

Appendix H Test Programs Guide

14.9 Revenue Systems

Audit Objective: To confirm that revenue is accurately forecasted, approved, collected, recorded, and reported in compliance with national policy and the FMM.

Scope: Budgeting of revenue, receipting, banking, electronic payment systems, adjustments (debit/credit notes), third-party receipts, and classification.

Risk Rationale: Inaccurate forecasting, misclassification, or unauthorised collection methods can lead to lost revenue, misreporting, and audit findings.

Control Questions & Tests:

- Has the agency included revenue estimates in its annual budget submission and are they realistic based on past trends?
- Are only approved electronic payment methods (e.g. EFTPOS, direct deposit, IFMS integration) used for revenue collection?
- Is the collection of revenue in cash explicitly prohibited in internal procedures and followed in practice?
- Are collections on behalf of other entities clearly authorised and recorded separately?
- Are all revenue receipts issued through IFMS and linked to approved chart of accounts codes?
- Review a sample of 10–15 transactions – are they supported by documentation and accurately recorded in the correct revenue accounts?
- Are debit and credit notes issued only for legitimate reasons and through IFMS, not used to mask refunds or errors?
- Are deposits banked on the same or next business day, with reconciliation to system reports?

Documents to Review:

- Budget estimates and justification submissions
- IFMS transaction logs
- Revenue collection procedures
- Receipting reports and reconciliation records
- Credit and debit note registers

- Approval memos for third-party collections

Sampling Guidance: Select samples from high-volume collection periods or locations, including remote offices.

Indicators of Weakness:

- Revenue not estimated or budgeted
- Manual receipting or cash handling in breach of policy
- Credit notes without proper authorisation
- Revenue recorded under incorrect classification codes
- Third-party collections not separated or reconciled

Standards: FMM Volume 3, IPPF 2130, ISSAI 1230, PFMA s15

14.10 Expense Systems

Audit Objective: To confirm that expenses are authorised, supported, processed through approved systems, aligned with budget and procurement rules, and recorded with integrity.

Scope: IFMS-based expense processing, authorisation by Section 32 and 33 officers, GST handling, delegation, procurement compliance, budget control, and electronic payments.

Risk Rationale: Unauthorised, misclassified, or unsupported payments increase risks of fraud, misstatement, and non-compliance with PFMA and FMM.

Control Questions & Tests:

- Confirm all payments are made via IFMS or an approved finance system; no use of cash or manual cheques.
- Confirm that the bank account of the payment matches in the invoice supplied.
- Check the registration status of the sample payment batches with IRC and IPA records.
- Verify payments are aligned to budget estimates and covered by released warrants.
- Review for valid Section 32 and Section 33 approvals in accordance with delegation limits.
- Check GST treatment on payments, including withholding under Section 65A of the GST Act.
- Confirm procurement process was followed: e.g. 3 quotes, NPC involvement, or approved contracts.
- Inspect coding of payments to correct vote and economic item in line with the nature of expenditure.
- Evaluate segregation of duties across commitment, approval, and payment roles.

- Review access rights to IFMS for roles related to expenditure processing.
- Ensure payment documentation includes invoice, approval, delivery receipt, and any relevant contracts.
- Verify payments were executed via EFT or KunduPei, unless cheque justified (e.g. pilot period or technical outage).

Documents to Review:

- IFMS ledger and payment reports
- Payment vouchers or FF4s (if applicable)
- Delegation instruments
- Procurement plans and contract files
- Supplier invoices and delivery dockets
- Budget vs actual expenditure reports

Sampling Guidance: Sample 20–30 payments across various types (travel, procurement, utilities, assets). Include high-value, year-end, and recurring transactions.

Indicators of Weakness:

- Payments outside IFMS (manual cheques, cash)
- Absence of dual approvals (Section 32 and 33)
- Mismatched or generic coding
- Procurement splitting or lack of market testing
- GST errors or non-remittance to IRC
- Excessive access rights or role conflicts

Standards: FMM Volume 3, PFMA s14, s32, s33; IPPF 2130, 2240; GST Act s65A

14.11 HR/Payroll Systems

Audit Objective: To verify that HR and payroll systems ensure only legitimate employees are paid, salaries are processed accurately, overpayments are identified and recovered, and all payroll activity complies with PFMA and General Order rules.

Scope: Recruitment approvals, payroll processing, IFMS payroll outputs, salary advances and recoveries, leave management, terminations, and segregation of HR and payroll duties.

Risk Rationale: Weak HR/payroll controls may result in payments to ghost employees, inaccurate salaries, unapproved allowances, and loss of public funds through overpayments.

Control Questions & Tests:

- Confirm all staff on payroll have current contracts and formal appointments approved by authorised personnel.
- Match a sample of employee names against staff establishment or workforce plan.
- Confirm that payroll is processed entirely through IFMS or other authorised systems.
- Check segregation between HR data entry (e.g. appointments/terminations) and payroll execution roles.
- Review handling of overpayments: were they detected, documented, and is a recovery process in place?
- Review repayments of salaries from terminated or resigned staff: were deductions and final pays correctly processed?
- Check that acting allowances, overtime, and travel-related payments are authorised and supported.
- Confirm that terminated/resigned employees were removed from payroll timely, including IFMS updates.

- Assess whether leave without pay and long service leave are properly reflected in pay deductions.
- Examine audit trails for employee salary adjustments, particularly back pays or corrections.

Documents to Review:

- Appointment and contract files
- IFMS payroll output reports
- Payslips and bank transfer records
- Termination and overpayment files
- Delegation of HR authorities
- Payroll audit trails and approval logs

Sampling Guidance: Select a minimum of 15 employees, including at least one from each: new hire, recently terminated, on long-term leave, and receiving allowances. Include any flagged overpayment or salary correction cases.

Indicators of Weakness:

- Staff paid without contracts or approval
- Overpayments not documented or unrecovered
- Delays in payroll removal for terminated staff
- Salary adjustments made without dual review
- Staff performing both HR and payroll processing duties

Standards: FMM Volume 3; PFMA s13, s32; IPPF 2130, 2340; Public Service General Orders

14.12 Asset Management Systems

Audit Objective: To verify that government assets are properly acquired, recorded, safeguarded, maintained, and disposed of in accordance with FMM and PFMA requirements.

Scope: Acquisition and registration, tagging, custodianship, periodic verification, disposals, loss reporting, and asset maintenance.

Risk Rationale: Poor asset controls may lead to loss, misuse, overstatement of value, or non-compliance with disposal procedures.

Control Questions & Tests:

- Confirm that all assets above the capitalisation threshold are recorded in the official Asset Register.
- Verify that all new asset acquisitions were approved through IFMS and supported by proper documentation.
- Select a sample of physical assets from the register and locate them – confirm they are tagged and in working condition.
- Conduct the reverse: identify 5–10 visible assets and trace them to the Asset Register.
- Check that asset stocktakes have been conducted in line with the FMM (minimum annually) and that results were reconciled.
- Verify that asset disposals were approved, documented, and updated in the register, including evidence of disposal proceeds or write-off authority.
- Confirm that each asset has a nominated custodian (officer) accountable for its use and condition.
- Review evidence of asset maintenance and servicing (particularly for ICT or transport equipment).
- Check if security measures (locks, restricted access, ICT passwords) are in place to safeguard portable and high-value assets.

Documents to Review:

- Asset acquisition records
- Asset Register (digital or manual)
- IFMS upload logs
- Stocktake reports and reconciliation sheets
- Disposal authorisations and write-off forms
- Maintenance records
- Custodian registers or acknowledgement forms

Sampling Guidance: Sample 15–20 assets across different classes (ICT, furniture, vehicles, tools). Include new purchases and items reported as disposed, lost, or missing.

Indicators of Weakness:

- Asset Register not updated or missing key items
- Tagging incomplete or inconsistent
- No annual stocktake or unresolved variances
- Disposals without proper authorisation
- Unrecorded losses or failure to report stolen assets

Standards: FMM Volume 3, PFMA s45 and s49; IPPF 2130, 2340

14.13 Banking Systems

Audit Objective: To verify that government banking arrangements are secure, authorised, reconciled, and in line with PFMA and FMM guidelines.

Scope: Establishment of bank accounts, banking approvals, bank reconciliations, deposits, EFT use, account access controls, and exception handling.

Risk Rationale: Weak controls over banking may lead to misappropriation, unreconciled balances, delays in deposit, or unapproved accounts.

Control Questions & Tests:

- Confirm that all bank accounts are authorised by the Department of Finance with evidence of account opening approval.
- Check that no unofficial or unapproved bank accounts exist (e.g. shadow or project accounts without formal approval).
- Review evidence that all bank accounts are in the agency's name and opened with a commercial bank licensed by BPNG.
- Confirm that all collections are banked intact and promptly (ideally same or next business day), as per FMM.
- Review timeliness and completeness of monthly bank reconciliations – are they prepared for all accounts?
- Verify that reconciliations are reviewed and signed by a responsible officer independent from the preparer.
- Assess the use of EFT (e.g. KunduPei) and whether banking details are validated before payments.
- Test for old reconciling items – are they promptly followed up and cleared?
- Review physical and system access to bank account information – who can initiate or authorise payments or view balances?

- Assess control over unused chequebooks (if still held) and ensure they are securely stored.

Documents to Review:

- Bank account approval letters from Department of Finance
- Monthly bank reconciliation reports
- Bank statements and IFMS cashbook reports
- Deposit slips and collection summaries
- Bank access approval records
- Security procedures for EFT and cheque stationery

Sampling Guidance: Select 2–3 bank accounts with high activity. For each, review 2–3 months of reconciliations. Test deposits and payment transactions for compliance.

Indicators of Weakness:

- Unauthorised or unknown accounts in use
- Delays in banking of collections
- Missing or unreconciled months
- EFT made to incorrect or unverified bank accounts
- Access controls weak or outdated

Standards: FMM Volume 3 (Banking and Treasury sections); PFMA s15 and s16; IPPF 2130, 2330

14.14 Commitments and Contingencies Systems

Audit Objective: To ensure that all financial commitments are properly approved, recorded, and tracked, and that contingent liabilities are identified and disclosed in compliance with the PFMA, FMM, and National Procurement Act, and within the appropriation.

Scope: Section 32 approvals, commitment registers, Authority to Pre-Commit (APC), contingent liabilities, legal claims, guarantees, and documentation.

Risk Rationale: Undocumented or unapproved commitments, and failure to recognise contingent liabilities, can lead to over-expenditure, legal exposure, or incomplete financial statements, unbudgeted commitments

Control Questions & Tests:

- Confirm that all commitments are approved by authorised appropriate Accountable Officers, identified under S6 of PFMA including Section 32 officers before procurement or expenditure.
- Check that commitments are recorded in IFMS or a central commitment register at the time of approval.
- Review evidence of Authority to Pre-Commit (APC) for procurements exceeding K1,000,000, in accordance with Section 26 of the National Procurement Act 2018 (as amended). Ensure compliance with thresholds that require NPC oversight for procurements above this value.
- Are Authority to Pre-Commit issued for contracts over K1 million including those that have been issued consecutively to the same supplier for the same goods, works or services or a Contract Variation was issued that increases the varied contract to over K1 million
- Assess whether the agency tracks multiyear commitments (e.g. rental leases, service contracts) and future obligations.
- Verify that contingent liabilities (e.g. legal disputes, guarantees, environmental obligations) are identified and assessed.

- Review disclosures of commitments and contingencies in the financial statements and check for completeness.
- Confirm that legal and financial staff are involved in identifying and documenting contingent liabilities.
- Test how changes to commitments (e.g. scope or value) are captured and whether commitments are de-obligated when no longer required.

Documents to Review:

- Section 32 approval forms and FF3s
- Commitment register or IFMS commitment reports
- Authority to Pre-Commit documentation
- Lease agreements, contracts, and multiyear service arrangements
- Legal correspondence or contingent liability registers
- Notes to financial statements (commitments and contingencies)

Sampling Guidance: Select 5–10 commitments based on materiality including one with APC. Review at least 2 potential contingent liabilities disclosed or reported.

Indicators of Weakness:

- Commitments not recorded in IFMS
- Lack of APC for large procurement
- Over-expenditure due to untracked obligations
- No record or risk rating for contingent liabilities
- Incomplete disclosures in financial statements

Standards: FMM Volume 3 (Commitments and Contingencies); PFMA s32, s38, s45; National Procurement Act 2018 (as amended), Section 26; IPPF 2130, 2330

14.15 Investment Systems

Audit Objective: To assess whether the agency obtains the proper approvals for investments and manages financial and physical investments in accordance with the PFMA, relevant Finance Instructions, and national economic policy.

Scope: Equity investments, land and building acquisitions, Public Private Partnerships (PPPs), joint ventures, and financial instruments.

Risk Rationale: Unauthorised or high-risk investments can expose government funds to losses, misuse, or breach of legal and fiduciary obligations.

Control Questions & Tests:

- Confirm that all proposed investments (outside of routine appropriations) are supported by business case evaluations and endorsed by the Departmental Head and Department of Finance.
- Verify that any investments in commercial enterprises, trust structures, or partnerships have Ministerial approval and Cabinet/NEC decision where required.
- Check whether acquisitions of land and buildings follow the approval process outlined in the PFMA and any supplementary Finance Instructions, Land Act.
- Assess whether investment arrangements (e.g. joint ventures, PPPs) are documented by formal agreements, include risk-sharing mechanisms, and are registered with the Department of Finance.
- Review whether financial returns or dividends from investments are received, reconciled, and reported appropriately.
- Examine whether any off-balance sheet or contingent exposure from investment agreements is recognised and disclosed.
- Confirm the agency has not established or invested in a company or entity without explicit authorisation from the Minister and DoF.

Documents to Review:

- Investment proposals and business cases
- Ministerial or NEC approvals
- Joint venture and PPP contracts
- Land purchase records and title documentation
- Annual reports showing investment income or return on capital
- Financial statements and disclosures of investments

Sampling Guidance: Identify all current investments. Select 3–5 investment transactions including at least one land/building purchase and one PPP or commercial venture.

Indicators of Weakness:

- Unapproved investments or ownership interests
- No due diligence or risk assessment for large investments
- Land purchased without proper title transfer or valuation
- PPP arrangements not disclosed or approved
- Lack of monitoring or return reporting on existing investments

Standards: PFMA s45, s46B–46G; FMM Volume 3 (Investments and Property); Finance Instruction 2/2022; IPPF 2130, 2320

14.16 Grant and Special Assistance Payments Systems

Audit Objective: To assess whether grants, special assistance payments, and funding transfers are properly approved, disbursed, used for intended purposes, and acquitted in accordance with FMM, PFMA, and any relevant agreements.

Scope: National and special purpose grants, development partner funding, sub-national transfers, special assistance programs (e.g. disaster relief, school fees, agriculture), acquittals, agreements, and controls over misuse.

Risk Rationale: Inadequate controls over grant and special assistance management can lead to misuse, poor accountability, reputational damage, and ineffective service delivery.

Control Questions & Tests:

- Confirm that all grants or funding allocations are based on an approved policy, program, or budget appropriation.
- Check that grant agreements or MoUs clearly define the purpose, terms, conditions, reporting, and acquittal requirements.
- Confirm whether the agency's special assistance programs (e.g. community grants, infrastructure support, education aid) have documented eligibility criteria and funding ceilings.
- Review whether funds were disbursed only after eligibility and approval criteria were met.
- Verify that grants were transferred to appropriate and authorised bank accounts and not via cash.
- Assess whether the receiving entity submitted acquittal reports with evidence of expenditure and alignment to intended use.
- Review documentation to determine whether unspent or misused funds were recovered or withheld from future disbursements.
- Examine reconciliations and financial monitoring of disbursed funds, especially where programs are high-volume or decentralised.

- For donor-supported programs, assess how external reporting obligations were met and integrated with internal controls.

Documents to Review:

- Grant program guidelines and approval records including budgetary appropriations
- Signed grant agreements, MoUs, or policy directives
- Special assistance program guidelines and acquittal templates
- Payment requests and bank transfer confirmations
- Acquittal reports and supporting documents
- Monitoring reports, reconciliations, and follow-up letters

Sampling Guidance: Select 5–8 grants or assistance payments samples issued during the period, including at least one to a sub-national agency, one through a donor program, and one under a special assistance category.

Indicators of Weakness:

- Grants or special assistance payments issued without agreement or eligibility verification
- No acquittals or follow-up on use of funds
- Lack of reconciliation between issued and acquitted amounts
- Use of funds outside approved purpose or incomplete conditions
- Grant or assistance conditions unclear, unenforced, or inconsistently applied

Standards: FMM Volume 3 (Grants, Transfers and Special Assistance); PFMA s38, s39, s46C; IPPF 2130, 2330

14.17 Procurement Systems

Audit Objective: To confirm that all procurement is conducted transparently and in full compliance with the National Procurement Act 2018 (as amended), the PFMA, and relevant Finance Instructions.

Scope: Procurement planning, threshold compliance, procurement committee processes, contract awarding, transparency, segregation of duties, and post-award administration.

Risk Rationale: Breaches in procurement processes can result in financial loss, fraud, supplier favoritism, and reputational risk.

Control Questions & Tests:

- Confirm that all procurement follows the processes prescribed under the National Procurement Act, including thresholds in Section 26.
- Verify that agency procurement planning is conducted annually and submitted as required.
- Assess whether the Procurement Committee has been established and functions as required by the National Procurement Commission Board, replacing previous PTBs.
- Confirm that all procurements over K1,000,000 are referred to and undertaken by the National Procurement Commission (NPC) or with its approval.
- Test whether market testing (e.g. quotes, open tenders) was done in accordance with thresholds and procurement method guidance.
- Review whether contract awards were endorsed by the appropriate committee and communicated transparently.
- Examine segregation of duties across planning, tender evaluation, award, and contract management stages.
- Check for conflicts of interest declarations by procurement committee members and assess their handling.

- Confirm that documentation (e.g. bid evaluations, minutes, NPC notifications) is retained and audit-ready.

Documents to Review:

- Annual procurement plans
- Procurement committee appointment letters and minutes
- Tender advertisements and evaluation reports
- NPC correspondence and approvals
- Award letters and signed contracts
- Conflict of interest declarations and mitigation actions

Sampling Guidance: Sample 5–10 procurements across different thresholds and types. Include at least one referred to NPC and one awarded by the agency's own Procurement Committee.

Indicators of Weakness:

- Procurement without required approvals or NPC involvement for those greater than K1 million
- Lack of market testing or supplier rotation
- Missing records or irregular documentation
- Contract splitting or mismanaged of contract variations
- Commitments made for goods works or services which are vague or without an ending time period
- Undeclared or unmanaged conflicts of interest
- Procurement committees not properly established or bypassed

Standards: National Procurement Act 2018 (as amended), s26, s42–52; PFMA s39; FMM Volume 3 (Procurement); IPPF 2130, 2320

14.18 Trust Accounts Systems

Audit Objective: To verify that trust accounts are properly established, managed, and reported in accordance with the PFMA, relevant Trust Instruments, and Finance Instructions.

Scope: Trust account establishment and approval, trust banking arrangements, allowable uses, reporting obligations, and closure.

Risk Rationale: Mismanagement of trust accounts can result in loss or misapplication of funds held for specific purposes, breaching public confidence and legal obligations.

Control Questions & Tests:

- Confirm that each trust account is supported by a Trust Instrument approved by the Minister for Finance, specifying the source, purpose, and conditions for use.
- Verify that all trust funds are banked in a separate designated trust account in accordance with Treasury or Finance guidelines.
- Review whether trust account balances are reconciled monthly and monitored for compliance with Trust Instruments.
- Check whether all receipts and disbursements are processed through the approved financial management system (e.g. IFMS trust ledger).
- Confirm that interest earned is treated according to the Trust Instrument and PFMA provisions.
- Assess the use of trust funds – are all disbursements aligned with the approved purpose and appropriately documented?
- Examine whether regular reporting is made to the Department of Finance and relevant oversight bodies, including trust account statements.
- Check the procedures for the closure of trust accounts and return or reallocation of unspent funds.

Documents to Review:

- Trust Instruments and approval letters
- Trust account bank statements
- IFMS trust ledger reports
- Monthly reconciliations
- Payment and receipt vouchers
- Trust account utilisation reports submitted to DoF
- Documentation related to trust account closure

Sampling Guidance: Review at least two active trust accounts and one closed account. Trace one cycle of receipt, approval, and payment for each.

Indicators of Weakness:

- No Trust Instrument or outdated provisions
- Non-segregated banking or mixed-use accounts
- Delayed or missing reconciliations
- Disbursements made without documented justification or outside trust purpose
- Incomplete or irregular reporting to the Department of Finance

Standards: PFMA s15, s16, s17; FMM Volume 3 (Trust Accounts); Treasury Instructions; IPPF 2130, 2330

14.19 Budgetary Systems

Audit Objective: To assess whether the agency prepares, approves, monitors, and reports on its budget in accordance with PFMA, FMM, and national budgeting policies, including cash control mechanisms such as WAs/CFCs.

Scope: Budget formulation, public consultation, estimation accuracy, approval, release and control of funds (WAs/CFCs), variance analysis, budget reviews, and adjustments.

Risk Rationale: Weak budgetary practices can result in misallocation of resources, over- or under-spending, lack of service delivery, or breach of appropriation controls.

Control Questions & Tests:

- Confirm that the budget is prepared in line with national guidance, policy priorities, and the Medium-Term Fiscal Framework (MTDP4).
- Assess whether realistic and evidence-based forecasts were used in preparing revenue and expenditure estimates.
- Verify if public consultations and sectoral inputs were incorporated during budget formulation (especially sub-national levels).
- Check that the approved budget matches what is uploaded into IFMS and used for actual commitment and expenditure control.
- Review timing, accuracy, and application of Cash Fund Certificates (CFCs) – are warrants issued and recorded before expenditure is incurred?
- Confirm processes exist for mid-year and quarterly reviews of budget performance and reallocation requests.
- Examine if significant variances between budget and actuals are analysed, explained, and addressed.
- Assess whether budget officers monitor spending against available funds and advise program managers accordingly.

- For donor or program-specific budgets, check for separate financial and physical performance monitoring reports.

Documents to Review:

- Budget submission documents and instructions from Department of Treasury
- Public consultation records or provincial planning forums (if applicable)
- Approved budget and IFMS uploaded budget
- CFC registers and warrant release letters
- Budget performance and variance analysis reports
- Mid-year or supplementary budget review submissions

Sampling Guidance: Select one annual budget and test for realism of 3–5 major line items. Review at least one mid-year variance report and one CFC issuance.

Indicators of Weakness:

- Lack of public consultation or stakeholder engagement
- No link between estimates and prior year trends or evidence
- Budgets not aligned with IFMS control settings
- CFCs not issued before expenditure
- Large variances with no explanation or corrective action

Standards: PFMA s9, s10, s14; FMM Volume 3 (Budget Management); Finance Instructions on Budget and CFCs; IPPF 2130, 2320

14.20 Corporate Card Systems

Audit Objective: To ensure that the issue, use, acquittal, and oversight of corporate cards is effectively controlled in accordance with PFMA, FMM, and Finance Instructions.

Scope: Cardholder eligibility, transaction controls, card acquittals, reconciliations, misuse prevention, revocation, and reporting.

Risk Rationale: Weak controls over corporate card use may result in fraud, unauthorised spending, loss of accountability, and reputational risk.

Control Questions & Tests:

- Confirm that all corporate cards are issued only to authorised officers and approved by the Departmental Head or relevant authority.
- Verify that corporate card policies and procedures are in place and comply with Finance Instructions and FMM guidance.
- Check whether card limits and permitted uses are clearly defined and enforced.
- Review whether all corporate card transactions are supported by original receipts and acquitted in IFMS or other approved system within the required timeframes.
- Confirm that reconciliation is performed monthly and subject to review by a responsible officer not involved in card use.
- Examine whether there are any instances of card misuse (e.g. cash withdrawals, personal expenses) and if disciplinary or recovery actions were taken.
- Verify whether corporate card acquittals are monitored by Internal Audit and periodically reported to the Audit Committee.
- Confirm that cardholder privileges are revoked upon transfer, termination, or sustained non-compliance.

Documents to Review:

- Corporate card policy and procedure documents
- Cardholder register and approval forms
- Monthly acquittal reports and supporting documentation
- IFMS transaction reports and general ledger entries
- Misuse registers or disciplinary correspondence
- Audit Committee reports on card use trends

Sampling Guidance: Select 5–10 cardholders and review two months of transactions per card. Include at least one former cardholder to test card cancellation and acquittal.

Indicators of Weakness:

- Delayed or missing acquittals
- Unsupported or personal expenses charged to cards
- No monthly reconciliation or monitoring
- Cardholder privileges not revoked on separation
- Policy inconsistencies or unclear transaction limits

Standards: FMM Volume 3 (Corporate Cards); PFMA s32, s45; Relevant Finance Instructions; IPPF 2130, 2340

14.21 Sub-National Commercial Enterprises

Audit Objective: To assess whether sub-national commercial enterprises (SCEs) are established, governed, operated, and monitored in accordance with national legal, financial, and accountability frameworks.

Scope: Entity establishment, legal status, shareholding structure, compliance with PFMA and SOE governance frameworks, financial reporting, return on investment, and risk management.

Risk Rationale: Poor oversight of sub-national enterprises can lead to financial mismanagement, accumulation of debt, misuse of public resources, and failure to deliver public value.

Control Questions & Tests:

- Confirm the legal authority for establishing the SCE (e.g. enabling Act, NEC decision, Provincial Executive Council resolution).
- Review governance arrangements including the appointment of Board members, shareholder oversight mechanisms, and reporting lines to the parent agency or government.
- Verify whether business plans, annual budgets, and performance targets have been approved by the governing body and aligned with national development goals.
- Assess whether annual audited financial statements are prepared, submitted to the parent agency and Auditor-General, and publicly disclosed where required.
- Review whether any government equity injections, grants, or loans to the SCE are recorded, monitored, and tied to performance.
- Confirm that SCE operations are subject to internal audit or external review and are not being used to bypass procurement or budget controls.

- Examine whether dividends, returns, or reports on public benefits are communicated to the Provincial Assembly, Department of Finance and Department of Treasury, or other oversight bodies.
- Assess risk management and commercial viability reviews conducted for significant SCE projects.

Documents to Review:

- Entity establishment documentation and NEC/PEC records
- Board meeting minutes and governance policies
- Business plans, performance reports, and audited financials
- Shareholder agreements or funding arrangements
- Internal audit or external review reports
- Reports submitted to oversight entities (DoF, AG, Treasury, DPLGA)

Sampling Guidance: Select 2–3 active SCEs. Review one year of financial and performance reporting for each.

Indicators of Weakness:

- SCEs operating without formal governance or legal authority
- No audited financial statements or performance reviews
- Lack of oversight on government funding contributions
- Board conflicts of interest or inadequate independence
- Use of SCE to circumvent standard government financial controls

Standards: PFMA s45, s61; FMM Volume 3 (SCEs and Provincial Enterprises); Companies Act; SOE governance frameworks; Organic Law on Provincial & Local-level Governments, IPPF 2110, 2130

14.22 Preparation of Financial Statements / Annual Reporting

Audit Objective: To ensure the agency prepares complete, accurate, and timely financial statements and annual reports in accordance with legislative, regulatory, and accounting (IPSAS) standards.

Scope: Financial statement preparation, account closure, compliance with IPSAS or applicable standards, audit coordination, submission deadlines, and content of annual reports.

Risk Rationale: Poor financial reporting can mislead stakeholders, result in audit qualifications, or mask financial mismanagement.

Control Questions & Tests:

- Confirm that all accounts are closed in accordance with Department of Finance timelines and instructions.
- Review whether financial statements are prepared using the required accounting framework (e.g. IPSAS, Cash Basis).
- Verify that trial balances and general ledgers in IFMS reconcile to the financial statements.
- Assess whether supporting documentation exists for balances (e.g. bank, asset, liability reconciliations).
- Review coordination with external audit – are requested schedules and working papers submitted?
- Examine whether the Annual Report includes all required elements (e.g. overview, achievements, financials, performance results).
- Confirm that reports are submitted to the Department of Finance, Auditor-General, and tabled in Parliament as required.
- Check if previous audit findings or recommendations were addressed and disclosed in the annual report.

Documents to Review:

- Draft and final financial statements

- IFMS trial balances and ledger reports
- Bank, asset, liability reconciliations
- Annual Report (published or draft)
- Submission records to oversight bodies
- External audit communication and management letters

Sampling Guidance: Test one full reporting cycle. Review 2–3 key financial statement balances and supporting reconciliations.

Indicators of Weakness:

- Delayed or non-submission of financial statements
- Unreconciled balances or unsupported disclosures
- Annual Report missing mandatory content
- External audit findings repeated across years
- Incomplete follow-up on audit recommendations

Standards: PFMA s45–48; FMM Volume 3 (Financial Reporting); Finance Instructions; IPPF 2330, 2410; INTOSAI GOV 9100

14.23 Management Reporting Systems

Audit Objective: To evaluate the effectiveness, accuracy, and timeliness of management reports used for strategic and operational decision-making.

Scope: Internal budget monitoring, operational and financial dashboards, exception reports, trend analysis, and reporting lines to executive and governance bodies.

Risk Rationale: Ineffective or delayed management reporting may lead to poor decisions, unaddressed risks, or undetected financial anomalies.

Control Questions & Tests:

- Confirm that management receives regular (monthly or quarterly) financial and operational performance reports.
- Assess whether reports cover key financial indicators (e.g. budget vs actual, commitments, cash availability) and key performance indicators (KPIs).
- Check that reports are based on current and reconciled IFMS data and generated through approved templates.
- Verify whether exception reporting is used to flag material variances, overdue activities, or control breaches.
- Confirm that the content and format of reports meet the needs of Departmental Heads, functional managers, and governance committees.
- Review documentation of management meetings where these reports were discussed and actioned.
- Evaluate whether Internal Audit or Finance reviews the adequacy and accuracy of these reports.

Documents to Review:

- Monthly and quarterly management reports
- IFMS dashboard outputs or report queries

- Meeting minutes of management or governance bodies
- KPI and risk dashboard templates
- Variance reports and exception logs

Sampling Guidance: Review management reports for the last 3 months. Test at least two reports for data accuracy and variance analysis.

Indicators of Weakness:

- Delayed or missing reports
- Inconsistent formats or lack of data validation
- Key decisions made without supporting data
- Poor variance explanation or corrective follow-up

Standards: PFMA s45; FMM Volume 3 (Management and Performance Reporting); IPPF 2450, 2110; INTOSAI GOV 9100

14.24 Liabilities (Loans and Borrowings)

Audit Objective: To verify that all liabilities, including loans, borrowings, and payables, are authorised, recorded, monitored, and repaid in accordance with FMM and PFMA.

Scope: Loan and borrowing approvals, payment schedules, interest calculations, supplier and salary payables, and contingent liabilities.

Risk Rationale: Unauthorised or unrecorded liabilities can distort financial reports and lead to legal and fiscal exposure.

Control Questions & Tests:

- Confirm all borrowings and loans are authorised by appropriate approval (e.g. Treasurer, Departmental Head, NEC, or Minister as required).
- Verify that liabilities are accurately recorded in the general ledger and financial statements.
- For loans, review the terms (interest, repayment period, security) and match against payment schedules.
- Test repayments made – ensure they align with contract schedules and are processed through IFMS.
- Examine IFMS entries for accounts payable – are outstanding supplier or payroll payables aged and reviewed?
- Review procedures for identifying and disclosing contingent liabilities – are these included in financial reporting?
- Confirm that salary-related liabilities (e.g. overpayments pending recovery, unpaid allowances) are tracked and reconciled monthly.
- For externally funded projects, review liability reporting back to funders (e.g. reporting of advances or due repayments).

Documents to Review:

- Loan agreements and NEC/Ministerial approvals

- IFMS ledger accounts for borrowings and payables
- Repayment schedules and reconciliation statements
- Ageing reports for accounts payable
- Overpayment registers or recovery tracking logs
- Contingent liability disclosures and assessment files

Sampling Guidance: Sample all loans and borrowings, or at least the top 3 by value. Select a mix of salary, supplier, and other liabilities for payable testing.

Indicators of Weakness:

- Loans not disclosed in financial statements or reporting to Board, Provincial Executive, Parliament etc.
- Repayments delayed or miscalculated
- Overpayments not monitored or followed up
- No tracking or provision for contingent liabilities
- Loan terms not matched to actual payments or mismatches in IFMS

Standards: FMM Volume 3 (Liabilities and Borrowing); PFMA s45; Contracts, IPPF 2130, 2330

14.25 Contract Management Systems

Audit Objective: To assess whether the agency's contract management practices ensure value for money, compliance with procurement regulations, and appropriate monitoring of contractor performance.

Scope: Procurement approval, contract register, monitoring and delivery, contract variations, milestones, and close-out procedures.

Risk Rationale: Poor contract controls may result in unauthorised variations, overpayments, delayed service delivery, or procurement breaches.

Control Questions & Tests:

- Confirm that all contracts above threshold were subject to appropriate procurement processes and approvals.
- Review the contract register – is it complete, current, and reflective of all active contracts?
- Check that contracts include clearly defined scope, deliverables, timelines, and payment terms.
- Test a sample of contract payments – were they made only after verification of milestones or goods received?
- Verify that contract variations (time, scope, value) are formally documented and approved.
- Confirm that contracts are periodically monitored by assigned officers, with documented performance reports.
- Ensure that final contract close-out includes confirmation of completion, return of assets (if applicable), and final payment clearance.
- Check for contract splitting (multiple small contracts with the same vendor below threshold to avoid tender).

Documents to Review:

- Contract register

- Procurement approval records (tender, quotations, NPC/PTB minutes)
- Signed contract documents and variations
- Payment requests and supporting documentation
- Goods received notes or project milestone certificates
- Monitoring reports or contractor evaluations
- Contract close-out checklists

Sampling Guidance: Sample 5–10 contracts of varying values, including infrastructure and service contracts. Focus on those with variations or performance concerns.

Indicators of Weakness:

- Contracts operating without approvals or signed agreements or continue without a variation.
- Expenditure that is on a time basis (hire equipment on daily or hourly basis or renting temporary storage for example) without a clear and established time limit
- Undocumented or retrospective contract variations
- Payments made without evidence of performance - Certification
- Incomplete or outdated contract register
- Repeated contracts issued to same vendor just under approval threshold

Standards: FMM Volume 3 (Procurement and Contract Management); PFMA s40–44; IPPF 2130, 2320

14.26 Tax Compliance Systems

Audit Objective: To confirm that the agency complies with applicable tax laws, including withholding, reporting, and remittance of GST, PAYE, and other statutory deductions – S65A.

Scope: GST on procurements, PAYE from salaries, withholding tax, IRC registration, reporting obligations, and remittance procedures.

Risk Rationale: Failure to deduct or remit taxes can result in penalties, reputational damage, and legal exposure for the agency.

Control Questions & Tests:

- Confirm agency is registered with IRC for relevant tax obligations, including GST and PAYE.- TIN ??
- Review supplier payments to ensure 10% GST was withheld from payments to registered suppliers, in line with Section 65A of the GST Act where the agency has been nominated under the IRC rules to collect GST as withholding.
- Confirm that withheld GST amounts are remitted to IRC monthly and reconciled.
- Check payroll transactions to ensure accurate and timely deduction of PAYE.
- Review withholding tax application on eligible contractor or consultancy payments.
- Verify lodgement of monthly tax returns and remittance reports to IRC.
- Confirm that only GST-registered suppliers are issued payments including GST.
- Check for documented processes for managing tax compliance and updating supplier TINs.

Documents to Review:

- IRC registration confirmation

- GST and PAYE lodgement and remittance records
- Payment vouchers and invoices with tax coding
- Supplier master file with IPA, TINs and GST registration status
- Tax withholding reports from IFMS

Sampling Guidance: Select a minimum of 10 payments including: taxable procurement, payroll PAYE deductions, and contract-related payments. Focus on suppliers claiming GST and transactions involving withholding obligations.

Indicators of Weakness:

- Payments made with GST not withheld where required
- GST remittances delayed or missing
- PAYE not deducted correctly or submitted late
- Use of unregistered suppliers charging GST
- Inaccurate or outdated supplier tax data

Standards: FMM Volume 3 (Tax and Payroll); PFMA s102–104; GST Act s65A; IPPF 2130

14.27 Performance Management Systems

Audit Objective: To verify that the agency has established, measured, and reported on performance indicators that align with strategic and operational plans and that these are used to inform decision-making (Corporate Plan).

Scope: Planning and target setting, performance measurement, monitoring, reporting, and feedback into planning cycles.

Risk Rationale: Without accurate and timely performance reporting, agencies may not achieve intended outcomes, misallocate resources, or fail to meet national or agency policy goals.

Control Questions & Tests:

- Confirm that the agency has approved performance plans that align with its mandate and national strategies.
- Review the performance indicators – are they SMART (Specific, Measurable, Achievable, Relevant, Time-bound)?
- Assess whether data used for performance reporting is reliable, sourced consistently, and verified.
- Check that performance is reported periodically (e.g. quarterly, annually) and to whom (e.g. Departmental Head, oversight bodies).
- Examine how performance reports are used for decision-making, budget justification, or reform priorities.
- Review instances where under-performance was identified – was it addressed with corrective actions?
- Confirm alignment between performance reporting and the national Medium-Term Development Plan or sector strategies.

Documents to Review:

- Corporate and operational plans
- Performance indicators and data sources

- Quarterly and annual performance reports
- Meeting minutes or management responses to performance issues
- Sectoral development strategies

Sampling Guidance: Select 3–5 performance indicators from each of two program areas. Include indicators with known delivery issues or significant budget allocations.

Indicators of Weakness:

- Indicators not aligned to agency or national objectives
- Performance not measured or reports not produced
- Data unreliable, inconsistent, or unavailable
- Performance results not used to inform management decisions

Standards: FMM Volume 2 and 3 (Planning and Reporting); IPPF 2120, 2130; INTOSAI GOV 9100

14.28 Fraud Control Systems

Audit Objective: To assess whether the agency has a functioning fraud control framework that prevents, detects, and responds to fraud risks effectively.

Scope: Fraud policy, risk assessments, internal reporting mechanisms, investigation processes, whistleblower protections, external referrals, and staff awareness.

Risk Rationale: Fraud undermines public trust and leads to financial losses if not managed through proactive controls.

Control Questions & Tests:

- Confirm the agency has a documented and endorsed fraud control policy and plan, in accordance with FMM Volume 2, FMM 02.06.
- Check that a fraud risk assessment has been conducted and updated in the last two years, with key risks documented in the agency's risk register.
- Confirm that staff are aware of and trained in the agency's fraud prevention and reporting procedures.
- Confirm the presence and accessibility of anonymous whistleblower reporting mechanisms (e.g. hotline, email, complaint box) and whether they are aligned with the Whistleblower Act 2020.
- Review procedures for internal investigations, including clarity of steps, documentation standards, and authority to refer matters.
- Check if there are protocols to report fraud to external agencies such as ICAC, FAID (DoF), Police Fraud and Anti-Corruption Directorate, or the Ombudsman Commission.
- Confirm that a nominated Fraud Control Officer or internal contact point manages reporting and coordination.
- Assess records for any previous suspected or confirmed incidents of fraud – were investigations properly documented, outcomes enforced, and referrals made as required?

- Confirm if corrective actions from past incidents were tracked, implemented, and reported to the Audit Committee.

Documents to Review:

- Fraud control policy and fraud control plan
- Fraud risk assessments and risk register entries
- Whistleblower policy and reporting logs
- Internal investigation reports and supporting documentation
- Training materials and attendance records
- External referral correspondence to oversight bodies
- Records of disciplinary or legal action and follow-up tracking

Sampling Guidance: Review fraud-related incidents over the last 2–3 years. Sample 2–3 past cases (alleged or confirmed) and assess documentation, escalation, and resolution.

Indicators of Weakness:

- No fraud policy or outdated policy
- Whistleblower protection not referenced or implemented
- Delays or failure to refer serious fraud to external bodies
- Poor documentation of investigations or no record of enforcement actions
- Repeat incidents of similar fraud risks without corrective action

Standards:

- FMM Volume 2 (FMM 02.06 – Fraud and Anti-Corruption Controls)
- FMM Volume 3 (Fraud Control Procedures)
- IPPF 1210.A2, 2120.A2, 2110, INTOSAI GOV 9140

- Whistleblower Act 2020

14.29 SIP Expenditure Systems

Audit Objective: To assess whether SIP funds at the sub-national level are expended in accordance with approved project guidelines, national standards, and financial accountability requirements.

Scope: Project selection, budget appropriation, fund release, procurement, implementation, acquittals, and outcome monitoring.

Risk Rationale: Misuse or mismanagement of SIP funding can undermine development outcomes, reduce service delivery impact, and compromise financial integrity. Non Acquittal of funds.

Control Questions & Tests:

- Confirm that all SIP projects are selected based on documented priorities and aligned with local and national development plans.
- Review whether project scopes, locations, and costs are clearly documented and approved prior to implementation and allocated in accordance with the SIP Administration Guidelines.
- Assess the procurement process used for SIP projects – was it competitive and compliant with the National Procurement Act?
- Verify that construction or delivery of infrastructure was supervised by a qualified technical officer and properly certified before payment.
- Check whether physical progress and financial performance were reported to National Planning, or other oversight bodies.
- Confirm that acquittal of funds includes evidence of expenditure, progress against targets, and project completion where applicable.
- Examine whether project outputs (e.g. buildings, roads) are being used and maintained by the recipient communities or departments.

Documents to Review:

- SIP project proposals and selection documentation

- Budget and fund release records
- Procurement and contract documents
- Site inspection and certification reports
- Payment records and IFMS entries
- Acquittal reports and photographs of completed infrastructure
- Oversight and performance reports from monitoring agencies

Sampling Guidance: Select 3–5 SIP-funded projects across districts or provinces. Review the full lifecycle: approval, disbursement, delivery, and acquittal.

Indicators of Weakness:

- Projects without clear scope or documented approval
- Delays or misuse of funds due to weak procurement or oversight
- Poor quality or incomplete infrastructure
- Missing acquittals or physical verification reports
- Limited evidence of post-project utilisation or community benefit

Standards: PFMA s38, s45; FMM Volume 3 (Special Funds and Projects); SIP Administration Guidelines; IPPF 2130, 2320