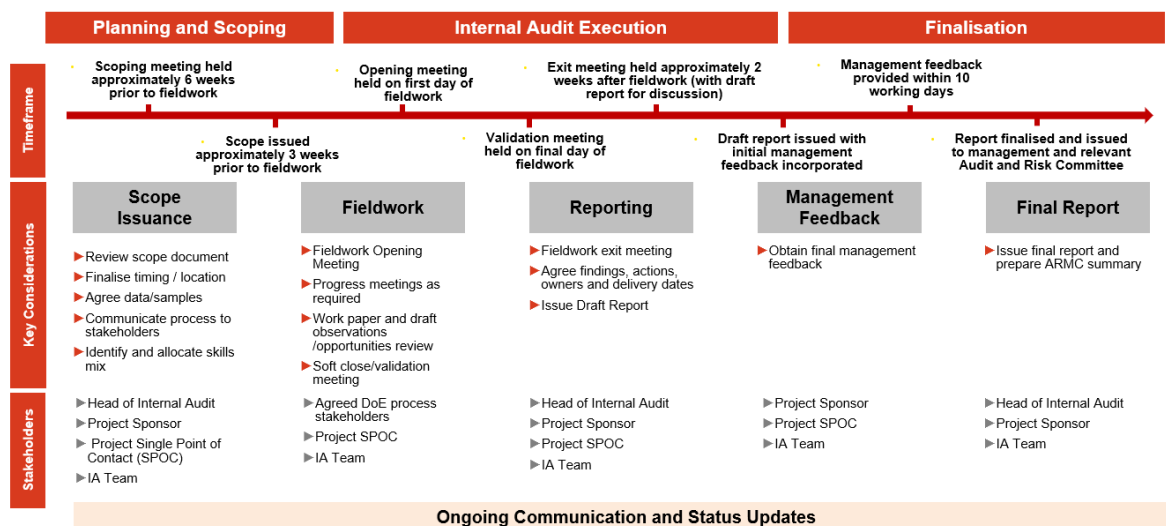


## FMM 05.10 Conducting Internal Audits – Cycle and Practice

Effective audit engagements begin with robust planning and IPPF 2200 requires engagements to be properly planned, documented, and based on assessed risks. Planning aligns the audit’s purpose, scope, and activities with the agency’s risks and resources and ensures that internal audit delivers value, maintains its independence, and operates efficiently.

This process begins after the Annual Work Plan has selected the auditable areas and continues through pre-engagement activities, planning meetings, walk-throughs, and development of the engagement plan.



### 10.1 Mandated Policy

#### 1. Internal audit units must:

- a. Use risk-based methods to scope all engagements which were included on the audit work plan approved by the departmental head.
- b. Ensure all engagements are documented using a standard engagement plan template (refer to Appendix to this FMM).
- c. Engage with auditees early to promote cooperation and avoid surprises.

**d. Record, objective, scope, risks, resource needs, and stakeholder expectations prior to fieldwork.**

**e. Audits must never be commenced without an approved engagement plan.**

## **10.2 Non-mandatory Guidance**

### **10.2.1 Engagement Planning Steps**

- Confirm the audit's inclusion in the Work Plan. If the audit is unscheduled, obtain a signed engagement order from the head of agency.
- Understand the audit context and gather background information including objectives, functions, prior audits and controls, external drivers, known incidents or complaints.
- Conduct a risk assessment to identify high value areas, key risks to program or control failure, materiality, control weaknesses and stakeholder concerns.
- Define the audit scope and objectives to identify what will and won't be captured in the audit.
- Walk through the processes being audited including mapping the process or control system, identifying gaps or redundancies and confirm the understanding with the client.
- Develop the engagement plan with predefined elements of:
  - Audit title and case number
  - Background and rationale
  - Audit objective and scope
  - Key risks and criteria
  - Timeframe and milestones
  - Resource and competency needs
  - Stakeholder list
  - Testing or sampling strategy

- Engagement plan must be signed by the Head of Internal Audit and approved by the agency head.
- Issue and engagement letter covering:
  - Objectives, scope and timing
  - Expected cooperation and access
  - Information-sharing and confidentiality
  - Draft reporting and response timelines
  - Escalation pathways for disagreements
  - General overview of the audit process.

### 10.3 Checklist

Document	Description
Background briefing note	Summarises context, past reviews, relevant legislation
Risk and control matrix	Maps key risks to current control systems
Walk-through notes	Visual process map and flow
Draft engagement plan	Scope, objectives, criteria, methodology
Engagement letter	Formal agreement with management
Audit resource plan	Days, team, competencies, logistics

<b>Further Information</b>	<a href="mailto:iacd@finance.gov.pg">iacd@finance.gov.pg</a>
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