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முகாமைத்துவக் கணக்காய்வுத் திணைக்களம்
DEPARTMENT OF MANAGEMENT AUDIT

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நிதி, திட்டமிடல் மற்றும் பொருளாதார அபிவிருத்தி
அமைச்சு
கொழும்பு 01

MINISTRY OF FINANCE, PLANNING AND
ECONOMIC DEVELOPMENT
Colombo 01

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Date } 2025.04.28
திகதி }

Management Audit Circular No: DMA/01/2025

**All Secretaries to Ministries,
Provincial Chief Secretaries,
Heads of Departments,
District Secretaries.**

Internal Audit Guidelines

This new circular is issued taking into consideration the Management Audit Circular No. DMA/01-2019 dated 2019.01.12 issued by the Department of Management Audit , Provincial Internal Audit Guidelines No. 01 dated 2020.08.26, subsequent amendments made to those circulars, and all the various guidelines issued with the aim of strengthening the internal audit process. In this process, some of the matters included in the aforementioned circulars and guidelines have been revised, and in addition, guidance on new areas of concern observed in the audit and management committees has also been included. When it comes to provincial councils and local government institutions, the provisions of this circular must be followed subject to the provisions of the relevant constitution and other written laws and regulations.

In accordance with sections 38 and 39 of the National Audit Act No. 19 of 2018, and Financial Regulations (F.R.) 127 and 128 (Provincial Financial Rules in the case of Provincial Councils), Chief Accounting Officers/Accounting Officers are responsible for the financial management of their Ministry/Provincial Council/Department/District Secretariat and other institutions under them. They are also required to appear before the Committee on Public Accounts/Provincial Committee on Public Accounts/Committee on Public Enterprises regarding their Ministry/Department/District Secretariat/Institution/Provincial Council and Local Government Institutions.

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To further strengthen the support provided by the Treasury to Chief Accounting Officers and Accounting Officers in fulfilling this responsibility, the Department of Management Audit was established as a Treasury Department from 2008.02.01, as per the Cabinet decision dated 2008.01.25, No. 08/0200/306/012.

As per section 40 (1) of the National Audit Act, an internal auditor must be appointed for the audit entities mentioned in 41 (2) of the Act. The Department of Management Audit will provide the necessary guidance to conduct internal audit activities efficiently and effectively in the aforementioned entities.

01. Internal Audit

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

1.1 Internal Audit Charter

The Internal Audit Charter is a formal document that defines the purpose, authority, responsibility, and position of the internal audit function within the organization. The Internal Audit Charter further includes provisions for the independence, reporting, code of ethics, and scope of internal audit. The Chief Internal Auditor/Internal Auditor of all audit entities must prepare and obtain approval for an Internal Audit Charter for their respective entity.

1.2 Independence of Internal Audit

The independence of internal audit is ensured under the following acts and regulations:

- i. Section 33(1) of the Public Financial Management Act No. 44 of 2024
- ii. Section 40(3) of the National Audit Act No. 19 of 2018
- iii. Provision 134(1) of the Financial Regulations

Reporting directly to the Chief Accounting Officer/Accounting Officer/Governing Body creates a formal functional existence necessary for providing impartial, unbiased judgment, free from influences or conditions of other parties. As per subsection 33(1) of the Public Financial Management Act No. 44 of 2024, the Chief Accounting Officer, Accounting Officer, or Governing Body of a government entity that has appointed an internal auditor must ensure that the internal auditor performs his duties independently and that the internal auditor is not assigned duties that may create a conflict of interest.

1.3 Goals and Objectives of Internal Audit

The goal of internal audit is to play a supportive role in improving the organization's operational processes and enhancing its performance. The objectives of an internal audit are:

- i. To ensure compliance with laws, regulations, policies, and procedures.
- ii. To detect and prevent errors, fraud, and corruption.
- iii. To evaluate and improve internal control systems.
- iv. To protect assets by ensuring their acquisition, proper recording, physical existence, and compliance with policies.
- v. To maintain proper financial management/financial discipline.
- vi. To ensure a comprehensive accounting system.
- vii. To provide independent, impartial, and objective assurance regarding the organization's operational activities. (Attention should be paid to F.R. 133(1)).

1.4 Scope of Internal Audit

The scope of the internal audit unit of an institution is specified in F.R. 133(2). Accordingly, the internal audit unit is assigned the functions specified under F.R. 133(2)(a) and (b) to assist the Accounting Officer and the Progress/Monitoring Committee in relation to the following functions:

- i. Assessing the adequacy of the existing internal controls and internal checks over the financial operations of the department.
- ii. Monitoring the progress of work programs and projects.

1.5 Appointment of Internal Auditors

According to subsection 40(1) of the National Audit Act, an internal auditor must be appointed for each audited entity mentioned in subsection 41(2) of the Act.

- i. An internal audit division headed by a Class 1 officer of the Sri Lanka Accounting Service, under the direct supervision of the Chief Accounting Officer/Accounting Officer, must be established for all Ministries, Provincial Councils, and District Secretariats.
- ii. An internal audit division headed by a Class 1 officer of the Sri Lanka Accounting Service should also be established for central government departments/special expenditure units as appropriate, considering factors such as allocations made through the annual budget, staff, and the scope of the institution.
- iii. The internal audit unit of other central government departments/special spending units should be established under a suitable officer of the Sri Lanka Accounting Service.

- iv. In accordance with Sub section 40(1) of the National Audit Act, a suitable auditor should be appointed for other institutions as mentioned in 41(2) of the act.

02. Audit and Management Committees

2.1 Establishment, Composition, Objectives, Functions, and Quorum of Audit and Management Committees

- i. In accordance with 41(1) of the National Audit Act, for every audited entity mentioned in subsection 41(2), the relevant Chief Accounting Officer, Accounting Officer, or relevant governing body must establish an Audit and Management Committee to assist them.
- ii. The composition of the Audit and Management Committees relevant to each institution should be as per Annexure 01.
- iii. These committees must be conducted with the participation of the Ministry Secretary/Provincial Chief Secretary/Head of Department/District Secretary at all times to ensure that actions are taken in accordance with subsections 41(1)(a) and (b) of the National Audit Act.
 - a) Personal attention of the Ministry Secretary/Provincial Chief Secretary/Head of Department/District Secretary should be paid to the efficient functioning of the Audit and Management Committees.
 - b) Attention should be paid to the audit reports of the Chief Internal Auditor/Provincial Director of Internal Audit/Internal Auditor and the Auditor General regarding their institution at the Audit and Management Committee.
 - c) Important management issues related to the introduction of adequate control systems should be discussed, and immediate corrective and preventive measures should be taken to address existing problems. The recommended role for Audit and Management Committees is specified in Annexure 02. Systematic Audit and Management Committee reports should also be maintained for follow-up on the implementation of committee recommendations.
- iv. Audit and Management Committee meetings should be conducted with the full participation of the Audit Committee members mentioned in Annexure 01. The participation of the Committee Chairman is mandatory. A convenient date, free of other duties, should be chosen with his/her prior agreement so that they can contribute throughout the meeting. If a non-chairman member is unable to attend due to unavoidable

reasons, Audit and Management Committee meetings can be held with the participation of the Committee Chairman and one other member.

- v. In cases where an officer from the Department of Management Audit has not been appointed to the Audit and Management Committees of central government departments, the composition of the department's Audit and Management Committees is as specified under 2.2 of Annexure 01.

2.2 Conducting Audit and Management Committee Meetings

- i. At least four Audit and Management Committee meetings should be held annually, one per quarter. However, when the head of the institution is a Revenue Accounting Officer, additional Audit and Management Committee meetings can be held as needed to discuss revenue-related issues, in addition to the four meetings mentioned above.
- ii. If additional clarification or special presentations are required regarding any matter discussed during Audit and Management Committee meetings, it is more effective to do so during the discussion of that matter. This also helps with time management.
- iii. Chief Accounting Officers and Accounting Officers are responsible for ensuring that relevant heads of institutions participate in the committee meetings to expedite the implementation of decisions made during the Audit and Management Committee meetings.
- iv. The representative of the Department of Management Audit will provide necessary guidance, and any matters observed by him/her during those committee meetings that are deemed appropriate to bring to the attention of the Secretary to the Treasury will be reported to the Secretary to the Treasury by the Director-General of the Department of Management Audit.

2.3 Audit and Management Committee Meeting Agenda

The agenda for the Audit and Management Committee meeting should be prepared on a priority basis, taking into account the risk of matters to be discussed and their impact on the institution's objectives, while also covering the functions mentioned in 41(1) (a) and (b) of the National Audit Act No. 19 of 2018. A sample format for such an agenda is shown in Annexure 03. Accordingly, key matters to be included in an Audit and Management Committee Meeting Agenda as follows;

- i. Discussion of matters arising from Auditor General's audit queries and internal audit reports.
 - a) Specifically, discussing audit queries and audit reports received from the Auditor General, as well as internal audit reports, helps to understand the observed shortcomings in the institution's internal control system and prevent recurrence.

- b) If the audit unit is not satisfied with the explanations provided for audit queries after submitting them to the audit, matters that need further discussion should be inquired from the relevant audit unit and included in the agenda for discussion.

ii. Discussion of Matters Related to Institutions under the Ministry/Provincial Council

- a) Audit observations of institutions under the Ministry or Provincial Council should be discussed and resolved to the maximum extent possible at the institution's Audit and Management Committee before being discussed at the Ministry/Provincial Council Audit and Management Committee. Only issues that cannot be resolved at the institutional level and require the intervention of the Ministry/Provincial Council Audit and Management Committee should be submitted to the Ministry/Provincial Council Audit and Management Committee. When such issues are referred, the decision reached by the respective institution's Audit and Management Committee regarding the matter must be stated.
- b) Since the Chief Internal Auditor of the Ministry/Provincial Director of Internal Audit participates as a member or observer in the Audit and Management Committees of other institutions under the Ministry/Provincial Council, any matters discussed in those institutions that require discussion at the Ministry/Provincial Council Audit and Management Committee should be presented to the Ministry/Provincial Council Audit and Management Committee with the recommendations of the Chief Internal Auditor/Provincial Director of Internal Audit. This ensures that only matters that absolutely need to be discussed at the Ministry/Provincial Council Audit and Management Committee regarding institutions under the Ministry are discussed. This allows more attention to be paid to matters related to the Ministry/Provincial Council itself and to specific matters presented by departments and institutions, leading to proper solutions and actions for those problems.
- c) When presenting audit observations for discussion at the Audit and Management Committee, a sufficient summary description of the problem(s) identified by the auditors should be included in the discussion notes so that committee members and observers can understand them.

iii. Discussion of Progress in Implementing Directions Issued by Committees

When discussing direction issued by the Committee on Public Accounts/Provincial Committee on Public Accounts/Committee on Public Enterprises, the specific direction issued by the relevant committee should be included in the discussion notes.

2.4. Preparation, Distribution, and Progress Reporting of Audit and Management Committee Meeting Reports

i. Preparation and Distribution of Audit and Management Committee Meeting Reports

- a) Follow-up on the implementation of Audit and Management Committee recommendations.
- b) Communication of decisions made at the Audit and Management Committee meeting to relevant officials.
- c) Meeting minutes Should be prepared in a way that allows for reviewing progress at the next meeting
- d) Copies of the meeting report should be sent to the National Audit Office, the Department of Management Audit, and the heads of institutions and divisions participating in the meeting within two weeks from the meeting.

A sample format for the Audit and Management Committee meeting report is shown in Annexure-04.

ii. Reporting Progress of Audit and Management Committee Meetings

- a) Two weeks before the upcoming Audit and Management Committee meeting, written progress on the implementation of the committee report's recommendations should be obtained. Progress on matters assigned by the Audit and Management Committee to the sub-committee mentioned in 2.5 along with the sub-committee's recommendations, should be obtained by the Chief Internal Auditor/Internal Auditor.
- b) This progress should be provided to the Audit and Management Committee members one week before the Audit and Management Committee meeting.
- c) Progress achieved during the period between the date of providing the progress report and the date of the Audit Committee meeting should be reported verbally or in another appropriate manner at the committee meeting.

2.5 Appointment of a Sub-Committee

At the beginning of the year, the Audit and Management Committee should appoint a permanent sub-committee consisting of three members relevant to their institution. The main purpose of establishing this sub-committee is to coordinate with relevant parties regarding matters decided

by the Audit and Management Committee to be referred to the sub-committee and to provide observations and recommendations to the Audit and Management Committee. Appropriate members with proficient knowledge in the relevant subject can be nominated to the sub-committee as needed, depending on the nature of the subject matter. This process makes the Audit and Management Committee's role more efficient and helps in making effective decisions by managing time.

The sub-committee should consist of senior-level staff officers such as Additional Secretary/Deputy Chief Secretary/Chief Financial Officer of the Ministry/Provincial Council/Department/District Secretariat, and its composition should be determined by the relevant Audit and Management Committee. The Chief Internal Auditor/Provincial Director of Internal Audit/Internal Auditor of the relevant institution should coordinate the activities of this sub-committee.

2.6 Reporting Progress of Committee Decisions Finalized by the Audit and Management Committee

The progress of implementing committee decisions finalized by the Audit and Management Committee at its meetings should be reported using the forms from Annexure 05-i to 05-iii, as described below.

i. Matters Involving Legal Proceedings.

- a) Issues for which Attorney General's advice has been obtained and legal action has been initiated can be temporarily removed from discussion at Audit and Management Committees until such legal action is concluded. Such matters should be reported by the Chief Internal Auditor according to the format in Annexure 05-i. As soon as a court decision is received regarding a reported issue, the matter and the related court decision should be presented to the next Audit and Management Committee meeting to obtain committee recommendations and proceed accordingly.
- b) Regarding matters for which court decisions have not been received, the current progress of those legal proceedings should be stated and reported to the Audit and Management Committee held at the end of the year by the Chief Internal Auditor/Provincial Director of Internal Audit/Internal Auditor. This step should be followed annually until court decisions are received.
- c) Also, if committee members wish to bring back to the committee's discussion any legal action matter that was temporarily removed from discussion by the Audit Committee, before the end of the year that matter can be included back in the agenda.

ii. Matters Not Agreed Upon by the Auditor General's Representative, Authorities, or Institutions.

- a) If, after the committee has reached a final agreement on the actions to be taken, considering all relevant facts related to any audit observation or issue, the Auditor General's representative, relevant authorities, or institutions (e.g., the Treasury/Provincial Treasury in the case of write-offs of losses) do not agree with the committee's decision, further discussion of the matter at the Audit and Management Committee is a futile exercise that wastes time unnecessarily.
- b) Therefore, to manage time for other matters that require the committee's attention, the matter should be removed from the Audit and Management Committee agenda, and the final committee decision should be brought to the attention of the Committee on Public Accounts/Provincial Committee on Public Accounts/Committee on Public Enterprises during their respective committee sessions.
- c) In this case, a file containing all the information that formed the basis for that committee decision should be maintained by the internal auditor, and that information should also be included in the Annexure 05-ii form. Necessary further actions should be taken based on the decisions given by the Committee on Public Accounts/Provincial Committee on Public Accounts/Committee on Public Enterprises regarding those committee decisions.

iii. Decisions Reached with the Agreement of Audit and Management Committee Members and Observers.

- a) The responsibility for implementing decisions reached with the agreement of the Audit and Management Committee members and the observer from the National Audit Office lies with the head of the institution.
- b) These matters do not need to be discussed repeatedly at every upcoming Audit and Management Committee meeting. The internal auditor should report the progress of implementation according to Annexure 05-iii at a quarter specified by the Audit and Management Committee for progress reporting or at the final Audit and Management Committee meeting of the year.
- c) The committee has the power to remove matters that have been fully implemented according to the decision given by the Audit and Management Committee from discussions at the next Audit and Management Committee meeting.

- d) In a case where progress is requested to be reported in a specific quarter, as per (b) above, and it is deemed necessary to bring the committee's attention back to the decisions given by the committee, that matter should be presented to the nearest Audit and Management Committee meeting for a decision, without waiting for the quarter specified for progress reporting.

2.7 Other Matters

- i. The Meeting can be made more formal by arranging seating and name boards for the committee members, observers, and the committee convener near the chairperson, ensuring the Audit and Management Committee members are clearly identifiable. Suitable seating should be arranged for other officials as well.
- ii. Furthermore, before holding Audit and Management Committee meetings of the Ministry/Provincial Council, Audit and Management Committee meetings of all other institutions under the Ministry/Provincial Council should be completed.

03. Annual Internal Audit Plan

3.1. Preparing the Annual Internal Audit Plan

The annual internal audit plan is a strategic plan that includes the scope, objectives, and schedule of audit activities for the upcoming year. It acts as a guide for evaluating the organization's risk management, control, and corporate governance activities. This plan determines audit areas on a risk-based priority basis, aligned with the organization's objectives. This audit plan is prepared based on risk assessments and discussions with stakeholders, with the aim of improving the organization's performance and compliance. This annual audit plan should cover audit areas such as financial audit, compliance audit, performance audit, and systems audit.

As this audit plan is a risk-based audit plan, the risk register prepared by the organization according to Appendix 3 of Management Audit Circular No. DMA/1-2024 dated 2024.06.21, issued by the Department of Management Audit should be used when preparing it. Accordingly, activities with very high and high risks should be given higher priority and included in the audit plan, and activities with medium and low risks can also be included in the audit plan, in accordance with available human and physical resources.

If the internal auditor observes a very high or high risk in the control systems related to activities identified by the organization as low or medium risk during periodic assessments of the organization's internal control, the internal auditor should revise their risk-based internal audit plan accordingly, taking into account the revisions made by the organization to its risk register. The sample format for the annual risk-based internal audit plan is shown in Annexure 06.

The annual internal audit plan for the upcoming year should be prepared and approved by the Audit and Management Committee with the agreement of the National Audit Office before December 15 of the current year. Copies of the approved annual internal audit plan should be sent to the National Audit Office and the Department of Management Audit.

3.2 Implementation of the Annual Internal Audit Plan

The implementation of the annual internal audit plan is the responsibility of the Chief Internal Auditor/Provincial Director of Internal Audit/Internal Auditor. However, if there is a situation where the internal audit plan cannot be properly implemented due to any uncontrollable reason, a revised internal audit plan should be prepared and approved.

04. Preparation of Internal Audit Programs

An internal audit program is a comprehensive plan that outlines the scope, objectives, processes, and timelines for conducting internal audits within an organization. It guides internal auditors to systematically assess and assure the effectiveness, efficiency, compliance, and risk management of the organization's operations and control systems. The sample format for the internal audit program is shown in Annexure 07.

05. Allocation of Resources and Staff Training for Internal Audit Units

It is the responsibility of the head of the institution to provide sufficient human resources and other resources necessary to implement the audit plan for internal audit units. When providing audit staff for internal audit units, Chief Accounting Officers and Accounting Officers should pay special attention to providing officers with knowledge of accounting and auditing subjects whenever possible. This will help improve the performance of internal audit units.

06. Reports to be Prepared and Submitted by the Internal Auditor for their Institution

i. Preliminary Report

At the beginning of each year, a Preliminary report, including information related to plans to be prepared for the proper conduct of the institution's operations, books, records to be started and updated, and the implementation of related internal control systems, should be prepared according to the format shown in Annexure 08 of this circular. Chief Internal Auditors/Provincial Directors of Internal Audit/Internal Auditors should prepare this preliminary report for each year and submit it to their institution head before January 31 of the relevant year, and submit soft copies to the Department of Management Audit and the Auditor General. Departures identified in the Preliminary report should be discussed and

addressed at the first quarter's Audit and Management Committee meeting to eliminate those departures.

ii. Internal Audit Reports

Each internal audit unit must prepare internal audit reports, signed by the internal auditor and submitted to their institution head, containing findings and related observations and recommendations from audit examinations conducted according to the risk-based internal audit plan based on the institution's risk register. Each internal audit unit must maintain an internal audit report register. In addition, copies of internal audit reports should be submitted to the Department of Management Audit as per subsection 40(4) of the National Audit Act No. 19 of 2018 and to the National Audit Office as per F.R. 134(3). According to 38(1)(c) of the National Audit Act, every Chief Accounting Officer/Accounting Officer must ensure that their entity maintains adequate and effective internal control and periodically reviews and makes necessary revisions to those internal control systems. Accordingly, Annexure 09 provides a sample format that can be used to prepare internal audit reports to meet those requirements.

iii. Special Investigation Reports

Internal auditor should submit reports on special investigations assigned to him by their institution heads from time to time to the institution head.

iv. Quarterly Evaluation Report of the Chief Internal Auditor/Provincial Director of Internal Audit/Internal Auditor

The quarterly evaluation report of the Chief Internal Auditor/Provincial Director of Internal Audit/Internal Auditor, prepared using the format in Annexure 10 of this circular, should be prepared within the following month after the end of each quarter, and a soft copy should be submitted to the Department of Management Audit. Furthermore, departures and weaknesses revealed by this quarterly report should be discussed and resolved at the Audit and Management Committee meeting held within the institution after the end of each quarter. In the case of provincial councils, as there are a large number of institutions, it is practically difficult to prepare the Provincial Director of Internal Audit's quarterly evaluation report by obtaining information from all institutions separately. Therefore, it is appropriate to prepare this report by including information from the Provincial Chief Secretary's Office and ministries and departments under the Provincial Council.

07. Further Clarifications Regarding this Circular

If further clarification is needed regarding this circular, inquiries can be made through the Department of Management Audit's telephone number 0112484974. Or email address- dma.treasury@gmail.com.

The following circulars and guidelines issued by the Department of Management Audit are hereby repealed.

- i. Management Audit Circular No. DMA/01-2019 dated 2019.01.12
- ii. Management Audit Circular Letter No. DMA/01/2019/Letter dated 2019.05.21
- iii. Provincial Internal Audit Guidelines No. 01 dated 2020.08.26
- iv. Management Audit Circular No. DMA/01-2019(1) dated 2021.12.24
- v. Management Audit Circular Letter No. DMA/01-2019/1, including guidance on preparing the risk-based internal audit plan, issued by letter No. DMA/AMC/02/2021/02 dated 2021.04.05.
- vi. Management Audit Guidelines DMA/01-2023 dated 2023.01.23
- vii. Management Audit Guidelines 02/2023 dated 2023.02.09
- viii. Management Audit Circular No. DMA/01-2019 Letter No. 03 dated 2023.07.25

(When this circular refers to provisions included in any act, financial regulation, or provincial financial rule, the provisions of the relevant act, financial regulation, or provincial financial rule shall prevail, regardless of how it is stated in the circular.)



A.K. Senevirathna

Secretary to the Treasury (Acting)

- Copies: 1. Secretary to the President
2. Secretary to the Prime Minister
 3. Secretary to the Cabinet of Minister
 4. Auditor General

Composition of Audit and Management Committees

1. Composition of the Ministry Audit and Management Committee

- | | |
|---|------------|
| 1. Secretary of the Ministry | - Chairman |
| 2. Chief Accountant of the Ministry | - Member |
| 3. Representative of the Department of Management Audit | - Member |
| 4. Representative of the National Audit Office | - Observer |
| 5. Chief Internal Auditor of the Ministry | - Convener |

2. Composition of the Department Audit and Management Committee

2.1 When an officer from the Department of Management Audit is appointed as a committee member:

- | | |
|---|-------------|
| 1. Head of Department | - Chairman |
| 2. Chief Accountant of the Department | - Member |
| 3. Representative of the Department of Management Audit | - Co-member |
| 4. Chief Internal Auditor of the relevant Ministry | - Co-member |
| 5. Representative of the National Audit Office | - Observer |
| 6. Chief Internal Auditor of the Department | - Convener |

2.2 When an officer from the Department of Management Audit is not appointed as a committee member:

- | | |
|--|------------|
| 1. Head of Department | - Chairman |
| 2. Chief Accountant of the Department | - Member |
| 3. Chief Internal Auditor of the relevant Ministry | - Member |
| 4. Representative of the National Audit Office | - Observer |
| 5. Chief Internal Auditor of the Department | - Convener |

3. Composition of the District Secretariat Audit and Management Committee

- | | |
|--|-------------|
| 1. District Secretary | - Chairman |
| 2. Chief Accountant of the District Secretariat | - Member |
| 3. Representative of the Department of Management Audit | - Co-member |
| 4. Chief Internal Auditor of the Ministry in charge of the subject | - Co-member |
| 5. Representative of the National Audit Office | - Observer |
| 6. Chief Internal Auditor of the District Secretariat | - Convener |

4. Composition of Provincial Council Audit and Management Committees

i. Provincial Council Audit and Management Committee

- | | |
|---|------------|
| 1. Chief Secretary | - Chairman |
| 2. Deputy Chief Secretary (Finance) | - Member |
| 3. Representative of the Department of Management Audit | - Member |
| 4. Representative of the National Audit Office | - Observer |
| 5. Provincial Director of Internal Audit | - Convener |

ii. Audit and Management Committee for the Provincial Ministries

- | | |
|--|------------|
| 1. Ministry Secretary | - Chairman |
| 2. Chief Accountant / Accountant | - Member |
| 3. Representative of the Provincial Treasury | - Member |
| 4. Provincial Director of Internal Audit or a representative | - Observer |
| 5. Representative of the National Audit Office | - Observer |
| 6. Staff Officer in charge of Internal Audit subject | - Convener |

iii. Audit and Management Committee for Provincial Departments

- | | |
|--|--------------|
| 1. Head of Department/Institution | - Chairman |
| 2. Chief Accountant / Accountant | - Member |
| 3. Representative of the Provincial Treasury | - Co-member |
| 4. Representative of the relevant Provincial Ministry | - Co- member |
| 5. Representative of the Provincial Director of Internal | - Observer |
| 6. Representative of the National Audit Office | - Observer |
| 7. Staff Officer in charge of Internal Audit subject | - Convener |

Recommended Role of Audit and Management Committees

In addition to the functions mentioned in Sections 41(1)(a) and (b) of the National Audit Act, the Audit and Management Committee should also perform the following functions:

1. Determining the scope of the Internal Audit Unit.
2. Pre-reviewing and approving the annual internal audit plan.
3. Reviewing, evaluating, and updating the institution's internal control system based on the institution's risk register, and providing recommendations for prompt action regarding discrepancies highlighted by internal auditor.
4. Providing recommendations for prompt action on discrepancies identified through audit queries.
5. Regularly review audit queries and reports and make necessary recommendations to prevent the recurrence of discrepancies.
6. Reviewing financial statements, including budget review reports, and evaluating cost-effectiveness, performance, and achievement of targets.
7. Providing necessary guidance to take appropriate action when the expected performance deviates from the annual action plan and the annual procurement plan.
8. Monitoring the timely submission of financial statements and other monthly, quarterly, semi-annual, and annual reports.
9. Providing awareness of Treasury/Provincial Treasury and Public Administration circulars and other orders, and emphasizing the need to comply with statutory and other rules and regulations.
10. Reviewing the administration and development of all human and other resources, and providing recommendations for decision-making.
11. Reviewing staff discipline matters, promoting the elimination of waste and corruption, and focusing attention on the institution's cost-saving measures.
12. Monitoring the implementation of directions from the Committee on Public Accounts/Provincial Committee on Public Accounts and the Committee on Public Enterprises.
13. Monitoring whether activities based on committee recommendations have been implemented as expected.

Model Agenda for Audit and Management Committee Meetings

Institution: -

Year..... Quarter..... Date.....

1. Welcome, clarification of objectives, and approval of minutes from the previous meeting.
2. Review of progress on decisions made in previous meetings.
3. Review of progress in implementing recommendations from the Committee on Public Accounts/Provincial Committee on Public Accounts/Committee on Public Enterprises.
4. Discussion of high-risk matters revealed by internal audit that require the committee's special attention.
5. Discussion of specific issues revealed in the Auditor General's audit queries/reports.
6. Discussion of matters mentioned in the Internal Auditor's quarterly evaluation report.
(Progress should be presented up to the month nearest to the date of the meeting)
7. Discussion of matters related to controlled institutions that need to be resolved at the ministry/provincial council audit and management committee level.
8. Opportunity to discuss any other audit and management committee issues or special matters arising outside the above agenda, if necessary.
9. Opportunity for the Audit and Management Committee Chairman, members, or observers to make special remarks, if necessary

Model Format for Audit and Management Committee Meeting Minutes

Name of Institution:

Year and Quarter: Date: 20.....

Meeting commenced at:-

Committee

Name	Position (To be included as appropriate according to Annex 01)
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.....

Other Officials Present

Name	Position
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.....

Officials Absent

Name	Position
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1. Confirmation of the minutes of the previous meeting with/without amendments.
2. Progress on item discussed in previous meetings where a final decisions was not reached

Serial No.	Matter (Reference to internal and external audit queries where applicable)	Decisions made in previous committee meetings	Progress	Recommendations/decisions made at this committee meeting and deadline for completed	Responsible Officer/ Sub committee	Number of times discussed

3. Progress on the implementation of recommendations from the Committee on Public Accounts/Provincial Committee on Public Accounts/ Committee on Public Enterprises

Serial No.	Committee directions		Recommendation s/Decisions made in previous audit and management committees	Progress	Recommendations/Decisions made at this meeting and deadline for completed	Responsible Officer/sub committee	Number of times discussed
	Reference	Direction					

4. New matters discussed at this meeting.

Serial No.	Matter (Reference to internal and external audit queries where applicable)	Decision	Responsible Officer

5. If there are any special remarks, details of that
6. Meeting concluded at:

.....

Chief Internal Auditor/Provincial Director of Internal Audit/Internal Auditor (Convener)

Annex 05-iii

Progress on the implementation of decisions taken with the agreement of the Audit and Management Committee members and the observer from the National Audit Office

Serial No	Audit query number and date	Audit observation/ Issue	Date discussion commenced at the Audit and Management Committee	Number of times discussed	Decision taken by the Committee	Date decided to temporarily remove from the Audit and Management Committee agenda	Progress on implementing the decision			Final outcome (Briefly)
							Fully implemented	Partly implemented	No progress	
							Date	Indicate date and progress		

ANNUAL INTERNAL AUDIT PLAN FOR YEAR 20.....

INSTRUTION:-.....

Serial No	Audit Type ▼	Risk based audit areas ▼	Scope of work ▼	Activity	Reference No of Risk Register	Risk Calculation	Time Frame				Man Hours to be deployed	Performance (%)			Comments of DMA
							1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter		Expected No. of Internal Audit Reports	Actual No. of Audit Reports	Reports	
1	Financial Audit	Financial Risk Operational Risk Compliance & Legal Risk Strategic Risk Reputational Risk Environmental Risk	Balance Sheet Audit (Examination & verify of assets, liabilities, and equity) Income Statement Audit (Verification of revenue recognition, estimates, classifications & compliance with accounting standards.) Cash Flow Statement Audit (Evaluation of cash flow activities) Internal Control Assessments												

			<p>Program Evaluation (Evaluation of design, implement & results of specific programs) Assessment of program input, process output & outcome</p> <p>Strategic alignment audit (Evaluation of extent to which current activities contribution to the strategic goals)</p> <p>Performance Measurement & Reporting (Review of performance measurement systems & indicators and assessment of the accuracy)</p> <p>IT General Controls Audit (Evaluation, Review & assessment of IT controls, IT management process & IT service management)</p> <p>Application Controls Audit (Examination of controls (data integrity, security, reliability), Review of application access controls, testing of application security features)</p> <p>Data integrity audit (Assessment of data management practices & Examination of data backup and recovery procedures)</p> <p>Cyber security audit (Evaluation of security awareness)</p> <p>IT Risk Management Audit (Identification, Assessment, Evaluation & Review of IT risk</p>								
3	Information System Audit										

Model Internal Audit Program

Institution:

Division:

Year: 2025

Month: March

Audit Program Number: 01

Audit Type: Financial Audit/Compliance Audit/System Audit

Number as per the audit plan: 01-II

Audit Scope: Selected audit areas related to salaries and wages:

- i. The personal Emoluments Register Examination
- ii. GPS Computer Program
- iii. Salary Conversion

Audit Objectives:

- i. Evaluate internal control mechanisms related to salary payments.
- ii. Check for any errors or discrepancies.
- iii. Ensure accurate and timely payment of salaries.
- iv. Prevent surcharges.

Risk assessment : Law Middle High Extreme

Identified Risk Areas:

- i. Payment of salaries to non-active employees.
- ii. Errors resulting from incorrect interpretation of salary conversions.
- iii. Errors in data entry into the computer system.

Program Implementation Timeline

Description	Responsible Officer	Date
Start Date	A, B	2025.03.21
Initial Discussion with Head of Audited Institution	CIA	2025.03.21

Completion of Audit Examination	A, B	2025.03.27
Final Discussion with Head of Audited Institution	A, B	2025.03.27
Date of submission of Audit Report to Internal Auditor	A, B	2025.04.03
Submission of Audit Report to Management	CIA	2025.04.04

Audit Methodology (Gathering Audit Evidence)

	Audit Activities	Implementation method of audit	Audit Checklist	Responsible Officer	Date	File Reference
1	P Ledger Examination	Preliminary details examination as per FR-453	FR-453	A	2025.03.21	
		Verification of accuracy of preliminary details		A, B	2025.03.21	
		Reconciliation of pay sheet with the P ledger		A, B	2025.03.24	
2	GPS Computer Program Examination	Basic Salary examination	GPS Audit Checklist	A, B	2025.03.24	
		Standing orders and remittance check		A,B	2025.03.21	
		Item reference file		A,B	2025.03.21	
		Debtors ledger check		A,B	2025.03.22	
		Salary reconciliation report check		A,B	2025.03.22	
3	Salary Conversion Check	Checking the establishment of the prescribed salary		A	2025.03.22	
		Accuracy of salary arrears calculation		B	2025.03.22	
		Checking relevant W&OP charging		A,B	2025.03.22	

Audit staff

Name	Position	Signature	Date
A	Audit Assistant		
B	Audit Assistant		

.....
 Chief Internal Auditor/Provincial Internal Audit Director/Internal Auditor

Model Format for Preliminary Report

Key Points to Include in the Preliminary Report

1. Has the financial control functions under FR. 135/Provincial Financial rules been delegated and communicated within the organization.
2. Are functions divided among at least two or more officers for every transaction to ensure segregation of duties?
3. Has annual action plan been prepared for the Ministry/Department/District Secretariat/Provincial Council and its affiliated institutions?
4. Have the following plans been prepared in accordance with Procurement Guidelines?
 - i. Master Procurement Plan (Medium Term Budget Framework)
 - ii. Annual Proposed Procurement Plan
 - iii. Detail Annual Procurement Plan
 - iv. Pre-Preparatory Plan
 - v. Procurement Time Schedule
5. Have procurement committees and bid evaluation committees been appointed?
6. Has the Risk Register and risk-based Annual Internal Audit Plan been prepared?
7. Has the annual imprest request form been submitted to the Department of Treasury Operations/Provincial Treasury on the due date?
8. Has the personal emoluments register been updated according to FR-453/Provincial Financial Rules for salary payments?
9. Relevant to the computer software for salary preparation, have the first, second, and third-level passwords been properly assigned among officials?
10. Are backup files adequately maintained and securely stored?
11. Has the latest version of the New CIGAS accounting software been installed for account preparation?
12. Have commitments and liabilities carried forward from the previous year been accurately calculated?
13. Have the balances of deposit accounts been carried forward?
14. Are there any outstanding advances from the previous year, and if so, have steps been taken to settle them?

15. Has board of survey committees been appointed for the board of survey of the previous year?
16. Have stock balances as of December 31 been reconciled and carried forward in the inventory books?
17. At the beginning of the year, have the following registers been updated or newly initiated?
 - i. Fixed Asset Register
 - ii. Audit Query Register (Internal/External)
 - iii. Losses and Waivers Register
 - iv. Donation Register
 - v. Inventory Books
 - vi. Consumables Register
 - vii. Leave Register
 - viii. Attendance and Departure Register
 - ix. Ad hoc Advance Register
 - x. Cheque and Money Order Register
 - xi. Liability Register
 - xii. Counter file Register (GAN 20)
 - xiii. Any other special registers relevant to the institution
18. Has the balance of the Public Officers' Advance Account been reconciled and carried forward?
(Membership Loan Register - CC10)
19. Have previous year imprest accounts been correctly settled?
20. Have bank reconciliations as of December 31 been prepared and submitted?
21. Have actions been taken regarding security deposits of relevant officers according to the Security Deposit Ordinance?
22. Has an internal auditor been appointed for foreign aid projects exceeding USD 10 million?
23. Have the necessary updates been made in the PACIS (Public Administration Carder Information System) available on the website of the Ministry of Public Administration?
24. Has a Human Resource Development Plan been prepared for the institution according to the format in Public Administration Circular No. 02/2018 and 02/2018(1)?
25. Details of the approved cadre and the number of vacancies.

Sample Risk Based Internal Audit Report

I. Cover Page

- **Title** : Internal Audit Report on Procurement Process
- **Institutes /Reference** : Department of A,B, C/Head of Department
- **Period Covered** : March /April 2024
- **Date of Submission** : 23 May 2024
- **Prepared by** : Internal Audit Team
- **Approved by** : Chief Internal Auditor

II. Table of Contents

- Executive Summary
- Authority for Audit
- Audit Objectives & Scope
- Methodology
- Key Audit Findings
- Risk Assessment & Gap Analysis
- Internal Controls (Observed and. Recommended)
- Recommendations & Action Plan
- Conclusion
- Annexures

1. Executive Summary

- **Objective :**
 - The audit aimed to assess the effectiveness, efficiency, and compliance of the Procurement process
- **Key Risks Identified:**
 1. Lack of due diligence in vendor selection
 2. Weak contract management
 3. Non-compliance with procurement regulations
 4. Delays in payment process for Suppliers

- **Summary of Major Findings:**
 - Several gaps were identified in procurement planning, execution, and monitoring. Weak internal controls increase the risk of fraud and inefficiencies.
- **Overall Audit Opinion**
 - Needs Improvements for internal control system
- **Management Response Summary:**
 - Management recognizes the issues highlighted in the report and acknowledges the need for process improvements.
- **Corrective Actions :**
 - The procurement unit is committed to implementing a structured vendor selection process, automated approval workflows, and improved contract management practices
- **Timeframe & Responsibility:**
 - Specific action plans have been developed with assigned responsibilities and timelines to address each finding.
- **Commitment to Compliance:**
 - Management is dedicated to ensuring full compliance with procurement guidelines and strengthening internal controls to mitigate risks.
- **Future Enhancements:**
 - Plans to introduce an e-procurement system and real-time contract monitoring tools are under review for long-term efficiency improvements.

2. Authority for Audit

This Audit was conducted under the Authority of the Internal audit charter and in accordance with the annual Audit Plan approved by the Audit and Management Committee

on January 15, 2024. The Audit team was granted access to all relevant records, personnel, and systems necessary to complete this audit.

3. Audit Objectives & Scope

- **Audit Objectives:**

- i. Evaluate the procurement process's compliance with policies and regulations.
- ii. Identify risks and control weaknesses.
- iii. Recommend improvements for efficiency and effectiveness.

- **Scope of Audit:**

- i. **Time Period Covered:** This Audit examined Procurement activities Conducted from March to April 2024
- ii. **Processes Audited :** Vendor selection, contract management, purchase orders, invoice processing, and compliance.
- iii. **Key Risk Areas Covered:** Operational, financial, compliance, and fraud risks.

4. Methodology

- **Risk-Based Approach:**

- **Risk Identification** : Analysis of procurement data, and compliance reviews.
- **Risk Prioritization** : Based on likelihood and impact.
- **Sampling Techniques** : Review of selected procurement transactions.
- **Data Collection Methods** : Interviews, document review, system walkthroughs.

- **Audit Standards Followed:** Internal Auditing Standards

5. Key Audit Findings

Finding No.	Observation	Risk Level (Low/Medium/High/Extreme)	Impact	Root Cause
1	No vendor due diligence before selection	High	Risk of fraud and non-performance	Lack of a structured vendor evaluation process
2	Delayed procurement approvals	Medium	Delayed project execution	Bureaucratic bottlenecks
3	Weak contract monitoring	High	Poor supplier performance and disputes	Lack of periodic contract reviews
4	Non-compliance with procurement thresholds	High	Potential legal and financial penalties	Inadequate oversight

6. Risk Assessment & Gap Analysis

Process Area	Identified Gap	Risk Level (Low/Medium/High/Extreme)	Impact
i. Vendor Selection	No standardized evaluation criteria	High	Increased risk of favoritism and fraud
ii. Contract Management	No structured performance monitoring	High	Supplier disputes and contract failures
iii. Payment Processing	Delays in invoice approvals	Medium	Supplier dissatisfaction and potential penalties

7. Internal Controls: Observed and Recommended

Finding No.	Observed Controls	Control Gap Identified	Recommended Controls	Control Type (Corrective, Detective, Preventive)
1	Manual vendor selection	Lack of due diligence	Implement a structured vendor evaluation framework	Preventive
2	Manual procurement approvals	Delays due to bureaucracy	Implement an e-procurement system	Corrective
3	No real-time contract tracking	Weak monitoring mechanisms	Implement contract management software	Detective

4	Non-standardized payment processing	Delayed payments	Automate tracking approvals	invoice and	Preventive
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8. Recommendations & Action Plan

Finding No.	Recommendation	Responsible Officer	Target Date	Management Comments
1	Establish a vendor prequalification process	Procurement Head	60 days	Agreed
2	Implement an automated procurement approval system	IT officer & Finance Director	90 days	Under review
3	Conduct periodic contract performance reviews	Contract Management Team	30 days	In progress
4	Develop a compliance checklist for procurement thresholds	Internal Auditor	45 days	Agreed

9. Conclusion

- The procurement process has several inefficiencies and control weaknesses.
- Strengthening vendor selection, contract management, and payment processing controls is crucial.
- Implementation of audit recommendations will enhance procurement integrity and efficiency.

10. Annexures (Supporting Documents, if any)

- Procurement policy extracts
- Sample audit checklists
- Risk register for procurement

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Chief Internal Auditor

AB Department

Quarterly Evaluation Report of the Chief Internal Auditor/Provincial Internal Audit Director/Internal Auditor

Name of the Institution:

Year: Quarter: Date:

01. Progress up to Quarter (Cumulative progress should be indicated)

Name of the institution	Progress in implementing the annual action plan %	Progress in implementing the annual procurement plan %	Progress in recurrent expenditure % (physical and financial)	Progress of capital expenditure % (Finance)	Summary of capital and recurrent expenditure	Progress in implementing the annual internal audit plan %
			Form 10-i must be completed	Form 10- ii must be completed	Form 10- iii must be completed	

02. Submission of annual/quarterly/monthly reports (If submitted on due date, mark √, if not submitted, mark X, if not applicable, mark -)

Serial no	Name of the Institution	Annual(Last Year)				Quarterly (Current year)				Monthly (current year)			
		Annual Financial Statements	P.O. Advance Account	Annual Board of Survey Report	Performance Report/Annual Report	P.O Advance Account Reconciliation Statement	Staff Information Report	Progress Report - Finance	Progress Report - Physical	Monthly Account Summary	Bank reconciliation statements	Imprest reconciliation statements	vehicle cost report

03. Updating of books and registers (manually prepared or/and computerized) (If updated, enter the letter "A", if partially updated, enter the letter "B", if not updated, enter the letter "C".

Serial No	Name of the Institution	Fixed Asset Register	Personal Emoluments Register	Deposit Ledgers	CC 10 Register	Auditor General's Audit query register	Internal Audit Report register	Leave Register	Guarantee Register	Damages and Losses Register	Debtors Register Related to Advance B Account)	Creditor Register (Related to Advance B Account)	Creditor Register	Advance Register as per Public Accounts Circular 250/2016(1) dated 03.08.2016

4. Review of Auditor General's audit queries

I. Summary of Auditor General's Audit queries

Serial No	Name of the Institution	Receipts		Total	Number of queries answered	Number of queries to be answered	Time analysis			
		Number of queries received in previous years that were not answered	Number of queries received during this year				Less than 1 month	1-3 months	3-12 months	More than 12 months

II. Details of Auditor General's Audit queries Received During the Quarter

Serial Number	Name of Entity/Institution	Date Received	Matter/Subject (in Brief)

05. Review of Internal Audit Activities

I. Cumulative Progress of Internal Audit Plan up to..... Quarter. (%),.....

II. Summary of Internal Audit Reports

Serial No	Name of the Institution	Issueings		Total	Number of answers received	Number of answers to be received	Time analysis			
		Number of reports issued in previous years that were not answered	Number of reports issued during this year				Less than 1 month	1-3 months	3-12 months	More than 12 months

III. Details regarding the issuance of internal audit reports for the quarter

Serial Number	Name of Entity/Institution	Date Issuance	Matter/Subject (in Brief)	Audit plan reference

06. Progress in implementing the internal audit plan of the institutions under the relevant Ministry/Provincial Council for the quarter

Serial Number	Name of Entity/Institution	Progress in the relevant quarter (%)	Cumulative progress (%)	Internal auditor's observations

07. Unimplemented directions given by the last held Committee on Public Accounts / Committee on Provincial Public Accounts / Committee on Public Enterprises

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(Chief Internal Auditor / Provincial Director of Internal
Audit / Internal Auditor)

Date:-

Annex 10-i

Progress Review of Recurrent Expenditure for the Year.....

Serial No.	Expenditure Category	Annual Allocation (Rs.)	First Quarter			Second Quarter			Third Quarter			Fourth Quarter					
			Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec			
01	Personal Emoluments																
02	Traveling Expenses																
03	Supplies																
04	Maintenance Expenses																
05	Services																
06	Transfers																
07	Interest Payments																
08	Other Recurrent Expenses																
09	Total Expenditure																

Annex 10-ii

Progress Review of Capital Projects for the Year.....

Name of the Institution	Expenditure Code	Expenditure Description	Budgetary Allocation	Progress Review	First Quarter			Second Quarter			Third Quarter			Fourth Quarter				
					Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec		
Example: Department of Management Audit	2101	Vehicles	Rs. 5 Million	Action Plan (Expected)	✓	✓	✓				✓							
				Active Level (Actual)			✓				✓							
				Procurement Plan (Expected)	S		A		R				P					
				Procurement Progress (Actual)		S			A			R						P
				Financial Progress Rs.(Cumulative)									Rs. 5 Million					
				Physical Progress (%) (Cumulative)								100 %						
02				Action Plan (Expected)														
				Active Level (Actual)														
				Procurement Plan (Expected)														

Annex 10-iii

Summary of Capital and Recurrent Expenditure

Serial No.	Name of the Institution	Capital				Recurrent			
		Total Allocation	Actual Expenditure	Balance	Percentage of Expenditure %	Total Allocation	Actual Expenditure	Balance	Percentage of Expenditure (%)