendations
7. Economic usage of fuel and other energy and compliance with the guide lines and circular issued to minimize cost
8. Cadre recourse management
9. Study of quarterly vehicle cost reports and forming an internal audit opinion on economy, efficiency and effectiveness
10. Analysis of expenditure

3rd Quarter

1. Check the financial and physical progress according to the Annual Estimate, Action Plan and Procurement Plan
 2. Preparation of estimates for the next year and the reality of basis adopted for estimating
 3. Progress of compliance with following circular instructions issued to minimize all administrative expenses and comparison of expenditure with previous months
 4. Examination of establishment activities including personal files, attendance registers, job descriptions and performance reports etc. to ensure that they contribute to performance of the organization
 5. Study the quarterly vehicle cost reports and efficiency of internal control system of vehicle usage
 6. Check the savings and excesses in the voted expenditure advance B account, and, transfers of allocation and validity of procedures adopted.
 7. Tendency to achieve revenue targets and if not possible reasons to be considered
 8. Progress of Account Reconciliation
 9. Check whether each department reviews its progress? Check the reports such as staff meeting minutes?
 10. Analysis of expenditure
-

4th Quarter

1. Financial and physical progress according to annual estimates, action plan and procurement plan
2. Check the validity of activities relating to excesses and savings in advance B account, votes
3. Tendency to achieve revenue targets and if not possible reasons to be considered
4. Reconciliation of Accounts. - Check the compliance with circular instructions with regard to preparation of final accounts such as Appropriation Account, Advance B Account, and Revenue Account.
5. Evaluation of efficiency in management techniques of assets, including registers of assets and, showing value of assets acquired in appropriation account etc
6. Examination of vehicle cost reports
7. progress of discussions made in monthly meetings and progress review meetings in relation to progress of each department and the adequacy of the reviews made
8. Analysis of expenditure
9. Annual review of Internal Audit of the department