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முகாமைத்துவக் கணக்காய்வுத் திணைக்களம்
DEPARTMENT OF MANAGEMENT AUDIT

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MINISTRY OF FINANCE
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திகதி } 2021.06.09
Date }

Management Audit Circular Letter No. DMA / 01 - 2019/1

To the Chief Internal Auditors / Internal Auditors of all Ministries, State Ministries, Special Spending Units, Departments and District Secretariats

Annual Internal Audit Plan – 2022

According to the Chapter 06 of Management Audit Circular No. DMA / 01-2019, every institution should prepare an Annual Internal Audit Plan. It was informed that the Annual Audit Plan should be prepared in accordance with the format given in Annexure 03 considering approved Annual Action Plan, Budget Estimate, Procurement Plan, Budget Proposals and other development projects etc.

2. However, It has been decided to prepare Annual Internal Audit Plan as a “Risk Based Internal Audit Plan” from 2022 onwards and the detailed instruction regarding the preparation of Risk Based Internal Audit Plan is given in the Chapter 04 of the Public Sector Internal Auditor’s Hand book issued by the Department of Management Audit. (The hand book can be downloaded from the website of the Department of Management Audit.)

3. In addition to this, Risk Based Internal Audit Plan has been prepared in accordance with the relevant standards and provide detail guide to you as Annexure 01.

4. In line with the matters Include herein, you should expedite the preparation of the Risk Register to prepare Risk Based Internal Audit Plan for your organization for the year 2022.

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5. Training Sessions on Preparation of Risk Based Internal Audit Plan are scheduled to be held in months of July, August and September 2021 and you are requested to complete and bring the Risk Register for main activities and sub-activities that leads to fulfil the organizations objectives as per the format given in Annexure 01.

6. You are informed to complete the Risk Register by the end of July 2021 giving special attention in this regard. Action will be taken to amend the Chapter 06 of the Department of Management Audit Circular No. DMA / 1-2019 as appropriately in future.



S.A. Chandrika Kulathilake

Director General

Preparation of Annual Internal Audit Plan

An Internal Audit Plan is a document that outlines how it intends to carry out internal audit activities in order to strengthen internal control over all activities carried out during the year to achieve the objectives and targets of the organization.

It is more effective if the Annual Internal Audit Plan is prepared on the basis of risk. Therefore, provide a guidance with this to prepare internal audit plan based on risk. It will enable the identification of risks in the activities of the organization and it can

be managed properly of those risks.

When prepare Annual Internal Audit Plan by an audit entity, it should be paid attention the activities and sub-activities identified to achieve the objectives of each organization and action plan based on that, procurement plan, annual estimate, budget proposals and development Project etc. The risk-based internal audit plan should be prepared by including selected activities from the existing activities in the risk Register prepared to cover the activities of each section of the organization.

The importance of Preparing a Risk- Based Internal Audit Plan

- Able to pay attention on auditing activities that are more important to the organization's performance
- Able to make a more contribution to increase the performance level of the organization by mitigation of the high risk situations that may occur within the organization.
- Able to avoid the difficulties that arise in preparing an internal audit plan only based on the action plan.
- Able to avoid the difficulties that may be encountered in preparing the audit plan only based budget estimates.
- Very easy to prepare a suitable internal audit plan for the organization on time.
- Able to measure the progress of the Internal Audit Plan very easily.

Preparation of a risk Register to prepare a Risk-Based Internal Audit Plan Risk Management

Risk management is the coordination process for planning, directing, monitoring and controlling of resources to minimize the impact of adverse events as well as to maximize the benefits of advantage situation

Preparation of risk Register

All responsibility areas and activities of the organization should be included in to the risk Register and the risk should be assessed and more risky activities should be identified based on the value of such assessment.

After preparation of the risk Register, an internal audit plan can be prepared for the coming years based on the information in that Register and the relevant risk Register should be revised according to the activities that change from year to year. The format of a risk.

Register is given in Annexure 02 and the matters to be included in it are as follows.

Column No 02 – All Responsibility areas Related to Achieving the objectives of the Organization

Column No 03 - Activities under each responsibility area mentioned in column 02.

Column No 04 – Responsible section for Implement each activity.

Column No 05 - Description and nature of the risk should be mentioned.

Description of the risk is a brief introduction or summary of the risk and under impact of the risk, it should be mentioned the situation if cannot minimize or eliminated potential of the risk. It suffices to mention this very briefly.

When identification of risk, followings several facts can be considered

- Allocated provision for the Activity.
- The importance given to the activities to achieve the organizational objectives in the annual action plan.
- Time duration taken to complete the activity
- **How the functions of the relevant activities are divided under internal control.**
(Formality or informality of internal control system)
- Incident and opportunities at which irregularities / frauds likely to be tempted.
- Possible of the weaknesses of supervision.
- Existing monopoly situation of each activities.
- Willingness to work in a risky environment.
- Occasions doing the same job for a long time.
- Frequency of frequent audits / inquiries.

- Cases of various allegations.
- Personal Behavior /personal relationships.
- Auditor's experience and professional skepticism

Column 06 -Probability of risk for easy to calculation. Numbers should be given 1 to 5. Possibility for risk should be assessed as follows.

<u>Probability of Risk</u>	<u>Number</u>
i. Very high	5
ii. High	4
iii. Normal	3
iv. Rare	2
v. Very rare	1

Column 07 - The impact of the risk should be mention. For Easy to calculation of the risk impact numbers should be given 1 to 5. It can be done as follows.

<u>The nature of the Impact</u>	<u>Number</u>
1. Destructive	5
ii. Serious damage	4
iii. Normal damage	3
iv. Minor damage	2
v. Insignificant damage	1

Column 08 - The risk level can be calculate by multiplying the values in columns 06 and 07 and it should be included in column 08.

Column 09 - After assessing the risk in Column 08 above, the priority should be calculated and recorded based on the assessed value.

Very easy to prepare the internal audit plan after preparation of Risk Register using above steps. The format of the Internal Audit Plan is given in Annexure 03. In preparation of the internal audit plan according to that format, the mission and objectives of the organization should be mentioned first. The risk-based internal audit plan should be prepared taking into account the extent of risk value with each of the areas of responsibility and related activities in the prepared risk register.

Guidelines for the preparation of the Risk-Based Internal Audit Plan

Column 02 - Identify the audit area relevant to the activity selected taking into account the priorities in column 09 of the prepared risk Register and it should be included. Depending on the needs of the organization, any activity in the risk Register can be included in the audit plan for audit, and it is important to pay more attention to high-risk activities.

Column 03 - The number corresponding to the activity shown in the Risk Register relating to the audit area selected above should be mentioned here.

Column 04 – The time period of the audit activity included in the audit plan should be included here. Depending on the relevant audit activities, it can be implemented in one quarter or continuously and audit reports can be submitted.

Column 05 - Number of Internal Audit Reports expected to be submitted

When the audit activities are completed, the relevant report should be prepared and submitted. The number of audit reports submitted should be mention here.

If the relevant audit activity has been completed within one quarter, an audit report should be submitted as soon as it is completed and column 5 should indicate the number of audit reports expected to be issued prior to the relevant audit activities. Depending on the nature of the organization's activities, an audit activity that is carried out throughout the year can be recorded within 04 quarters and audit reports can be issued as and when required. Accordingly, the number of audit reports expected to be issued should be mentioned here.

Every possible effort should be made to carry out all the audit activities recorded in the audit plan within the relevant period and an audit report should be issued at the end of each audit. The completed number of audits is used as an indicator in measuring the performance of the internal audit division.

Column 06 - Human labor that can be allocate for internal audit

The expected number of days to be allocated for each audit task should be mentioned here. The number of officers in the Internal Audit Unit should be calculated on the basis of the maximum

number of man-days that can be devoted to the relevant audit activities. Here the number of days should be calculated as the number of working days per year in the government. Saturdays, Sundays and public holidays should be excluded and no personal leave of employees should be excluded

Other Audit Activities

The following activities which are not included in the risk register for risk assessment but should be performed by the internal auditor should also be included in the audit plan as appropriate

- Conducting Audit and Management Committee meetings.
- Relevant activities related to the Committee on Public Accounts.
- Other essential activities carried out as per the requirements of the organization and the government.
- Other duties assigned by the Head of the organization from situationally.
- Special audit and investigation activities.

Risk assessment is not required in the inclusion of these matters and the number of audit and management committee meetings to be held as an indicator in column 5 of the plan, The number of special audits and inquiries, and the experience of the internal auditor on other activities should be included approximately.

Submitting, Implementing and Revising the Internal Audit Plan

The Internal Audit Plan prepare a part of the Annual Action Plan in accordance with Public Finance Circular No 02/2020 and it should be approved at the Audit and Management Committee Meeting in accordance with the Management Audit Circular No DMA /01-2019 and Copy of it's submitted to the Department of Management Audit before 31st January every year. Difficulties arising in the preparation of the internal audit plan based on the annual budget and action plan will be avoided in formulating a risk-based internal audit plan.

Properly implementation of the Annual Internal Audit Plan is one of the main responsibility of the Internal Auditor. It is also the duty and responsibility of the Internal Auditor to discuss and manage the human and other physical resources required for this purpose with the head of the institution. It is expected to contribute to the proper Implementation of the audit plan by managing the resources of the audit branch, improving the performance and productivity of the organization.

Internal audit units may face various uncertainties in carrying out activities as per the internal audit plan. Under such circumstances, if obstacles arise to the implementation of the Internal Audit Plan at the expected level, it is imperative that the Annual Internal Audit Plan be revised to the level at which it can be implemented and it should be approved by the Audit and Management Committee.

Risk Register 20xx

(Based on the preparation of the audit plan)

Name of audit Entity

(1) Serial NO	(2) Areas of responsibility for achieving the objectives of the organization	(3) Activities under each responsibility area	(4) Relevant section of the Institute	(5) Risk Description / Nature of Impact	(6) Probability of occurrence of a risk 1-5	(7) Impact of risk 1-5	(8) Assessment of Risk Quantity (6) * (7)	(9) Priority / Reference / Risk Identification Number
1								
2								
3								

Internal Audit Plan - 20xx

Name of the audit Entity

Mission of the Institute:

Objectives of the organization:

(01) Serial NO	(02) Audit filed identified based on evaluation of Risk	(03) Reference to the Risk Register (Reference number of Risk register)	(4) Time frame of prefer Internal audit Activity				(5) Number of audit reports expected to be submitted	(6) Manpower that can be used for internal audit (days)
			1 Quarter	2 Quarter	3 Quarter	4 Quarter		
1								
2								
xx	Conducting audit and management committees		√	√	√	√		
xx	Special Investigations*							

* Occasionally