Audit Manual

Internal Audit Division
Office of Internal Oversight Services

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Preface to the March 2017 edition

I am pleased to present the 2017 edition of the Audit Manual of the Internal Audit Division (IAD).

The Manual provides guidance to IAD staff on the principles of the IAD audit process. It explains general concepts and refers to specific procedures to be followed.

This edition of the Manual is more principles-based, and it incorporated: revisions to the International Standards for the Professional Practice of Internal Auditing; enhancement of IAD procedures; and additional requirements by Member States.

To complement the Manual, IAD has also developed a number of Practice Guides, Standard Operating Procedures and Templates to provide further guidance to staff and to facilitate the audit process. A list of current documents, including those under development, can be found in Annex I and are stored in the audit management system of IAD.

The Manual and supporting guidance are living documents; and therefore, they will be updated to ensure that it represents the latest standards and practices, and the policies and procedures that govern the conduct of internal auditing at the United Nations. The Professional Practices Section will communicate any changes.

The Manual is the result of a dedicated team effort, and I sincerely thank all those IAD staff who contributed to its successful completion.

Eleanor T. Burns, Director
Internal Audit Division, OIOS

New York, March 2017

1   Introduction

1.1 Scope and purpose of the Manual

The Internal Audit Division (IAD) is one of three divisions of the Office of Internal Oversight Services (OIOS).

The Internal Audit Manual (the Manual) is for the use of IAD staff and provides the policies, principles, standards and code of ethics governing the professional practice of internal auditing at the United Nations. The Manual describes the audit management process of IAD, from planning the audit to conducting the fieldwork, reporting results and following up on recommendations.

The purpose of the Manual is to:

- Provide guidance on all aspects of the audit process;
- Explain the context of the work of IAD to audit staff; and
- Promote the highest level of professional competence in IAD.

The Manual includes references to standard operating procedures and practice guides. These documents provide detailed instructions and useful information on processes, procedures, tools and techniques, which IAD staff are: (a) either required to comply with; or (b) adopt as recommended good practices. These documents are available on the IAD content management system.

The Manual is not designed to be all-inclusive or unduly restrictive. Its provisions are intended to supplement the experience, competencies, skills and judgement of internal auditors in planning, conducting and reporting on audits.

The available resources are invaluable and should be utilized consistently. However, IAD auditors/assistants should be sensitive to their work environment, use good judgement throughout the audit process and ensure that stakeholders and clients are aware of and in agreement with the intentions, objectives and practices of their respective audits.

2   Purpose, authority and responsibility of IAD

2.1 Introduction

This chapter provides an overview of the mandate, authority and responsibility of IAD, and explains the ethical standards that internal auditors follow as audit professionals and as staff members of the United Nations.

2.2 Purpose

OIOS was established in 1994, under General Assembly resolution 48/218 B of 29 July 1994, to enhance the oversight functions within the United Nations. With respect to internal audit, the General Assembly resolution outlines the mandate of OIOS (the "Office") within the United Nations (the "Organization"):

> "*The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization.*"

2.3 Authority and responsibility

OIOS is assigned responsibility for internal auditing in the United Nations. The Secretary-General's Bulletin on the Establishment of the Office of Internal Oversight Services of 7 September 1994 (ST/SGB/273) describes the organizational structure and functions of OIOS, including:

> *OIOS responsibilities "shall extend to the resources and staff of the Organization, including separately administered organs."*

> *OIOS has "the authority to initiate, carry out and report on any action it considers necessary to fulfil its responsibilities" in regard to the audit function.*

> *OIOS shall "discharge its responsibilities without any hindrance and need for prior clearance," and shall have the right to direct and prompt access to all staff, records, documents and premises of the Organization and to obtain all necessary information and explanations.*

> *OIOS shall conduct "ad hoc audits of programme and organizational units" whenever there are reasons to believe that programme oversight is not sufficiently effective and that there is "potential for the non-attainment of objectives," waste of resources, or otherwise, as the Under-Secretary-General/OIOS "deems appropriate," with a view to recommending to management corrective measures.*

> *OIOS shall "undertake management audits, reviews and surveys to improve the Organization's structure and responsiveness to the requirements of*

programmes and legislative mandates; and monitor the effectiveness of the Organization's systems of internal control".

Additionally, the Fifth Committee regularly reviews the functions and reporting procedures of OIOS, as called for in paragraph 13 of resolution 48/218 B. The Fifth Committee's periodic reviews of the OIOS mandate resulted in subsequent provisions and requirements on OIOS. These are contained in General Assembly resolution 54/244 of 23 December 1999, General Assembly resolution 59/272 of 23 December 2004, General Assembly resolution 64/263 of 29 March 2010, General Assembly resolution 67/258 of 6 June 2013, General Assembly resolution 69/253 of 29 January 2015 and United Nations Financial Regulation 5.15.

The mandate as well as the relevant resolutions and administrative issuances are on the OIOS website.

2.4 Position within the organization

The General Assembly established OIOS as operationally independent, under the authority of the Secretary-General, in the conduct of its duties. This operational independence ensures that OIOS has:

- The authority to initiate, carry out and report on any action which it considers necessary;
- The ability to submit reports directly to the General Assembly;
- The authority to select staff for appointment and promotion up to the D-1 level;
- The ability to obtain access to United Nations staff directly and confidentially, and to be protected against repercussions; and
- Been provided adequate resources to carry out its duties.

2.5 Organizational structure of IAD and responsibilities of staff

The organization structure of IAD is shown below.

Chart I Internal Audit Division Organization Structure
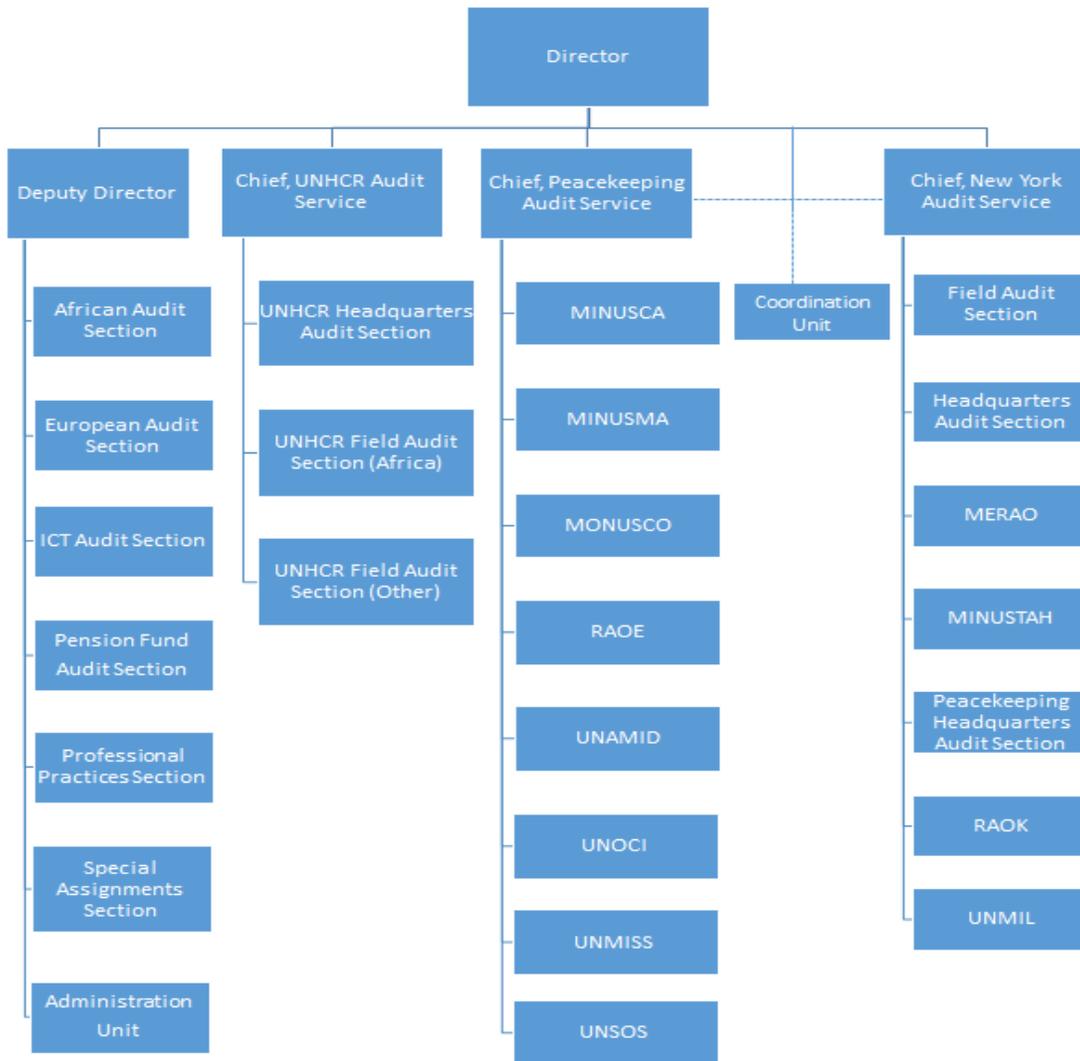
Director has the overall responsibility for all IAD activities, including: planning, directing and implementing the annual risk-based work plan; coordinating with other OIOS Divisions and oversight bodies; overseeing budget and recruitment; and implementing the quality assurance programme.

Deputy Director supports the IAD Director in planning, directing and coordinating the work of IAD, and implementation of the annual work plan. Besides supervising the audit sections under his/her responsibility, the Deputy Director has also direct oversight of the crosscutting functions of the Administration Unit and the Professional Practices Section.

Service Chiefs report to the Director of IAD and oversee audit operations under their supervision. Service Chiefs are responsible for ensuring the quality of all work performed by their sections, for delivery of the annual work plan and managing client relationships. Service Chiefs provide guidance and supervision to Section Chiefs and audit staff.

Section Chiefs and **Chief Resident Auditors (CRAs)** report to the Service Chiefs and are responsible for the development and delivery of the work plans for their section or office, for the quality of work completed by their staff and general supervision and development of staff under their supervision.

Professional Practices Section (PPS) coordinates and monitors the IAD Quality Assurance and Improvement Programme. PPS develops audit methodology and provides technical guidance for its implementation. PPS further coordinates the risk assessment and work-planning processes, and supports IAD management in monitoring performance of the internal audit activity. PPS also provides guidance for and coordinates professional development of staff.

Resident Audit Coordination Section (RACS) is responsible for coordinating the work-planning process for the audit of peacekeeping activities as well as coordinating thematic audits undertaken in more than one peacekeeping mission. RACS also reviews audit reports from resident audit offices and coordinates training and development for peacekeeping audit staff.

Auditors-in-Charge (AIC) report to the Section Chiefs and are responsible for managing audit assignments. AICs supervise team members and provide guidance and coaching for the development of staff. AICs are responsible for timely completion of working papers in the audit management system. AICs also monitor the status of audit recommendations.

3   Application of Professional Standards

3.1 Introduction

This chapter provides an overview of the professional standards that are most applicable to the work of IAD and describes the responsibilities and professional standards that auditors have to maintain both in their work and in their continuing professional development.

3.2 The IIA Standards and definition of internal auditing

In 2002, IAD adopted the International Standards for the Professional Practice of Internal Auditing that is developed and maintained by the Institute of Internal Auditors (IIA), as mandatory guidance for the practice of internal auditing in the United Nations. IAD auditors are expected to be familiar with the IIA Standards and definitions to ensure that their work is in accordance with the Standards.

IIA Standards are available on the Standards and Guidance page of the IIA website. The IIA Standards are referred to in this Manual and in the standard operating procedures and practice guidance where applicable.

IAD has adopted the IIA definition of internal auditing:

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

In accordance with the IIA Standards, IAD provides both assurance and advisory services. Assurance services involve an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements. Advisory services involve advisory and related client service activities, the nature and scope of which are usually agreed with the client, are intended to add value and improve an organization's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples may include counsel, advice, facilitation, and training. In this Manual, assurance and advisory services are referred to as "audit/advisory engagements" or "audit/advisory assignments".

3.3 Independence and objectivity

The internal audit activity must be independent, and every internal auditor must be independent and objective. Objectivity is a crucial characteristic of the relationship with clients. IAD staff must always maintain independence, objectivity and a perspective based on facts when conducting audits. The fact that an internal auditor is an employee of the Organization does not in itself have an impact on independence and objectivity. Auditors should have an impartial, unbiased attitude, characterized by integrity and an objective approach to work, and they should avoid conflicts of interest. They should not allow external factors to compromise their professional judgement. They should display appropriate professional objectivity when providing their opinions, assessments and recommendations. When assigning staff members to audits, IAD requires that the staff members be free of any restrictions that will affect their independence and objectivity in performing audits.

An internal auditor's objectivity is presumed to be impaired when she or he is assigned to audit an activity for which she or he previously had operational authority or responsibility. Persons transferred to or temporarily engaged by IAD should not be assigned to audit or advise on activities for which they previously had responsibility for at least one year from the date they were reassigned.

As required by the IIA Code of Ethics internal auditors should be prudent in the use and protection of information acquired in the course of their duties, and will 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. To maintain the confidentiality of information and reports, including detailed audit results, draft reports and withheld final reports, OIOS developed the following measures:

- In the Statement of Independence and Confidentiality signed annually and before the start of each assignment, staff member declares that he/she: (i) shall be prudent in the use and protection of information acquired in the course of their duties, (ii) will not use information for any personal gain or in any manner that would be contrary to relevant United Nations regulations and rules or detrimental to the legitimate and ethical objectives of the organization; and (iii) will appropriately maintain and protect the confidentiality of any information or data to which they may have access, including audit files and reports.

- As mentioned in the Guidelines for Maintaining Operational Independence during the Conduct of OIOS Engagements, OIOS staff members should not make public statements about the results of

ongoing assignments to avoid undue influence from the client and other stakeholders, which may impair operational independence.

- Classified reports are clearly marked on every page with a 'Strictly Confidential' stamp and are watermarked individually with each recipient's full name. Classified reports are sent password protected, utilizing a password convention for internally circulated classified documents. Printed documents are handled only by the Administrative Assistant, and stored under lock and key in a secure location when not handled.

- PPS will restrict access to working papers and reports in the audit management software for classified assignments, e.g., all safety and security audits.

If an audit assignment is expected to contain sensitive and confidential information and documents, the Service Chiefs need to inform PPS from the onset, preferably at the planning stage, so that necessary measures could be taken to restrict access.

IAD staff should review and ensure that they comply with the IIA Standard for independence and objectivity. If it is likely that an auditor will not meet the independence and objectivity standard, either at the commencement or during the course of an audit engagement, this should be reported to either the Section or Service Chief, who will reassign the staff member.

3.4 Ethical standards

IAD staff members must ensure their behaviour and activities are in accordance with the highest level of ethical values, integrity and professionalism.

The United Nations has adopted a variety of regulations and rules concerning employee conduct. These regulations and rules describe the status, basic rights and duties of United Nations staff members (ST/SGB/2002/13). The relevant legal norms drawn from the Charter of the United Nations and the Convention on the Privileges and Immunities of the United Nations identify core values and set standards for all United Nations employees. The Annex to bulletin (ST/SGB/2002/13) contains the Standards of Conduct for the International Civil Service, as updated by the International Civil Service Commission. IAD complies with the Standards of Conduct for the International Civil Service which incorporates the principles of the IIA Code of Ethics.

Article 101(3) of the Charter of the United Nations states that:

> *The paramount consideration in the employment of staff and in the determination of the conditions of service should be the necessity of securing the highest standards of efficiency, competence and integrity.*

Standards of Conduct for the International Civil Service state that:

> *International civil servants must remain independent of any authority outside their organization; their conduct must reflect that independence. In keeping with their oath of office, they should not seek nor should they accept instructions from any Government, person or entity external to the organization . . . The independence of the international civil service does not conflict with, or obscure, the fact that it is the Member States that collectively make up (in some cases with other constituents) the organization.*

Regulation 1.2(b) of the Staff Regulations (ST/SGB/2009/6) states that:

> *Staff members shall uphold the highest standards of efficiency, competence and integrity. The concept of integrity includes, but is not limited to, probity, impartiality, fairness, honesty and truthfulness in all matters affecting their work and status.*

Secretary-General's Bulletin on Post-Employment Restrictions (ST/SGB/2006/15) places post-employment restrictions on "staff members participating in the procurement process," including those involved in "auditing the procurement process."

3.5 Use of consultants

IAD occasionally uses consultants (a person or firm with expert knowledge, skills and experience in a particular discipline) to provide assistance on assignments when IAD does not have the requisite competency. This assistance can vary depending on needs, but may include assistance in developing specific audit procedures or in conducting part of the audit.

The Service Chief, together with the Section Chief, is responsible for selecting and hiring consultants, and for ensuring that adequate funding exists for such services. The Service Chief should keep the Director informed of any external sourcing of expertise.

3.6 Continuing professional development

IAD staff are responsible for continuing their education to maintain the required level of proficiency, knowledge and skills. IAD staff are responsible for staying informed about improvements and current developments in the internal auditing standards, procedures and techniques. IAD staff are required to complete a minimum of 40 hours (five days) of continuing professional

education for each annual performance cycle. On average, IAD staff have the opportunity to attend in-house training for about five days per year.

IAD also encourages audit staff to obtain professional certification and facilitates this achievement by providing time off and reimbursing fees and costs incurred to attain certain professional audit related certification, e.g., Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA).

The IAD Learning and Development Strategy provides further information on the professional development of staff.

3.7 Quality assurance

Quality assurance and improvement plays a fundamental part in ensuring the effectiveness of internal auditing and in assuring stakeholders as to the quality of IAD audits.

IAD has implemented a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the audit and advisory services provided by the Division. The QAIP is designed to periodically assess and take action to ensure that IAD operates in an efficient and effective manner, and is consistently complying with the IIA Standards, the IIA definition of internal auditing, the Core Principles for the Professional Practice of Internal Auditing and the IIA Code of Ethics through the conduct of periodic and ongoing internal assessments.

PPS coordinates all quality assurance activities outlined in the QAIP. All audit staff in IAD play an important role and have responsibility for implementing the quality assurance activities.

In addition, as required by the IIA Standards, IAD will undergo external quality assessments every five years. These external assessments will be conducted by qualified persons who are independent of IAD and who do not have either a real or an apparent conflict of interest. The results of the external assessments shall be submitted to the IAD Director who will be responsible for implementing the recommendations. OIOS will communicate the results of the QAIP to senior management and governing bodies annually.

The quality assurance and improvement programme is documented in the QAIP, which can be found on the IAD content management system.

4 Relationships with stakeholders

4.1 Introduction

A wide range of stakeholders play an important part in IAD achieving its mandate. IAD staff who are involved in interactions with the stakeholders, whatever the purpose of the interactions, must treat the stakeholders with respect and give due consideration to their point of view. This chapter identifies and describes the relationship of IAD with key stakeholders.

The Section Chiefs and CRAs are responsible for keeping Service Chiefs and the Director advised of significant interactions with senior managers of the United Nations (e.g., Under-Secretaries-General, Assistant Secretaries-General, Special Representatives of the Secretary-General, etc.) or members of the various oversight committees. All relevant interactions should be documented for the sake of continuity, to maintain an institutional memory and, when related to a specific audit, to provide an audit trail of decisions made by IAD staff.

4.2 Key stakeholders

IAD is committed to establishing a professional working relationship with all its stakeholders. Therefore, IAD maintains close and regular contact and open lines of communication with stakeholders to create long-lasting relationships.

4.2.1 Clients

OIOS provides internal auditing, investigation, inspection and evaluation services to all United Nations departments/offices/missions under the Secretary-General's authority and to those entities with which OIOS has signed a Memorandum of Understanding.

4.2.2 Audit committees

IAD interacts with three audit committees:

Independent Audit Advisory Committee (IAAC) serves in an expert advisory capacity and assists the General Assembly in discharging its oversight responsibilities.

Independent Audit and Oversight Committee of the High Commissioner of the United Nations High Commissioner for Refugees (UNHCR) serves in an expert advisory capacity to assist the High Commissioner and the Executive Committee in exercising their oversight responsibilities within UNHCR.

Audit Committee of the United Nations Joint Staff Pension Fund (UNJSPF) assists the United Nations Joint Staff Pension Board in fulfilling its oversight responsibility relating to UNJSPF.

The roles and responsibilities of the above committees can be found on the IAD content management system.

4.2.3 Fifth Committee

The Fifth Committee is the main committee of the General Assembly entrusted with responsibilities for administration and budgetary matters. The Fifth Committee is assisted by the Advisory Committee on Administrative and Budget Questions (ACABQ).

General Assembly reports, (either mandated by the General Assembly or initiated by OIOS) are formally introduced for discussion by the Under-Secretary-General/OIOS at the relevant session of the Fifth Committee.

More information about the work of the Fifth Committee can be found on their website (un.org/ga/fifth)

4.2.4 The United Nations Board of Auditors

General Assembly resolution 74 (I) of 7 December 1946 established the United Nations Board of Auditors (BOA) to audit the accounts of the United Nations—the 24 United Nations organizations as well as its funds and programmes—and to report its findings and recommendations to the General Assembly through ACABQ.

More information about the work of BOA can be found on their website (www.un.org/auditor/board).

4.2.5 The Joint Inspection Unit

The Joint Inspection Unit (JIU) is an independent external oversight body of the United Nations system, mandated to conduct system-wide evaluations, inspections and investigations.

More information about the work of JIU can be found on their website (www.unjiu.org).

5 Risk assessment and work planning process

5.1 Introduction

IAD uses a risk-based approach in developing its audit work plan. The purpose of risk-based work planning is to ensure that IAD assignments are directed at areas where achievement of the United Nations objectives is at higher risk. IAD also takes into account the United Nations enterprise risk management (ERM) framework and consults with management and other relevant stakeholders in developing the work plan. For UNHCR and UNJSPF, their ERM Risk Registers are also taken into consideration.

This chapter provides a broad guide on the risk-based work planning steps undertaken each year. IAD issues, to supplement the process, specific guidance and tools before the commencement of the annual risk-based work planning process.

5.2 The work plan development process

The main steps in the risk assessment and annual work planning process are shown below.

Figure I Risk assessment and work planning process
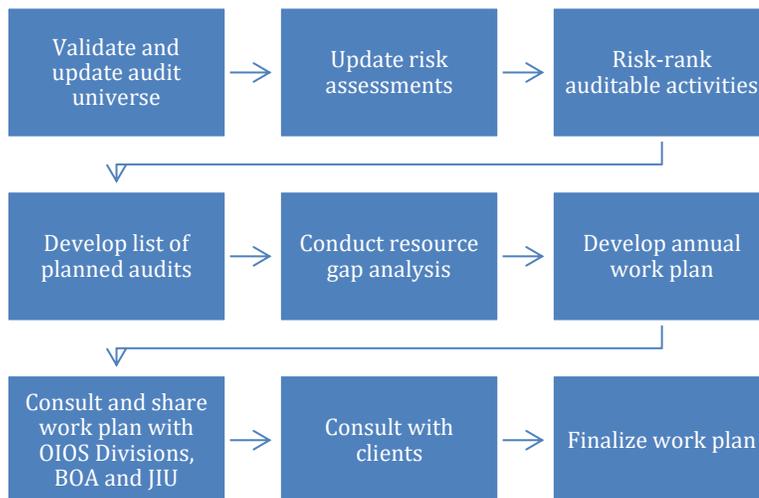
5.3 Validating and updating the audit universe

Each year, IAD validates and updates its audit universe to include all areas for which IAD is responsible. IAD audit universe represents the potential range of all auditable activities and is based on IAD audit clients. These are entities

within the United Nations but may also be Secretariat departments or even smaller organizational units. Also, clients generally include a range of programmes, functions, structures and initiatives which collectively contribute to the achievement of the organization's strategic objectives and which for the purposes of this exercise will be called auditable activities.

The Section Chief/CRA is responsible for validating and updating the audit universe through systematic gathering of information. The Service Chief should oversee the process, and ensure that new entities/peacekeeping missions and initiatives are included in the audit universe. Information normally available for each client includes, but not limited to:

- Mandate and organizational objectives and priorities;
- Details of major initiatives and policy developments; and
- Results of interactions with management and key staff in client organizations to keep abreast of changes in organization's business.

The Section Chief/CRA is required to maintain, in an organized and accessible manner, all information relevant to the IAD audit universe and those documents used to validate and update the audit universe.

5.4 Risk assessments

The IAD annual audit work plan is based on the analysis of risks in its audit universe.

The Section Chief/CRA is responsible for carrying out new risk assessments or updating the existing ones for all assigned clients. Identification of new and emerging risks comes from Service Chiefs/Section Chiefs/Auditors discussions with management, review of client risk registers and other relevant documents.

When updating the risk assessment, the Section Chief/CRA is responsible for ensuring any significant changes since the previous year have been taken into account.

Information required to perform/update risk assessments can come from a variety of sources, including:

- Security Council and General Assembly resolutions;
- Secretary-General's bulletins on organization of departments/offices;
- Clients' strategic plans and frameworks;
- Policies, directives and internal management reports;
- Organization charts, budget documents and staffing tables;
- Manuals and operating procedures;
- Results of the previous audits; and
- Historical financial data.

Information may also be obtained from other sources such as the client's website, websites containing official documents of the United Nations, press and media releases, other United Nations organizations and government institutions.

As part of the annual risk assessment, the Section Chief/CRA must also consider the potential for the occurrence of fraud and how the client manages fraud risk. The Section Chief/CRA should identify specific fraud schemes and risks, and assess their likelihood and significance. Fraud risk assessment addresses the risk of fraudulent financial reporting, fraudulent non-financial reporting, asset misappropriation, and illegal acts (including corruption).

All collected information should be documented in the risk assessment templates/workbooks developed and maintained by PPS. The Risk Assessment Guidelines for Work Planning issued by PPS annually provides detailed guidance for performing and documenting the risk assessment.

5.5   Risk-ranking auditable activities

To facilitate the annual work planning, IAD analyses its audit universe by auditable activities and processes.

IAD defines auditable activities in a number of ways, which could include the audit of: a programme, specific function, process or initiative. Examples of an auditable activity include an audit of:

- A subject or topic, e.g. recruitment;
- The activities of a section or division;
- An individual information system such as Umoja;
- A major contract such as travel or fuel;
- A function such as procurement; and
- Activities of a country office.

The Section Chief/CRA is responsible for identifying a list of auditable activities for their assigned clients, including activities or topics that are highly susceptible to fraud. Once all auditable activities have been identified, the risk factors associated with these activities are analysed in terms of their likelihood and impact. This process enables IAD to develop a risk score for each identified auditable activity. Auditable activities are then classified by these risk scores into the categories of high, medium or low.

5.6   Developing a list of planned audits

Having a complete list of auditable activities per risk category, e.g., financial management, logistics, governance etc. allows IAD to identify the highest risk areas, taking into account our understanding of existing internal controls and

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the effectiveness of governance processes. A complete list of auditable activities per risk category also allows IAD to identify resource gaps.

5.7 Conducting a resource gap analysis

To identify resource gaps, the Service Chief compares available audit resources per type of funding[1] against IAD planned number of assignments per year. The Service Chief also takes into consideration the skills and experience of auditors to determine whether specialist skills are required, and whether they can be sourced in-house or need to be contracted externally.

Where the analysis indicates there are insufficient resources available, the Service Chief is responsible for preparing a request for additional resources to the Director. If the Director agrees with the request, the Director proposes these changes to the Under-Secretary-General/Assistant Secretary-General for their approval and appropriate action. This action could involve interactions with client management or submission of a proposal to the relevant body as part of the budget process.

5.8 Developing the annual work plan

Governing bodies may not approve additional resources prior to the development of the annual work plan. Therefore, the Section Chief/CRA, based on available resources prepares a preliminary list of audits to be included in their work plan. The Section Chief/CRA submits the proposed audits to their respective Service Chief.

The management team (Director, Deputy Director and Service Chiefs) is responsible for reviewing the planned list of audits, deciding on any thematic audits to be included in the work plan, as well as the timing of these thematic audits. Once thematic audits are selected, each Section Chief/CRA updates the work plan accordingly. The management team may also include planned reviews and advisory services as part of the annual work plan. These are discussed later in this section of the Manual.

PPS is responsible for consolidating the work plan and conducting a quality review to ensure that the work plan has been developed in accordance with the guidelines issued.

PPS submits the proposed annual work plan to the Director for review and preliminary approval.

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[1] *IAD is funded from the regular budget, the peacekeeping support account and other extra budgetary resources*

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5.9   Consultations with BOA and JIU

IAD shares the preliminary work plan with BOA and JIU to ensure there is no duplication of oversight efforts and to enable synergies in forthcoming activities. IAD, BOA and JIU also have periodic meetings and discussions throughout the year to provide update on work plan implementation and sharing of key results.

5.10 Submission of work plans to audit committees

IAD submits its work plans to the IAAC and the audit committees of UNJSPF and UNHCR for review and discussion. IAD work plans are normally supported by the IAD budget submissions to the governing bodies as well as details of any identified resource gaps in order to gain audit committees' support for additional resources.

5.11 Final consultations with client

The IAD Director sends the annual audit work plan to all clients to advise them of the audit coverage for the year and to seek any further input. Clients are also advised to inform IAD of issues which warrant audit attention.

5.12 Finalising the work plan

The Under-Secretary-General, taking into consideration results of consultations with other oversight bodies, audit committees and client management, reviews and approves the annual work plan.

PPS allocates assignment numbers once the work plan has been approved, and schedules the assignments in the IAD audit management system. During the year, the Section Chiefs/CRAs are responsible for scheduling audits and communicating the timing of audits to clients.

5.13 Changes to the work plan

Throughout the year, the Section Chiefs/CRAs may revise the annual work plan because of emerging risks due to changes in operations or the environment. Amendments may also be required to the initially planned timing of the audit due to emerging priorities.

IAD clients may also identify new risks and request an audit or an advisory service (see below) that was not included in the work plan. The Section Chiefs/CRAs should consider all requests, and if it is determined that the requested assignment is important compared to the planned audits, it should be discussed with the Service Chief as to whether it should be included.

All changes to the originally approved work plan need to be tracked. For all proposed changes the Section Chief/CRA should prepare an Amendment to

Work Plan Form to be approved by the Service Chief and authorized by the Director. However, the Section Chiefs/CRAs can approve minor changes, such as changes in the audit titles and budgeted days (less than 10 per cent).

5.14 Advisory assignments

IAD provides advisory services generally at the client's request. Advisory services may include providing advice on control design, improving governance mechanisms and processes, and certain enterprise risk management/risk assessment activities. The Director, together with the Service and Section Chief/CRA should consider requests for advisory services in light of the identifiable risks of the activity involved, existing work plans and available resources, as well as any potential impairment to operational independence.

In conducting advisory assignments, IAD should apply the IIA Attribute and Performance Standards as they relate to consulting engagements. The nature and scope of the advisory engagement are subject to agreement with the client. The focus in advisory engagements will be on the final product and providing the observations and suggested action to client management.

An advisory engagement process includes the planning, fieldwork and reporting phases. However, when IAD provides ad-hoc advice, which may only take a few hours/two to three days, the structured three phases of the audit process may be waived by the Service Chief.

As in audit engagements, the work performed in an advisory engagement (not including ad-hoc advice) should be recorded in the IAD audit management system.

The assigned team leader should develop an appropriate communication strategy for discussion and approval by the Service and Section Chief/CRA, in consultation with the Director.

To ensure compliance with General Assembly resolutions relating to the publishing of OIOS audit reports, the results of advisory engagements will be posted on the OIOS website. A summary of advisory activities may be reported in the OIOS Annual Report. For detailed guidance on advisory engagements, please refer to the Standard Operating Procedure on Advisory Engagements.

6 Engagement planning

6.1 Introduction

Engagement planning is conducted to: develop an in-depth understanding of the business objectives of the subject to be audited; carry out an activity-level risk assessment to identify the significant risks to achievement of the subject's business objectives; and develop audit tests of controls required to provide reasonable assurance that risks are effectively managed.

The engagement planning phase also involves selecting and providing resources for the audit, notifying the client, collecting preliminary information and conducting preliminary testing as part of the assignment risk assessment, defining the audit objectives, scope, criteria and methodology, conducting the entry conference and preparing and approving an audit plan and programme.

6.2 The engagement planning process

An overview of the engagement planning process is shown below.

Figure II Engagement planning process
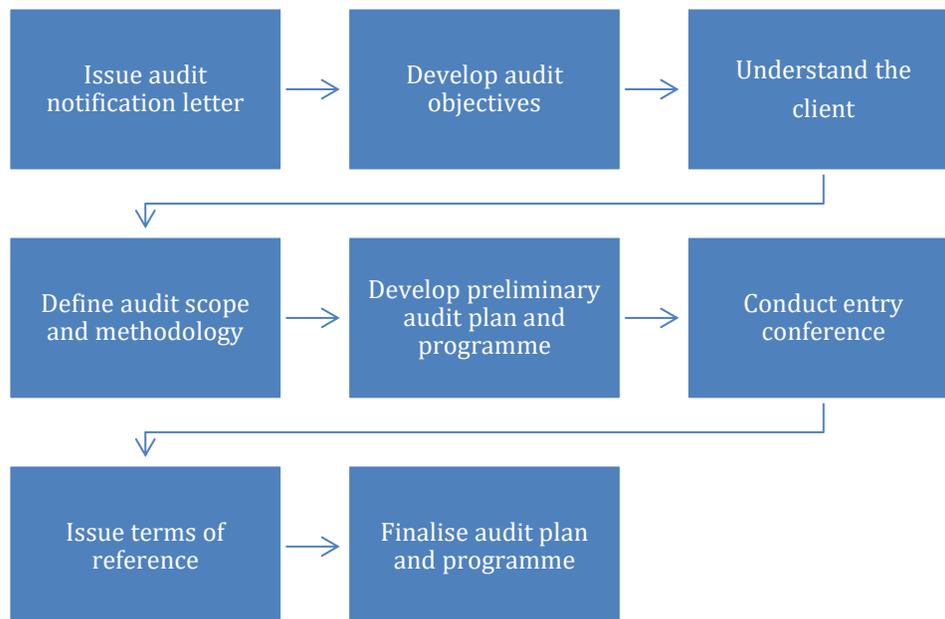
6.3 Issuing audit notification memorandum

Each audit engagement is formally opened by the issuance of an audit notification memorandum drafted by the AIC, reviewed by the Section Chief/CRA and signed by the Service Chief. For detailed guidance, auditors

should refer to the Standard Operating Procedures (SOP) on Audit Notification and the relevant template.

The Section Chief/AIC should also advise other OIOS divisions of the commencement of the audit, to allow better coordination within OIOS. The AIC should also seek any information of relevance on the client and the audit topic, and use this information as appropriate to plan the audit.

6.4   Developing audit objectives

The purpose of the internal audit activity is to evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.

The audit objectives should articulate specifically what the engagement is trying to accomplish. The audit objectives could include one, or more of the following:

- Achievement of the entity's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with mandates, regulations, policies, procedures and contracts.

The AIC is responsible for developing the audit objectives to address the risks associated with the activity under review. At this stage, the Section Chief/CRA and in some instances the Service Chief, should outline to the audit team why the audit was included in the plan and what the audit should achieve.

6.5   Understanding the client

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 audit methodology is relevant and efficient.

Useful sources of information include:

- Security Council, General Assembly resolutions and documents of other governing bodies;
- Client strategic plans and frameworks;
- Policies, directives and internal management reports;
- Organization charts, budget documents and staffing tables;
- Manuals and operating procedures; and
- Data from Umoja or other ERP systems.

To obtain a thorough understanding of the client's operations and to conduct an objective appraisal of activities and assessment of risks, auditors must also analyse and assimilate the information collected.

6.5.1 Documenting the system

There may be many types of information that can be gathered about a process from a variety of sources. 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 of 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.

6.5.2 Conducting activity-level risk assessment

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. 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. In particular, the AIC needs to assess whether there is an appropriate combination of controls, including those related to information technology, to mitigate business risks within established organizational tolerances.

Table 1 provides an example of an activity-level risk assessment for an audit of procurement activities:

Table 1 Activity-level risk assessment to identify major risks to effective procurement activities (abstract)

Objective of the activity/process	To procure adequate goods and services to allow the entity undertake the tasks necessary to meet the business objectives.		
Risk	Procurement activity may not result in the acquisition of goods and services which are sufficient for the achievement of business objectives.		
Activity-level risk 1	The type, quantity and timing of goods and services necessary to meet the business objectives may not be identified in advance to meet those objectives.		
Key control 1	All sections/units must prepare annual acquisition plans in advance of the need for goods and services. These plans must be aligned with their operational plans.		
Key control 2	Prior to the launch of the solicitation exercise, the requisitioning sections/units must determine minimum requirements (quantity, quality, timing etc.) necessary to meet the performance standards when developing specifications of goods and services to be acquired. These specifications must be documented clearly and unambiguously.		
Key control 3	Proposals from vendors can only be considered if they pass the technical evaluation based on the clearly documented minimum criteria (quantity, quality, timing etc.).		
Assessment for risk 1	Likelihood *Remote*	Impact *High*	Overall risk *Medium risk*
Activity-level risk 2	The entity may not be acquiring the required goods and services at the lowest possible cost.		
Key control 1	Responsible procurement officers must take action to ensure that they have identified all vendors who meet the specified requirement at a competitive price.		
Key control 2	All identified potential vendors must be invited to submit offers to meet the requirement.		

Key control 3	All solicitation announcements should provide sufficient information to allow vendors to make an informed response. Information should include specification, contract requirements, deadlines etc.
Key control 4	Financial evaluation should take into account all costs associated with offers which meet the requirement specification.

Assessment for risk 2	Likelihood	Impact	Overall risk
	Possible	*High*	*Higher risk*

6.5.3 Developing audit criteria

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. For detailed guidance on audit criteria, auditors should refer to the Practice Guide on Control Analysis.

6.6 Defining audit scope and methodology

The audit scope is determined after the audit objectives have been established, and sets the boundaries of the audit. Audit scope should also include the time period, geographical locations and major processes that will be covered by the audit. The scope needs to clearly define what is included in the audit, and what is not included if there are areas which would reasonably be within the audit scope but are excluded.

The audit scope needs to include all the controls required to provide reasonable assurance that the risks identified are effectively managed. These controls are referred to as key controls, which are those controls necessary to manage risk associated with a critical business objective. Only the key controls need to be assessed, although the AIC can choose to include an assessment of non-key controls (e.g. redundant, duplicative controls) if there is value in providing

such assurance. The AIC may also discuss with management whether the non-key controls are required.

Methodology is a general statement describing the types of activities that will be undertaken in conducting the audit. Generally these will involve interviews, analytical reviews and tests of controls but in some cases specific activities will be indicated such as surveys or consultation with subject-matter experts.

6.7 Developing preliminary audit plan and programme

The AIC, assisted by the audit team, must develop and document a plan for each engagement. The audit plan summarizes the background information collected on the client's business and analyses the risks that threaten the client's business objectives in the activity to be audited. The audit plan outlines the objectives, scope, criteria and methodology to be adopted. It also indicates the timing and resource allocations.

The Section Chief/CRA and AIC must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources. Timing and resources should include estimates of the audit team's effort as well as target dates for the end of planning, fieldwork, reporting and the closure phases of the audit.

The AIC should develop an audit programme outlining the detailed procedures for collecting, analysing, interpreting and documenting information during the fieldwork. Collectively, the procedures should enable the auditor to reach a conclusion on each audit objective. The steps reflected in the procedures are developed based on the work done during the planning phase of the audit. The audit programme should be prepared directly in the IAD audit management system and should:

- Outline the audit criteria and the steps that will be undertaken to draw conclusions on each criterion;
- Identify technical requirements, objectives, risks, processes and transactions that are to be examined;
- State the nature and extent of testing required; and
- Document the procedures to be used for collecting, analysing and interpreting information during the audit.

6.8   Conducting the entry conference

A formal entry conference with the client should take place normally no more than one month after the Notification Memorandum has been issued.

The AIC, in conjunction with the Section Chief/CRA, arranges and attends entry meetings with the management responsible for the activity under review. The Service Chief should attend the entry conference, where feasible. The audit team should summarize the discussions and any conclusions reached from the meetings and document them in the IAD audit management system.

An agenda and an entry conference briefing paper, including a PowerPoint presentation if applicable, should be sent to the client ahead of the scheduled date of the conference. The main content of the briefing paper/PowerPoint presentation includes background to the selection of the audit area; risk assessment and status of previous audit recommendations; preliminary audit objectives and scope; audit methodology and criteria; planned timing, milestones and deliverables of the different audit phases.

6.9   Issuing the terms of reference

Shortly after the entry conference, the AIC should prepare terms of reference (TOR) for the audit. The purpose of this document is to provide client management with an accurate picture of the audit. The TOR is based on the audit plan and the information from the entry conference. It represents a commitment by IAD to provide the specified audit to the client management. The sources from which the audit criteria will be drawn should also be attached to the TOR.

The TOR will be reviewed by the Section Chief/CRA and approved and signed by the Service Chief for transmittal to the client. The TOR should not be amended without the Section Chief/AIC communicating the changes to the client management beforehand.

In drafting the TOR, the auditor should refer to the SOP on Audit Terms of Reference and the TOR template.

6.10 Finalising the audit plan and programme

After the entry conference, and issuance of the ToR, the AIC should be ready to finalize the audit plan and programme, incorporating the comments and concerns expressed by the client and the agreed criteria. The final plan and programme should be reviewed by the Section Chief, and approved by the Service Chief.

7   Performing the engagement

7.1   Introduction

Audit fieldwork involves executing the audit plan and audit programme in accordance with the IIA Standards and this Manual. Activities central to the fieldwork phase include: collecting and analysing information, documenting the system, audit testing, developing conclusions and recommendations, discussing issues with the client, and documenting evidence. The fieldwork phase ends with the holding of the exit conference.

7.2   Audit testing

Auditors must base conclusions and engagement results on appropriate analyses and evaluations. Where the system or activity under review has few transactions or processes, or where the processing of data is fully automated, it may be possible to test the operation of controls for the entire population (using suitable data analysis tool such as IDEA).

Auditors must gather sufficient, reliable, and relevant audit evidence to reach conclusions regarding the achievement of audit objectives. The methods of gathering audit evidence include: observations, interviews, re-performance, analytical procedures, vouching, inspection, walk-throughs, surveys and questionnaires.

7.2.1   Testing key controls and the absence of key controls

Aside from testing the controls that do exist, the auditor should test the results of the transactions or processes to ascertain whether the absence of controls has affected the achievement of objectives. Auditors sometimes omit this second type of test, reporting just the risk of something going wrong because controls are absent, rather than going the extra step and identifying what has gone wrong because controls are absent. The auditor must prepare two test plans: one to test the consistent operation of the identified key controls and their effectiveness, and another to determine the impact of (any) absent key controls. The Practice Guide on Audit Testing provides more guidance on this subject.

7.2.2   Audit sampling

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.

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. Statistical sampling approach must be used if the auditor wishes to extrapolate sample results to draw conclusion 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.

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. The Practice Guide on Audit Testing and presentation on audit sampling developed by PPS provide more detailed guidance on audit sampling and evaluating the results of a sample.

7.2.3 Analytical procedures

Internal auditors may use analytical procedures to obtain audit evidence. Analytical procedures involve studying and comparing relationships among both financial and non-financial information. The application of analytical procedures is based on the premise that, in the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist and continue. Examples of contrary conditions include unusual or non-recurring transactions or events; accounting, organizational, operational, environmental and technological changes; inefficiencies; ineffectiveness; errors; fraud; or illegal acts.

Analytical procedures often provide the auditor with an efficient and effective means of obtaining evidence. The assessment results from comparing information with expectations identified or developed by the auditor.

When analytical audit procedures identify unexpected results or relationships, the auditor evaluates such results or relationships. This evaluation includes determining whether the difference from expectations could be a result of fraud, error, or a change in conditions. The auditor should ask client management about the reasons for the difference and obtain corroborating evidence. Unexplained results or relationships from applying analytical procedures may be indicative of a significant problem (e.g., a potential error, fraud, or illegal act). If the results indicate the possibility of a fraud or

misconduct, this should be brought to the immediate attention of the Section Chief/CRA, as explained in Section 7.8 Fraud and Misconduct of this Manual.

7.2.4 Root cause analysis

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.

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. 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.

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.
>
> * *Why?* Limited number of vendors was invited to participate in the solicitation.
> * *Why?* Only few new vendors were added to the vendor roster in the recent period.
> * *Why?* Vendor registration process was lengthy and cumbersome.
> * *Why?* Management did not establish targets and timelines for the vendor registration process and did not monitor the process against these timelines.

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, the AIC should develop recommendations that address the underlying issue and, as appropriate, include a recommendation for management to conduct a root cause analysis.

7.3 Recording information during the audit

IAD uses an electronic audit management system to record all elements of the engagement, including the results of planning meetings, risk assessment procedures, the audit work plan and audit programme, meetings with client management or staff, the testing methodology, test results and all relevant information to support the conclusions and engagement results, and recommendations.

Auditors should develop working papers as the audit progresses. The contents of the file should clearly support the bases of the observations and recommendations to be reported to the client and provide evidence that the audit was performed in accordance with the IIA Standards and this Manual. The working papers should also explain why any deviation was made from the audit programme. The audit working papers should include sufficient detail to describe clearly the sampling objective and the sampling process used. The working papers should include a description of the source of the population, the sampling method used and sampling parameters, items selected, and details of audit tests performed and conclusions reached.

Any document filed in the IAD audit management system carries the implicit understanding that it has been read fully by at least one member of the audit team. Auditors should be careful not to include anything in the working paper file for an assignment that they have not read and considered in full. If a document that is included in the working paper file has not been read, and it contains information that would have affected the direction or result of the audit had the audit team been aware of it, the credibility of IAD may be affected significantly.

Where documents are readily available electronically on the Organization's intranet, for example manuals and administrative instructions, only a link to the document need be included in the audit working papers. If only a small part of a document is relevant, then only that part should be extracted and saved in the working papers.

For further guidance on recording information during the audit, please refer to the Teammate Protocol.

7.4   Evaluating the results of audit testing

The auditor evaluates the results of audit testing to determine whether:

- The objectives of key controls have or have not been met;
- The criteria have or have not been satisfied; and
- The risks are adequately managed.

Control analysis must be done with the overall objective in mind: to produce a report incorporating the following elements in relation to each audit criteria:

- Criteria: The "what should be". The standard used to assess compliance, efficiency, effectiveness, etc.;
- Condition: The "what is". What the audit activities identified in relation to the criteria; and
- Conclusion: The auditor's assessment that the criterion has been met, or that there is a gap between the criterion and the condition.

For those criteria that the auditor concludes as not met, the following elements are also required:

- Cause: The "why?". The reason why there is a gap between the criterion and the condition;
- Consequence: The "so what?". The actual or potential negative impact of the criterion not being met; and
- Corrective action: The "recommendation". The action OIOS is suggesting to alleviate the condition so that the criterion and condition are in alignment.

7.5 Supervising the audit

Each phase of the audit is supervised by, as appropriate, the AIC, the Section Chief/CRA and the Service Chief and the Director, as necessary. These staff members are required to review and approve specific documents and working papers and to provide general guidance, based on the competency and experience of the auditors. In addition, the AIC and Section Chief/CRA should put measures in place to ensure that the milestone dates in the approved audit plan are met.

Supervisors should review each working paper as soon as possible after it is completed. The review of working papers entails ensuring that:

- The approved engagement programme is carried out unless changes are both justified and authorized;
- Engagement working papers adequately support the engagement observations, conclusions and recommendations;
- Engagement communications are accurate, objective, clear, concise, constructive and timely; and
- Engagement objectives are met.

The Section Chief/CRA is required to review all available working papers prior to submitting the draft detailed audit results to the Service Chief for review.

All issues raised in the review of working papers must be resolved before engagement results are communicated to the client.

Managing the audit includes managing the schedule and the resources used to complete the audit. The Section Chief/CRA and the AIC are responsible for

ensuring that the deadlines set out in the audit plan are met as much as possible and that the budget for the total number of days for the audit is not exceeded. Supervisors are also responsible for ensuring that auditors complete their time sheets in a timely manner.

Senior members of the audit team train and develop staff, and evaluate their performance.

7.6 Staff appraisals

Staff appraisals should be conducted at the end of each assignment for all members of the audit team who spent five days or more on the audit. Their purpose is to record the performance of the audit team member while this is still fresh in the minds of the appraiser. Such appraisals should be used to provide input into the annual performance document, and enable the first reporting officer to base his/her evaluation of the staff on performance throughout the year rather than on the best or worst assignment. The appraisal also gives more immediate feedback to the team member.

Staff appraisals should be completed using the established Audit Staff Appraisal Report (ASAR) form.

7.7 Communicating with IAD management during fieldwork

The Section Chief/CRA should routinely brief the Service Chief of the progress made in performing the engagement and of any problems related to it. Where deadlines are not likely to be met or the budget is to be exceeded, the AIC should advise IAD management in advance and explain why the targets will not be met. The Service Chief provides the guidance necessary to resolve any issues being faced by the audit team.

The Service Chief is also responsible for bringing to the attention of the Director significant delays and challenges being faced by audit teams in order to take action, where necessary.

7.8 Fraud and misconduct

Depending on the nature and scope of the audit, the auditor should determine the probability and impact of typical fraud schemes and scenarios as well as the adequacy of preventive and detective controls when performing the activity-level risk assessment. The audit team should also design and perform audit procedures to test the effectiveness of relevant controls. When the circumstances warrant, the audit team should design and conduct effective procedures to detect red flags of potential fraud. The performance of such procedures and the conclusions reached should be documented in the working papers.

If at any time during the audit, it becomes apparent to any member of the audit team that fraud or misconduct may have actually occurred, it should be brought to the immediate attention of the AIC and Section Chief/CRA. They will review the matter and should inform the Service Chief of the issue, if necessary. The Service Chief will determine whether the issue needs to be further escalated to the Director for a decision on whether to refer it to the Investigations Division. The Service Chief or Director may also decide to bring the issue formally to the attention of the client in the form of an interim written communication and/or expand the scope of the audit.

PPS maintains IAD's central repository of referrals to the Investigation Division, and therefore, needs to be copied on all formal correspondence.

8   Communicating results

8.1 Introduction

IAD is responsible for communicating its audit results, conclusions and recommendations. Communicating results is an integral part of the audit assignment, with results communicated verbally and in writing during the audit, and more formally through written communications that had been prepared by the audit team and reviewed by IAD management prior to issuance to the client. For a more in-depth discussion of report writing, please refer to the Practice Guide on Drafting Audit Reports.

8.2 Communications during the engagement

Throughout the audit, the audit team is expected to be in regular contact with the operational managers and staff of the activity being audited to: (a) collect necessary information; and (b) conduct audit tests and discuss any related issues as the audit progresses, and also share audit results and proposed recommendations. Issues arising and discussed in these meetings should be

documented in the audit working papers. Audit teams should inform the concerned audit focal point about the key milestones of the audit, e.g., entry and exit conferences, detailed audit results, draft report and final report, and seek appropriate assistance as needed.

8.3 Exit conference

As soon as possible after completion of the fieldwork, the AIC will organize an exit conference to advise the client of the engagement observations and overall audit results. It serves several important purposes:

- Informs the client of the audit results and whether the criteria have been met;
- Reaches agreement on findings and recommendations;
- Communicates planned or corrective actions taken to address deficiencies disclosed by the audit; and
- Advises the client of the reporting process.

To facilitate discussion at the exit conference and as a matter of courtesy, the audit team should give client management a full brief of the issues and conclusions. This brief may be in the form of DAR discussed in section 8.5. Where the issues are complex, it may be worthwhile to prepare a presentation to be used to guide the exit conference discussion.

Similar meetings may be held at various locations where the fieldwork has been conducted, to apprise local management of the results of the audit work in that location. However, the audit team will then hold a formal exit conference with the client management with overall responsibility for the activity within the scope of the audit[2]. For audits that are sensitive, complex or high profile, or if the client is located in New York (or Geneva for UNHCR), the Service Chief and Director, may attend the exit conference if deemed necessary. The Section Chief/CRA should attend the exit conference at her or his location.

The AIC or a designated team member should take note of the points discussed and comments made during the exit conference, and incorporate them in the audit working papers. A formal exit conference concludes the audit fieldwork.

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[2] *This is the meeting which will be regarded as the "Exit conference" for milestone reporting purposes.*

8.4   Engagement reporting

To formally communicate audit engagement results to programme managers/heads of departments, offices or missions, IAD issues the following:

- Detailed Audit Results (DAR);
- Draft Report; and
- Final Report.

IAD uses standard templates for each type of audit communication. Client is given the opportunity to comment before the report is finalized. These steps are discussed in more detail below.

8.5   Detailed audit results

IAD uses DAR to communicate engagement observations to programme managers at the operational level. The AIC is responsible for preparing DAR, which is a detailed document that combines both positive results and deficiencies in controls, determined against key operational and control objectives of the activities, processes or unit under review, including the cause and impact of reported deficiencies, if any, on achievement of such objectives.

The transmittal memorandum should contain a caption summarizing the overall conclusion on the assignment. The caption is a short, succinct sentence which encapsulates and conveys to readers the broad message emerging from the report. This message should address the audit objective. The memorandum should request the client to provide comments on DAR within 15 calendar days from issuance date.

The body of DAR includes the following elements:

- Summary description of the background;
- The objective, scope and methodology of the audit, and the rationale for conducting it;
- The overall conclusion section, (which in one paragraph, should include an overall summary of the audit results, including positive assessments, if any and significant);
- Detailed discussion of the audit results; and
- Recommendations for addressing issues identified (also itemized in an annex to DAR)

For each audit result discussed in DAR, the auditor must have actively considered elements of the audit logic process:

- Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (the correct state);

- Condition: The factual evidence that the internal auditor found in the course of the examination (the current state);
- Cause: The reason for the difference between the expected and actual conditions;
- Consequence: The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the differences); and
- Corrective action: The recommended action the auditor is suggesting to address the root cause of the condition. It should stand-alone, be specific, clear and concise, action-oriented, and doable.

Critical and important recommendations should be included in an annex; opportunities for improvement for discretional implementation by management should be included in a separate annex.

The Service Chief reviews and issues DAR to the client for comment. If DAR contains critical recommendations or pervasive deficiencies, it needs to be reviewed by the Director, or in the absence of the Director, by the Deputy Director. The ASG should also be informed of such critical recommendations or pervasive deficiencies.

The SOP on Structure and Format of Audit Reports and Practice Guide on Drafting Audit Reports provide more detailed guidance on preparing DAR.

8.6 The draft audit report

Auditors are expected to produce finished-quality writing for review. The draft report, in addition to the elements of DAR, includes an executive summary. The executive summary is a brief synopsis of the audit report, and it should concisely capture the audit results, conclusions and recommendations. Any positive observations should also be presented to give a balanced view of the audit results. The executive summary should not exceed one page. The executive summary also replaces the overall conclusion section included in DAR.

The draft audit report is addressed to the client's senior management, the department head or equivalent. The transmittal memorandum to the department head should request a response within 15 calendar days, including action plans to address recommendations, along with target dates and the title of the official responsible for implementation, and rationale for accepting the risk associated with unaccepted recommendations. The transmittal memorandum should advise senior management that their full response to the draft report will be appended to the final report. It should also indicate that unaccepted critical recommendations will be escalated as necessary up to the level of the Secretary-General for reconsideration.

In the body of the draft report, the response from the client should be treated as follows:

- If a recommendation is accepted and being/will be implemented, state that the recommendation remains open pending the required action is taken;

- If recommendation is accepted but OIOS does not agree with the proposed action plan to address the situation satisfactorily, provide OIOS rebuttal statement and reiterate the recommendation and requests that the client develop a satisfactory action plan to implement the recommendation; and

- If the client does not agree with the audit results or recommendation(s) in DAR, the AIC should reconsider whether the result or recommendation is still valid or whether it needs to be amended:

  > -If IAD considers that the result or recommendation is still valid (i.e., disagrees with the client), IAD should clearly state its position and rebut the client's arguments; and

  > -If the client provides adequate evidence and justification, IAD should amend or remove the corresponding result and recommendation.

Client comments should be summarized as succinctly as possible without omitting any important or relevant details and shown in italics, immediately

The draft report does not include opportunities for improvement; however, the issues could still be reported in the narrative of the relevant sections, or summarized at the end of the report, as appropriate.

Both the Director and the Service Chief review the draft audit reports. When the Director is satisfied with the quality and contents of the report, she/he, or the Deputy Director in her/his absence, will approve its issuance by the Service Chief.

The SOP on Structure of Audit Reports, Editorial Considerations for Audit Reports and the Practice Guide on Report Writing provide more detailed guidance on preparing draft audit reports.

8.7   The final audit report

The final audit report should incorporate the comments that were provided by the client to the draft report. General Assembly resolution 64/263 requires that the verbatim, unaltered management response be included in the final report as an appendix.

The content of the final report is similar to that of the draft report. Comments received from the client on the draft report should also be treated similarly in the final report.

In case the client does not provide a target date for implementing an accepted recommendation, the Section Chief/AIC should establish a target date using the following criteria:

- **Critical recommendations:** since critical recommendations are followed up on a quarterly basis, the target date should be the last day of the quarter following the final report date (e.g., final report date is 2 February 2017, the target date would be 30 June 2017).

- **Important recommendations:** since important recommendations are followed up on an annual basis, the target date should be the last day of the 12-month cycle following the final report date (e.g. final report date is 12 January 2017, the target date would be 28 February 2018).

- **Recommendations claimed to have been implemented by the client but no supporting evidence provided:** since the client claims that the recommendation is already implemented, it should not take too long to provide the evidence of implementation, and therefore, the last day of the quarter following the final report date will be the target date.

If a critical recommendation is not accepted, it should be escalated to the Secretary-General through Chef de Cabinet (CDC), by a note from the Under-Secretary-General (USG), before the finalization of the report. The final report will duly reflect the response from CDC (if any) and potential follow up action by client entity, which may include ultimate acceptance of recommendation. Declined recommendations (both critical and important) shall be included in the final report as "unaccepted" and will be recorded as "closed without implementation" in the recommendation tracking system. Unaccepted recommendations will be reported to the Secretary-General, and the General Assembly through OIOS Quarterly Activities Report and Annual Report, respectively. The SOP on the escalation and closure of unaccepted and long overdue recommendations provides more detailed guidance on unaccepted recommendations.

Both the Director and the Service Chief review the final audit report. Before a final report is submitted to the Director for approval, all working papers in the audit management software should be reviewed and signed off. When the Director is satisfied with the quality and contents of the report, s/he will sign and release it for issuance.

The SOP on Structure of Audit Reports, Editorial Considerations for Audit Reports and the Practice Guide on Report Writing provide more detailed guidance on preparing final audit reports.

8.8 Use of personal information and names in audit reports

To address concerns relating to the protection of personally identifiable information, draft and final audit reports should not contain names of third parties, either individuals or corporate or other entities (suppliers, vendors, staff members, implementing partners etc.). This practice is important as OIOS reports are publicly available, and we should maintain confidentiality of the parties involved and help prevent OIOS being held responsible for any potential reputation damage to the entity mentioned in our reports. There is also a natural justice issue; if a third party name would be mentioned in an audit report, then we should provide an opportunity for that third party to respond to the comments made.

8.9 Rating of recommendations

There are three types of recommendations:

- **Critical recommendations** address significant and/or pervasive deficiencies in governance, risk management or internal control processes, such that reasonable assurance cannot be provided with regard to the achievement of the control and/or business objectives under review;
- **Important recommendations** address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review; and
- **Opportunities for improvement** do not meet the criteria for either critical or important recommendations but rather present opportunities for improvement in governance, risk management or internal control processes. Implementation of these recommendations is at the discretion of client management.

8.10 Reporting to the General Assembly, audit committees and senior management

Audit results are communicated to the General Assembly on an annual basis in the OIOS annual reports. The report on the non-peacekeeping activities of OIOS covers the 12-month period from 1 July to 30 June of each year. This report is submitted to the General Assembly during its main session. Oversight results pertaining to peacekeeping operations and special political missions

cover the 12-month period from 1 January to 31 December of each year and are submitted to the General Assembly during the resumed session.

OIOS shares audit results with the audit committees.

OIOS also reports to the senior management on the implementation of recommendations issued to programme managers – quarterly for critical recommendations and annually for important recommendations.

The SOP on recommendation monitoring, follow-up and reporting provides more detailed guidance on updating and reporting the implementation status of recommendations.

8.11 Publication of audit reports

General Assembly resolution 69/253 requires OIOS to publish all final audit reports on the OIOS public website, except for reports containing confidential or sensitive information, which the USG/OIOS may decide to withhold or redact. The Special Assistant to the ASG shall redact final reports in accordance with approvals provided by the ASG based on the suggestions from the concerned Service Chief.

The OUSG shall post on the OIOS website the titles of final audit reports on the day in which the reports are issued to clients so as to provide senior management and the representatives of Member States the privilege of requesting access prior to public release.

OIOS staff shall refer to the Special Assistant to the ASG any queries they receive, for example from the media or the general public, relating to audit reports posted on the OIOS website. The Special Assistant will arrange, in consultation with the ASG, for appropriate actions to be taken on these queries.

Staff should review the SOP on Public Disclosure of Audit Reports to gain a fuller understanding of the requirements for report publication.

8.12 Ownership and retention of working papers

According to paragraph 3 of ST/SGB/2007/5 on Record-keeping and the Management of United Nations Archives:

> "*All records, including electronic records and e-mail records, created or received by a staff member in connection with or as a result of the official work of the United Nations, are the property of the United Nations.*"

Consequently, all working papers produced by IAD are owned by the Organization. Nonetheless, access to IAD working papers shall be restricted to authorized IAD staff members at all times. Requests for access to assignment working papers by management and officials of the Organization including other OIOS Divisions, the BOA or JIU shall be granted only after the approval of the Director, IAD. Any requests from parties outside the Organization may be granted after the approval of the Director, IAD, USG/OIOS and/or the Office of Legal Affairs.

Management and staff of IAD must respect the confidentiality of information acquired during the audit and not disclose information without appropriate authority, unless there is a legal or professional obligation to do so.

All IAD working papers, including electronic records in the IAD audit management system shall be retained in accordance with the OIOS-IAD Records Retention Schedule.

9   Recommendation monitoring and follow-up

9.1 Introduction

Recommendation monitoring consists of recording recommendations in the recommendations monitoring database, following up with the client's management on the status of their implementation and resolving long-outstanding audit recommendations.

9.2 Recording recommendations

OIOS maintains all recommendations issued in the automated audit management system. In addition to holding the text of the recommendation and other administrative information, the database includes details of the impact, the focus area, the risk category and rating and the cause and financial implication of the recommendation. This information enables OIOS to analyse recommendations according to any of these factors and monitor the status of their implementation.

Where more than one office is involved in the implementation, the recommendation should specify the lead office.

After the audit report has been finalised, the AIC must record all critical and important recommendations in the audit management system within one week of issuing the final audit report.

For further guidance on recording recommendations, please refer to the Teammate Recommendations Guide.

9.3   Following up on and closing recommendations

Implementation of critical recommendations is monitored on a quarterly basis. Implementation of important recommendations is monitored annually. The database may also be updated at any time for any known and validated information regarding the status of the recommendation.

The AIC is responsible for reviewing client's progress updates and making the final determination as to the status of the recommendation (i.e. whether the recommendation is still in progress, or whether the recommendation should be closed as implemented etc.). The AIC will document final status of the recommendation in the audit management system. If the AIC has left the Section, then the Section Chief assumes this responsibility.

In order to determine whether a recommendation should be closed, auditors must review the evidence provided by the client, assess its credibility, and establish whether the action taken is valid and sustainable.

Long overdue recommendations (defined as overdue for more than 1 year past the target date for critical recommendations and 3 years past target date for important recommendations), shall be reviewed for potential closure, unless reasonable action plans for full implementation are provided. The original target dates for implementation (as provided when finalizing the report) shall remain unchanged. Those recommendations that are "closed without implementation" will be reported in OIOS Quarterly Activities Report and Annual Reports.

For further guidance on following up on and closing recommendations, please refer to the SOPs on the Escalation and Closure of Unaccepted and Long Overdue Recommendations and Audit Recommendations: Monitoring and Follow-up, and Teammate Recommendations Guide.

ANNEX I

Practice guides

No.	Name
1.	TeamMate protocol
2.	TeamMate recommendations guide
3.	TeamMate timesheet guide
4.	Audit testing
5.	Control analysis
6.	Performance auditing
7.	Drafting audit reports
8.	Review of ICT general controls
9.	Review of application systems
10.	Risk assessment guidelines for annual work planning
11.	Practise guide on fraud risk assessment and audit procedures

Standard operating procedures

No.	Name
1.	Use of Acronyms in Audit Reports
2.	Public disclosure of audit reports
3.	Recommendation monitoring, follow-up and reporting
4.	Escalation and closure of unaccepted and long overdue recommendations
5.	Categories of recommendations
6.	Audit notifications
7.	Audit test documentation
8.	Structure and format of audit reports
9.	Terms of Reference
10.	Checklist for the preparation of audit reports
11.	Internal quality review
12.	Key performance indicators
13.	Advisory engagements

Forms and templates

No.	Name
1.	Statement of independence and confidentiality
2.	Amendment to work plan form (AWPF)
3.	Audit notification memorandum
4.	Notification memo to other OIOS divisions
5.	Terms of Reference (ToR)
6.	Entry conference agenda
7.	Entry conference notes
8.	Audit report clearance check sheet
9.	Exit conference notes
10.	Detailed audit results
11.	Draft audit report
12.	Final audit report
13.	Reminder memorandum
14.	Audit closing memorandum
15.	Sample Memorandum- New or Revised Recommendation
16.	Audit Staff Appraisal Report (ASAR)