

FINANCE MANAGEMENT MANUAL



Volume 5 - Internal Audit and Audit Committees



issued by Department of Finance

Establishment of Audit Committees and their Mandate

Establishment of Internal Audit Units and their role

Conducting internal audits and monitoring follow up recommendations

Government of PNG Financial Management Manual

Volume 5

Designing and Monitoring Internal Controls – Internal Audit Function

This document is available in electronic form and is constantly updated. For the latest version of the manual and its volumes or any inquiries on this Document, please contact:

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The Finance Management Manual is designed to assist agencies in complying with the various public financial management policies and legislations and to also assist department heads in developing a framework for the financial management of their agency.

Section 117 of the PFMA states that the Finance Departmental Head may issue Financial Management Manuals, not inconsistent with this Act, for instruction and guidance on the implementation of any matter for the better control and management of public moneys and public property.

Volume 1 discusses the principles underpinning public financial management in PNG.

Volume 2 discusses PNG's Public Financial Accountability and Governance.

Volume 3 discusses Procedures and Control of Public Accounts and establishes the policy and instructions governing the public accounts and accounting records of all public entities.

Volume 4 discusses Financial Reporting.

Volume 5 (this volume) discusses Internal Controls and Internal Audit and the establishment and importance of effective Audit Committees.

This Volume 5 of the FMM provides mandatory requirements and guidelines on internal audit for all government departments, statutory bodies, and subnational agencies. Issued under Section 4 and 117 of the Public Finances (Management) Act 1995 (PFMA), it directs the establishment and operation of internal audit units and audit committees in public bodies that receive annual budgetary allocations.

Volume 6 is an Elected Member's Guide to PNG PFM.

Volume 7 is the Department of Treasury Budget Manual

Contained in Volume 5

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FMM 05.1 Introduction to Internal Audit and Controls

1.1 Introduction

Internal audit is an independent, objective assurance and advisory activity designed to add value and improve an agency's operations. By examining governance, risk management, and internal control processes, internal audit helps agencies achieve their goals in a responsible and transparent manner.

Internal audit checks the system of controls - how well your agency is working, whether rules and laws are followed, and if resources are managed properly and accounted for. By doing this, internal audit helps management fix problems before they grow bigger.

1.2 Mandated Policy

- 1. The Finance Departmental Head has exercised the authority under Section 4 of the PFMA to direct the establishment and operations of an audit committee and an internal audit unit for all public agencies.**
- 2. The agency's departmental head is responsible, in accordance with Section 5 of the PFMA for the implementation of internal controls, internal audit units and committees etc.**
- 3. This Volume 5 is part of the PNG Finance Management Manual (Volumes 1–6) and, in accordance with powers under Section 117, the Finance Department Head requires all public agencies to adopt.**
- 4. Any internal audit guides or procedures established by the public agency for its internal audit activities must align with (or be replaced by) the requirements here.**
- 5. The internal audit unit is required to perform, at minimum, an annual audit risk assessment, irrespective of whether there is an agency organisational risk register in order to formulate a risk-based audit plan.**

All agencies are recommended to have an organisational risk management framework in place and perform, at minimum, an organisational risk assessment annually.

- 6. FMM 02.2 (Minimum Requirements for Head of Finance and Head of Internal Audit Unit (CEA is the acronym used in audit standards) requires proficiency in these roles that underpin the successful design and oversight of internal controls.**
- 7. The departmental head is required to ensure that the resources, size and requirements of the internal audit unit match the size, risk and complexity requirements of the agency and it is the responsibility of the departmental head to determine.**

1.3 Non-mandatory Guidance

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities with authority and confidence. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities and where minimum proficiency is not met, a development plan must be in place and brought to the attentions of the audit committee.

1.4 What Is Internal Audit

1.4.1 Definition & Purpose

- *Internal audit* is an **independent, objective assurance and advisory activity** to enhance an agency's operations. It focuses on risk management, governance, and internal controls.
- It is mandatory, PFMA Section 4 and Section 5 underscores the legal requirement for agencies to have or maintain internal audit capabilities.

1.4.2 Core Benefits

- Early identification of internal control weaknesses reduces the risk of fraud and improper use of funds.
- Recommendations typically result in cost savings, process streamlining, and improved public service outcomes.

- Aligning with PFMA obligations, meeting stakeholders' expectations, and demonstrating accountability to citizens, donors, and Parliament.

1.5 Responsibilities

1.5.1 Audit Committee (High-Level Oversight)

An agency Audit Committee assures oversight of the internal audit plan, financials, the independence of auditors, and follow-up on key audit findings and the corresponding recommendations.

Specifics on establishing and operating an audit committee is provided as a separate policy FMM FMM05.05 Establishing an Audit Committee.

1.5.2 Departmental Head

The Departmental Head is responsible under Section 5 of PFMA for establishing an internal audit unit and audit committee, reporting any material misstatements in the financial statements to the Office of the Auditor-General and generally required to establish the internal controls and take necessary actions.

1.5.3 Risk Management Units/Managers

Some agencies have dedicated risk units; if not, internal audit often conducts its own risk assessment to plan audits. Effective risk management is a shared responsibility among management, the risk unit, and internal audit.

1.5.4 External Audit (Auditor-General or External Firm)

External audits primarily focus on the reliability of financial statements and compliance. Internal audit is continuous, covering both financial and operational aspects. Refer to FMM Volume 1 and 2.

1.6 The “Why” of Internal Audit

Internal controls and their auditing ensures agencies meet legislative and policy requirements, preventing irregularities that could trigger legal or disciplinary actions. In most cases, internal audit also supports the departmental head in investigations to highlight anomalies/discrepancies and promote efficient and effective uses of budgeted funds. However, this should be an exception and not the activities of internal audit units (refer to FMM 7—1 -

Audits versus Investigations versus Advisory activities)

Internal audits are generally outside the usual organisational structure and provides management and audit committees with objective data to guide resource allocation, policy implementation, and remedial actions.

1.7 Quick Checklist

1. At minimum all agencies must have oversight by an audit committee – either dedicated for that agency or established specific to the sector or location. Has your agency established an audit committee and does it require an internal audit function as directed under PFMA Section 4 and 5?
2. Does management support the internal audit team with adequate resources and authority?
3. Are you setting up or actively running an audit committee or contributing to a special audit committee to oversee internal audit functions?
4. Have you reviewed the upcoming sections in Volume 5 to ensure your processes conform to required standards?

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FMM 05.2 Designing Internal Controls

2.1 Introduction

Internal controls are the backbone of an effective public sector agency, ensuring financial integrity, compliance with laws, and efficient delivery of services. A well-designed internal control systems supports risk management, fosters accountability, and protects agencies against misuse of public resources.

Understanding how to design internal controls is important and internal auditors and management should also refer to **Finance Management Manual Volume 2** which outlined governance and what internal controls entails:

- FMM 01.1 (Introduction to Governance and Control) sets the stage for understanding why comprehensive and standardised approaches are required across PNG's public sector.
- FMM 02.4 (Establishing Internal Controls) provides additional guidance on creating the overarching control environment, complementing the practical details in this Volume.

All these sections emphasise that internal controls are non-negotiable pillars of good governance.

2.2 Policy

- 1. Internal audit units are not responsible for designing, implementing, or operating internal controls within agencies.**
- 2. Internal audit may provide advice, raise awareness of control weaknesses, and recommend improvements—but ownership of internal controls rests solely with agency management.**
- 3. Internal audit can:**
 - a. review and test controls, and recommend improvements.**
 - b. offer advisory input (e.g. on draft policies or systems), but must remain independent and not take responsibility for control design.**
 - c. not create procedures, perform reconciliations, set delegations, or operate control systems (e.g. procurement, payroll, inventory).**

- d. help design a control or policy, but they must not audit that area within 12 months (IPPF Standard 1130.A1).

2.3 Non-mandatory Guidance

2.3.1 Why Internal Controls Matter

Internal controls matter most as it protects public resources, strengthen compliance and support good governance.

To support the design of internal control, COSO (Committee of Sponsoring Organizations of the Treadway Commission) outlines five pillars of internal control:

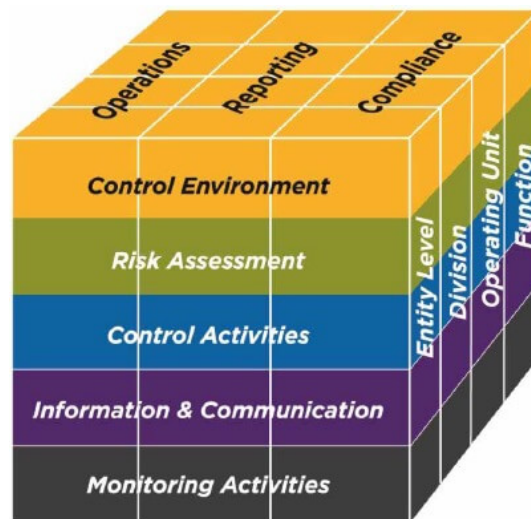


FIGURE 1 COSO INTERNAL CONTROL FRAMEWORK - FIVE PILLARS

- Control Environment – The “tone at the top”: ethical leadership, clear governance structures.
- Risk Assessment – Identifying and understanding agency risks.
- Control Activities – Specific policies/procedures to mitigate identified risks.
- Information & Communication – Ensuring relevant data is shared, and staff know procedures.
- Monitoring – Ongoing checks to confirm controls are functioning as designed.

2.3.2 Understanding the Types of Internal Controls

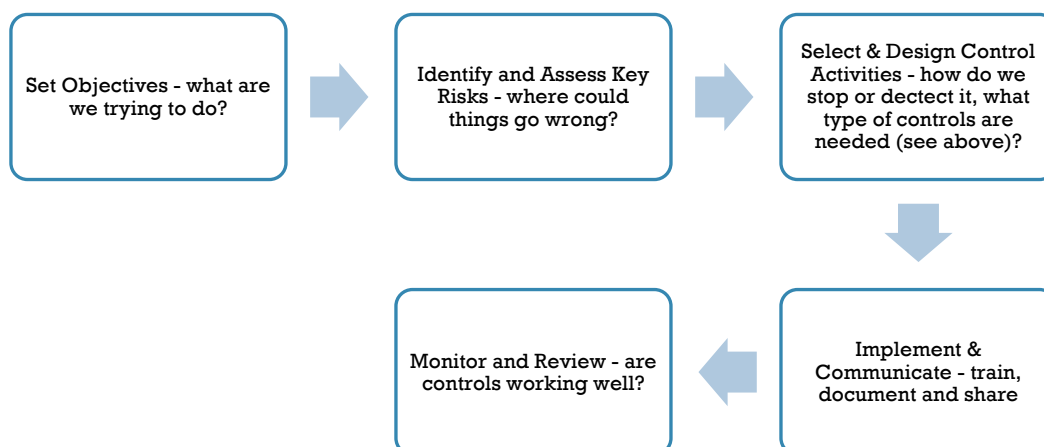
Internal controls are established to either prevent, direct, detect or correct non-compliance.

- Preventive Controls: Stop undesired events before they occur such as requiring two (2) bank signatures for payments.
- Detective Controls: Identify issues after they occur such as ensuring regular bank reconciliations that identify anomalies.
- Directive Controls: Guide actions to achieve desired outcomes such as departmental head directions on delegations, or issuing checklists, or standard operating procedures.
- Corrective Controls: Identify and correct problems discovered such as follow-up investigations, disciplinary actions, or revised processes.

When designing controls, agencies should use a balanced mixture of these controls for comprehensive coverage.

2.4 Designing Internal Controls - A Step-by-Step Approach

Below is a simplified visual of how an agency typically designs its internal control framework:



2.4.1 Set Clear Objectives

Internal controls are designed with the structure, services, nature and scope of the agency that implements them – one size does not fit all and not all internal

controls are directly related to financial compliance. You need to align with the agency’s mandate (e.g. health service delivery, road maintenance).

You then define what success looks like both financially and operationally (correct treatment provided to patients or roads repaired with a useful life of twenty (20) years).

2.4.2 Identify & Assess Key Risks

Risk identification and mitigation should be an annual process and generally you can use brainstorming, process walk-throughs, or prior audit findings to identify vulnerabilities (e.g. procurement, payroll). You can also look at other agencies or similar agencies overseas on identified key risks.

Part of this process is also evaluating risk likelihood and potential impact (financial loss, lack of service delivery or reputational harm).

2.4.3 Select & Design Control Activities

Based on the risk assessment, choose the best preventive, detective, directive, and corrective controls (and a combination of these). In doing so, consider the cost–benefit of each control—some high-risk areas might need stronger controls.

2.4.3.1 Preventative controls

Preventative controls are those that are designed to prevent undesirable events such as loss, errors, fraud, theft, misuse, inefficiencies, ineffectiveness, waste, and general anomalies and irregularities. The following table provides some examples of preventative internal controls.

| Internal control | Explanation |
|---|--|
| Separation of duties, which is also commonly known as segregation of duties. For example, the process for expenditure and payment of public money is divided into separate steps which are allocated to different officers, as provided under Divisions 5 and 6 of Part 5 (Budget and Expenditure Control) of the Financial Instructions: | Dividing the expenditure and payment process into separate steps allows for different people to be involved in the process. It means that each officer is protected from the possibility of allegations of fraud and the temptation to commit fraud by having other officers to check his or her tasks and also undertaking the other steps. Involving different |

| | |
|--|---|
| <p><u>Authorised Requisitioning Officer</u> – completes the Requisition for Expenditure form FF3, or the Integrated Local Purchase Order and Claim form FF4A;</p> <p><u>Financial Delegate</u> – controls allocated funds so that over commitment does not take place and authorises the FF3 or FF4A that funds are available;</p> <p><u>Section 32 Approving Officer</u> – makes the expenditure decision by approving the expenditure by authorising the FF3 or FF4A;</p> <p><u>Certifying Officer</u> – certifies that the claims rendered are correct and can be paid and thus authorises the FF3s or ;</p> <p><u>Authorising Officer</u> – first ensures that the accounts are duly certified and then authorises the payment of the accounts.</p> | <p>officers is aimed at preventing any alleged or actual lost or improper payments. This preventative control will not be effective where there is collusion, i.e. the different officers secretly arrange between themselves to commit a fraud.</p> <p>Collusion may be difficult to prevent but would be easy to detect through effective detection internal controls, e.g. frequent monitoring of expenditure, internal auditing, reconciliations etc.</p> |
| <p>Locked safe</p> | <p>Prevents unauthorised access to cash and classified information.</p> |
| <p>Restricted access to the payroll system – to assigned and authorised officers.</p> | <p>Prevents unauthorised alteration of payroll records.</p> |
| <p>Arrangement that requires every cheque to be signed by two or more officers.</p> | <p>Similar reasoning as the separation of duties.</p> |

2.4.3.2 *Detective controls*

Detective controls are those measures that are designed to detect in a timely manner any breakdowns in the preventative controls. It would allow for timely actions to recover any loss, rectify any anomalies and irregularities, reduce and prevent any further occurrences.

| Internal control | Explanation |
|--|---|
| Bank Reconciliation – assigned to an officer who is not involved in the receiving and banking of money, custody of money, or processing of expenditure and payment of money. | This process compares the details in an organization’s (e.g. a Department, Provincial Government, or Local-level Government) cash book to the details in its bank account as shown in the bank statements. When this is done frequently and in a timely manner, it allows for the detection of irregularities such as any receipts that have not been deposited, any cheque that has been paid for more than the amount recorded in the cash book, any cheque that has been paid through the bank but not recorded in the cash book, or bank charges and fees that are shown in the bank statements but are yet to be entered into the cash book. |
| Stock take - assigned to an officer(s) who is not involved in the maintenance of the asset register or custody of inventory. | Verifies the records in the asset register and detects any loss or error. |

The cost and impact of operating an internal control measure should be assessed against the associated benefits.

2.4.3.3 *Control weaknesses*

One of the purposes of an internal audit is to identify weaknesses in the internal control system, the cause of the weakness, and the effect of the

weakness on the agency in order for appropriate actions to be taken. It is useful to distinguish between:

- **system weakness** - a situation where there is insufficient, or absence of, internal control mechanisms in the system; and
- **operational weakness** – a situation where there are control mechanisms but are not effective (e.g. a Certifying Officer not checking the claims properly).

2.4.4 Implement & Communicate

Once these controls are identified, document each control (e.g. flowcharts, SOPs, finance forms) and train staff on roles, procedures, and the importance of following them.

For example, the Finance Management Manual is a designed internal control – a collection of directive controls – and are implemented into daily operations (e.g., sign-off procedures, logs, IFMS system authorisations).

2.4.5 Monitor & Review

The role and responsibility of internal audit is most recognised here. Internal controls must be constantly and consistently monitored and tested to ensure that they are still operating. Depending on the nature and structure of the agency, an internal audit unit may not be feasible, therefore the same function can be provided through management oversight, or continuous monitoring to assess if controls remain effective.

It is equally important to ensure that an agency updates controls as conditions change (e.g. new laws, new systems, or emerging risks). For example, the transition from cheques to EFT or the introduction of government visa debit cards has introduced significant changes to the design of internal controls for agencies.

Practical Tips & Considerations for Agencies

PFMA and Finance Instructions require that delegations be documented.

Ensure the right person at the right level approves transactions (e.g. no manager approves their own reimbursement).

Overly complex controls can confuse staff and lead to non-compliance, so simplicity matters. Focus on essential steps that meaningfully mitigate the risk.

Where possible, use IFMS or other approved digital solutions. System-based controls (passwords, workflow approvals) often minimises manual errors or manipulation.

Staff in rural and remote areas might lack stable internet or advanced training. Provide simpler, manual offline forms, plus extra support to ensure consistent compliance.

If the agency has a Risk Management Team or elements of this in their planning division, coordinate to avoid duplicated effort. Let them share major risk registers to inform your control design.

Even strong controls can fail if senior managers override them. Reinforce a “tone at the top” that emphasises no exceptions to established procedures.

Keep records of control designs, approvals, policy changes, etc. This helps with audits, continuity, and staff transitions.

2.5 Quick Checklist

1. Have we identified our core operational and financial objectives?
2. Did we systematically analyse the biggest risks (fraud, errors, wastage)?
3. Did we choose a balanced set of preventive, detective, directive, and corrective controls?
4. Are staff properly trained and aware of their control responsibilities?
5. Do we monitor internal controls (through checklists, IA reviews, or daily supervision) to ensure continued effectiveness?
6. If any of these are missing or weak, design (or redesign) your internal controls now, using this FMM volume as a minimum requirement.

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FMM 05.3 Understanding Internal Audit Standards

3.1 Introduction

Internal audit in the public sector is not based on an accounting position or tradition—it follows professional standards that define how auditors should work, what quality looks like, and how independence is maintained.

There are two main international frameworks that guide internal audit relevant for PNG:

- The Global Institute of Internal Auditors (IIA) and its International Professional Practices Framework (IPPF); and
- The International Organisation of Supreme Audit Institutions (INTOSAI) and its public sector auditing standards.

These frameworks ensure our internal audit work is credible, consistent, and internationally recognised—regardless of the size, location, or resources of the agency.



FIGURE 2 INTERNATIONAL PROFESSIONALS PRACTICES FRAMEWORK REPRODUCED FROM INSTITUTE OF INTERNAL AUDITORS

3.2 Non-mandatory Guidance

3.2.1 Why Standards Are Important

- Standards help every internal audit unit follow the same process for planning, conducting, and reporting audits.
- When internal audit reports follow recognised professional standards, they are more likely to be trusted by management, audit committees, and oversight bodies.
- Standards define how internal auditors maintain objectivity and avoid conflicts of interest.
- Frameworks encourage internal audit units to monitor their own performance and improve over time.
- Following IIA and INTOSAI standards aligns PNG with good practice used by other countries and institutions.

3.2.2 The Institute of Internal Auditors (IIA) and the IPPF

The IIA is a global professional body for internal auditors. Its International Professional Practices Framework (IPPF) sets out the mandatory elements that every internal audit function should follow.

3.2.3 Core Components of the IPPF

| Element | What It Means |
|--|--|
| Definition of Internal Auditing | Clarifies that internal audit is an <i>independent and objective assurance and advisory activity</i> designed to improve an organisation's operations. |
| Core Principles | Describe the qualities needed for effective internal audit (e.g. integrity, competence, quality, communication). |
| Code of Ethics | Requires auditors to act with integrity, objectivity, confidentiality, and competence. |
| Standards | These define how audits must be planned, conducted, reported, and followed up. Standards are grouped into: Attribute, Performance, and Implementation standards. |
| Interpretations | Provide additional explanations for applying each standard in practice. |

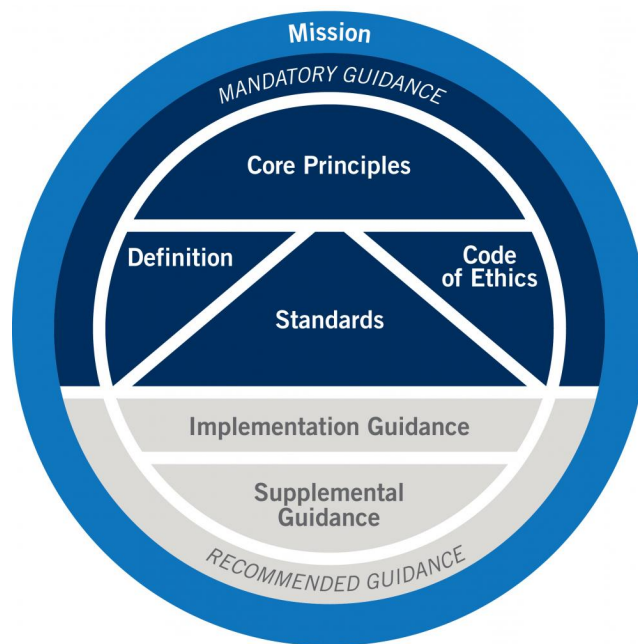


FIGURE 3 INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK REPRODUCED FROM THE INSTITUTE OF INTERNAL AUDITORS

3.2.4 IPPF Standards Most Relevant to Agencies

| Standard No. | Name | Explanation |
|--------------|------------------------------------|--|
| 1000 | Purpose, Authority, Responsibility | Requires an internal audit charter to be in place and approved by leadership. |
| 1100 | Independence and Objectivity | Internal audit must be free from interference in audit work or reporting. |
| 2010 | Planning | Internal audit must prepare a risk-based audit plan. |
| 2310 | Identifying Information | Auditors must obtain sufficient, reliable, and relevant evidence. |
| 2400 | Communicating Results | Audit reports must be clear, accurate, objective, and timely. |
| 2600 | Communicating Acceptance of Risk | If management accepts risk the auditor considers unacceptable, it must be escalated. |

3.2.5 The Role of INTOSAI in Public Sector Internal Audit

The International Organisation of Supreme Audit Institutions (INTOSAI) provides guidance for public sector auditing across all countries. While its

primary focus is external audit, INTOSAI has also developed clear expectations for internal audit in public bodies.

3.2.6 Key INTOSAI Guidance Relevant to PNG

| Document | Key Messages |
|-------------------------|--|
| INTOSAI GOV 9140 | Emphasises the importance of internal audit independence, access to information, and clarity of mandate. Recommends internal audit have a written charter and report functionally to an audit committee or equivalent. |
| INTOSAI GOV 9100 | Suggests how public sector internal auditors should work with external audit and management to ensure governance and risk management are effective. |
| ISSAI 100 | Describes fundamental principles of public sector auditing, including integrity, objectivity, and professional competence. |

3.3 Quick Checklist

1. Have you read and understood the IIA's core standards (IPPF)?
2. Does your agency's Internal Audit Charter reference IPPF and INTOSAI principles?
3. Are your audits planned, conducted, and reported using the IPPF structure (Standards 2010–2600)?
4. Do your internal audit reports highlight how your findings relate to control or risk weaknesses?
5. Has your audit committee been briefed on the importance of internal audit standards?
6. Are your internal Auditors members of the IIA PNG?

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FMM 05.4 Establishing Internal Audit Unit and Charter

4.1 Introduction

An internal audit unit is a legally required function for all government departments, statutory bodies, and subnational agencies in PNG that receive public funds and are subject to Auditor-General oversight.

4.2 Mandated Policy

1. Section 4 of the PFMA empowers the Finance Departmental Head to direct agencies to establish internal audit units and ensure they are operating effectively. The Department of Finance, under this mandate, requires all agencies to:

- Establish an internal audit unit (IAU) or join with other agencies to establish an IAU under a shared services arrangement;
- Appoint a designated Head of Internal Audit; and
- Adopt and operate under an approved Internal Audit Charter.

2. The internal audit function in PNG must be established and operate in line with the following global standards:

- Standard 1000 – Purpose, Authority, and Responsibility
- Standard 1110 – Organisational Independence
- Standard 1130 – Impairments to Independence or Objectivity

3. The internal audit function must adopt a code of ethics and all members of Audit Committee and Internal Audit Units sign this code (refer to Appendix for the standard code).

4. Routine PFMA compliance inspections are the responsibility of the departmental head and the designated officers—not internal auditors.

4.2.1 Provincial Government Internal Audit Unit

5. Subject to this FMM, within a province, the Provincial Government established under the *Organic Law on Provincial Governments and Local-level Governments* in that province shall establish and continuously

operate IAU in compliance with this FMM for itself, all Local-level Governments within that province and all statutory bodies that are headquartered in that province. A shared services agreement must be in place across all agencies operating a shared IAU.

- 6. No Local-level Government or statutory body headquartered in a province shall establish or operate an Internal Audit Unit, unless the Finance departmental head has enabled that local-level government or statutory body from operating its own IAU and this will consider all relevant factors, including cost efficiency and transparency and the need to operate based on the individual circumstances and risks attributable to that LLG or Statutory Body.**
- 7. In the National Capital District (NCD), the National Capital District Commission (NCDC) shall establish and continuously operate an Internal Audit Unit in compliance with this FMM.**

4.2.2 Internal Audit Charter – Purpose and Content

- 8. The Internal Audit Charter is a formal, approved document that guides the IAU operations. It ensures the function is recognised, protected, and properly directed within the agency (a template is provided as a starting point as an Appendix to this FMM). It is required to include the following at a minimum:**

| | |
|-------------------------|--|
| Purpose | State that internal audit provides independent and objective assurance and advisory services to improve the agency’s operations. |
| Authority | Confirms the unit’s right to full, free, and unrestricted access to records, personnel, and systems relevant to audit assignments. |
| Responsibility | Lists key responsibilities: risk-based audit planning, conducting audits, reporting findings, following up on implementation of the recommendations. |
| Organisational Position | Describes reporting lines—typically functionally to the Audit Committee and administratively to the agency head. |

| | |
|----------------------------|---|
| Independence & Objectivity | Clarifies that internal audit must be free from management interference in the scope or reporting of audits. |
| Standards for Practice | Commits the unit to operate in accordance with the IIA IPPF and relevant government policy (e.g. this FMM Volume 5). |
| Audit Committee Oversight | Notes the committee’s role in reviewing and approving the charter, annual plan, and significant audit outcomes. |
| Review of the Charter | Specifies that the charter must be reviewed at least once every three years (or earlier if needed). |
| Ethics | <p>All staff of the Internal Audit Unit shall:</p> <ul style="list-style-type: none"> • exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities and shall not knowingly be a party to any illegal or improper activity; • exercise loyalty in all matters pertaining to the affairs of the agency; • not engage in acts or activities that are discreditable to the agency or the Internal Audit Unit; • not engage in acts or activities that are in conflict with the interests of the agency or which would prejudice their ability to carry out objectively duties and responsibilities; • not accept anything of value from an employee, client, customer, supplier, or associate, which might be perceived to impair professional judgment or independence; • undertake only those services, which they can reasonably expect to complete with professional competence; • comply with the policies of their agency, the Internal Audit Unit and the Standards for the Professional Practice of Internal Auditing; • not use confidential information for personal gain, in any manner; |

| | |
|--|---|
| | <ul style="list-style-type: none"> • make full disclosure and not distort reports or conceal unlawful or improper practices; and • strive for improvement in their proficiency and in the effectiveness and quality of their service. |
|--|---|

4.3 Non-mandatory Guidance

4.3.1 Role and Mandate of Internal Audit Units

The role and mandate of an Internal Audit unit is –

- The examination and evaluation of the accuracy and effectiveness of the Department’s system of internal control and the quality of performance in carrying out assigned responsibilities.
- Compliance with laws, by-laws, regulations, policies, and procedures;
- Achievement of operational or organisational objectives;
- Reliability of information and safeguarding of assets;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify and report such information;
- Reviewing management systems to ensure compliance with policies, plans, procedures and regulations, and determining departmental compliance;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such resources;
- Reviewing the economy, efficiency and effectiveness with which resources are employed; and
- Reviewing operations and programs to ascertain whether results are consistent with established objectives and goals and whether operations are being carried out as planned.

Additional Internal Audit Unit functions are:

- Provide advice on fraud prevention and detection and ethical agency conduct;
- Coordinating efforts with the Auditor-General;

- Reporting findings and recommendations to management, Senior Executive Management, the Secretary or Chief Executive Officer and the Audit Committee; and
- Performing all work in accordance with corporate policies, the policies and procedures of the Internal Audit Unit and the Code of Ethics of the Internal Audit Unit and in accordance with The Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

4.4 Quick Checklist

1. Has your agency formally established an internal audit unit?
2. Is there a Head of Internal Audit with adequate independence and qualifications?
3. Has your Internal Audit Charter been approved by both the Audit Committee and the Head of Agency?
4. Does the Charter clearly define purpose, authority, responsibilities, and standards (IPPF and PFMA)?
5. Has the charter been reviewed in the past three years?

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FMM 05.5 Establishing an Audit Committee

5.1 Introduction

Internal Audit Committees (IACs) are critical to the governance and financial oversight system of government entities in PNG. They provide independent support and guidance to the Head of Department or Agency (Secretary) by reviewing internal audit plans, supporting risk-based auditing, and ensuring effective implementation of audit recommendations.

5.2 Mandated Policy

- 1. Under Section 4(6) of the PFMA 1995 and subject to this FMM, the Finance departmental head directs the establishment and continuous operation of Internal Audit Units and Audit Committees in compliance with this FMM in public and statutory bodies that receive public funds and are subject to audit by the Auditor General.**
- 2. An Audit Committee must have an Audit Committee Charter that is reviewed annually (a proposed template is provided as Appendix to this FMM)**
- 3. The Finance departmental head is responsible for keeping a register of Audit Committees and evaluate the effectiveness and performance of the audit committees.**
- 4. At minimum, the audit committee must report to the Finance departmental head within two months of the succeeding year of the prior year evaluation of the performance of the audit committee, providing:**
 - Final scorecard report for the year (refer to the scorecard provided as an Appendix to this FMM)
 - Number of audit committee meetings held versus planned
 - Members of the audit committee and the attendance to the meetings held.
 - High priority recommendations arising during that quarter which the Internal Audit Unit or Audit Committee believe need to be raised for the attention of the Department of Finance.

- The training and development (and hours) undertaken by Internal Auditors including the Head of Internal Audit during the year.
- 5. The Audit Committee is required to complete and submit to the Department of Finance a quarterly scorecard within 10 days of the quarterly audit committee meeting held using the prescribed form as specified by the Finance department head (refer to the scorecard provided as an Appendix to this FMM).**
- 6. An Audit Committee has authority to review all activities of an agency (or group of agencies) and to recommend to the respective departmental head for the Internal Audit Unit to conduct audits or investigations into any matters within its scope of responsibility. An Audit Committee shall –**
- Review and approve the annual internal audit work plan
 - Ensure the plan is risk-based and reflects agency priorities
 - Monitor audit progress and results
 - Provide guidance on contentious or high-profile audits
 - Support the implementation of audit recommendations
 - Recommend audits in response to significant risk changes
 - Support for Risk and Assurance
 - Endorse the agency's risk framework or register
 - Identify high-risk areas not yet covered by audit
 - Review assurance maps and coverage gaps
 - Encourage joint audits across departments when risks are shared
 - Provide input on emerging risks, external pressures or public interest concerns
 - Guide internal audit units during periods of change or instability
 - Help identify staff or external partners to assist internal audit as needed

- Participate in discussions on materiality, audit scoping, and methods
- examine the results of the external audit (including the management letter) and the work of internal auditors employed by the agency
- resolve any disputed matters between management and auditors including the findings disclosed to management in the management letter by the Auditor-General

5.2.1 Alliance and Sector Audit Committees

- 7. To improve the effectiveness of audit committees and support smaller agencies complying with the law, the use of audit committees across a group of agencies in a sector or location is encouraged. These are termed Alliance Audit Committees or Sector Audit Committees.**
- 8. Agencies are still able to establish an agency audit committee but this must be notified to the Finance departmental head and registered on the Audit Committee register.**

5.2.1.1 National Government Audit Committees

- 9. For the national government, in order to be efficient and cost effective, Audit Committees are to be established by sector (a Sector Audit Committee).**

5.2.1.2 Statutory Bodies and other entities

- 10. Where a statutory authority has an established Board and this Board has established an Audit Committee or Risk and Audit Committee, this committee will operate as the Audit Committee under this FMM**
- 11. For statutory bodies and other entities not operating under a Board, the statutory body or entity can elect to be a member of a Sector Audit Committee or establish an Audit Committee.**
- 12. The statutory body must notify the Finance departmental head for registration of the Board or body Audit Committee on the register.**

5.2.1.3 Provincial Government Audit Committees

- 13. Subject to this FMM, within a province, the Provincial Government established under the *Organic Law on Provincial Governments and Local-level Governments* in that province shall establish and continuously**

operate an Audit Committee in compliance with this FMM for itself, all Local-level Governments within that province and all statutory bodies that are headquartered in that province (an Alliance Audit Committee).

14. No Local-level Government or statutory body headquartered in a province shall establish or operate an Audit Committee, unless the Finance departmental head has exempted the local-level government or statutory body from the Provincial Audit Committee and after consideration of all relevant factors, including cost efficiency and transparency, in respect of that local-level government or statutory body.
15. In the National Capital District (NCD), the National Capital District Commission (NCDC) shall establish and continuously operate an Audit Committee in compliance with this FMM.

5.2.2 Composition of an Audit Committee

16. An Audit Committee will consist of not more than five members, unless otherwise approved by the Finance departmental head.
17. The Auditor -General representative is a mandatory invitee and observer of the Audit Committee.
18. Members of National Sector Audit Committee shall include-
 - a. Secretary for the department of Finance or his delegate as Chairperson
 - b. Agency head (Departmental Secretary, Chief Executive Officer, Provincial Administrator, etc.) or their immediate deputy of the host agency
 - c. Two (2) independent members
19. Each Audit Committee should be structured to match the risk and complexity of the agency. The committee must include a mix of internal and external members with appropriate skills and independence.

| Type | Expectations |
|------|--------------|
|------|--------------|

| | |
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| Chairperson | Independent member with experience in finance, audit, or governance, this is usually a nomination of the Finance department head and in the case of Board Sub-Committees, a nominated member of the Board. |
| External Members | May include retired officials, academics, subject matter experts (e.g., finance, environment, ICT) |
| Internal Members | May include senior management (excluding those directly responsible for audited areas) |

- 20. Independent members should be publicly recruited and appointed formally by letter from the agency (or host agency) departmental head. A minimum baseline of internal audit understanding is required—through formal training, certification, or practical assessment.**
- 21. Independent members of Audit Committees are appointed for periods no more three years (subject to renewal).**
- 22. Independent members of Audit Committees should be familiar with the general operational activities of the agency but shall not have held executive office within the agency or have any conflict of interest by holding membership.**
- 23. Where there is a choice between two potential independent members of equal suitability, preference should be given to the candidate who resides locally.**

5.2.3 Meeting Procedures

- 24. Audit Committees shall meet at least four times a year, and have authority to convene additional meetings as circumstances require.**
- 25. An Audit Committee requires attendance of senior management, internal auditors of host agency and or others to attend meetings to note discussions around their areas of operations and to provide pertinent information as necessary.**
- 26. Meeting agendas shall be prepared and provided at least one week in advance to members, along with appropriate briefing materials by the relevant Internal Audit Unit as secretariat to the Audit Committee.**

Outcomes should be documented with action items and follow-up dates (a recommended templates is provided as an Appendix to this FMM).

- 27. Resolutions of an Audit Committee shall be by simple majority and the Chair shall have a casting vote in case of no majority.**
- 28. Meetings may be physical or virtual.**
- 29. The Head of Internal Audit presents progress against the audit plan and key audit issues**
- 30. The departmental head (or the Board for Board sub-committees) may request the audit committee advice on high-risk or high-profile matters**

5.2.4 Audit Committee Agenda

The standing agenda for each quarterly Audit Committee meeting shall be standardised across all public sector agencies to ensure consistency, completeness, and audit responsiveness. Each meeting must address the following core items:

5.2.4.1 Meeting Frequency and Scheduling

Each agency shall convene no fewer than four (4) Audit Committee meetings per financial year. The schedule must be established annually and submitted to the Department of Finance by 31st January.

5.2.4.2 Attendance of departmental head

The departmental head (or for Board based audit committee, the Board member/s) must attend all Audit Committee meetings. If unavailable, a written delegation must be submitted noted with the meeting minutes and will be submitted to the Department of Finance as part of the Audit Committee reporting.

5.2.4.3 Minutes and Resolution Tracking

Minutes of each meeting shall be finalised and distributed to all relevant parties within fourteen (14) calendar days. All decisions, resolutions, and action items must be implemented or addressed within the following quarter. A progress update shall be tabled at the next scheduled meeting.

5.2.4.4 Audit Work Plan Review and Progress

The Audit Committee must review the implementation status of the annual internal audit work plan. Agencies are required to achieve a minimum completion rate of 90% of scheduled audits within the financial year. Deviations must be explained with mitigating measures. Refer to the Appendix of this FMM for a sample of standard Annual Internal Audit Plan Summary

5.2.4.5 Payroll Variation Audit Oversight

Where applicable, the Committee must receive and review reports on payroll variation audits conducted fortnightly using the threshold reports. Discrepancies and actions taken must be clearly documented for committee review.

5.2.4.6 Asset Management and Reconciliation Reporting

Where applicable, The Committee must review annual and quarterly asset movement reports, including updates to the asset register, and confirm the certification of the agency's asset register by 31st March annually.

5.2.4.7 Bank Reconciliations Review

The Committee shall verify that bank reconciliations for both trust and operational accounts are completed and certified by the 14th day of each month, with documented resolutions to any discrepancies within 7 working days.

5.2.4.8 Financial Reports and High-Value Transactions

Agencies must table quarterly financial reports and provide detailed variances for any major movements between actuals and budget.

5.2.4.9 Cash Advance Acquittals

A register of all outstanding and fully acquitted cash advances must be reviewed. All cash advances must be acquitted within 7 days of return from duty travel or use. Any non-acquittals must be escalated for disciplinary action or payroll deduction.

5.2.4.10 Unaudited Annual Financial Statements

By the end of February each year, unaudited annual financial statements and expenditure reports must be reviewed by the Audit Committee prior to formal submission to the Department of Finance. These must be signed by both the departmental head and head of finance.

5.2.4.11 Management Response to Auditor-General Findings

All responses to Management Letters issued by the Auditor-General must be reviewed. Responses must be completed within 21 calendar days, and any unresolved issues must be flagged for executive action or referred to the Department of Finance.

5.2.4.12 Audit Outcomes and Audit Opinion Quality

The Audit Committee must assess whether the agency is on track to achieve an unqualified audit opinion. Agencies that have received a qualified opinion for two consecutive years must present a corrective action plan.

5.2.4.13 Internal Audit Staffing and Capability

The Committee must confirm that the Internal Audit Unit is fully staffed in line with the agency's approved structure. Vacant positions exceeding 60 calendar days must be reported to the appropriate authority with a recruitment plan.

5.2.5 Additional Reporting and Transparency

31. The Audit Committee reports to the departmental head and works closely with the Head of Internal Audit and it may also:

- Provide updates to the Auditor-General
- Support publication of non-sensitive audit summaries
- Collaborate with other Audit Committees on cross-cutting risks
- Authorise joint audits or alliances across departments
- Advocate for reforms or improvements in financial governance

5.3 Audit Committee Member Fees and Allowances

Fees and allowances provisions for audit & risk committees, except for Board sub-committees, fall outside the scope of specifications for committees under the Boards (Fees and Allowances) Act 1955.

32. The departmental head has the authority to establish an appropriate and reasonable sitting fees consistent with *Boards Fees and Allowances Act 1955 (Chapter 299)* for audit committee members (other than public servants).

33. The determination and administration of fees and allowances approved and gazetted by Minister for Treasury effective since October 2021, shall apply for board level engagements, including board sub-committees or committees in consistent with *Boards (Fees and Allowances) Act Chapter 299*. These schedules of fees and allowances, certified through gazettal notice No. G693, 13th October, 2021 shall remain in force until a new determination is considered necessary from time to time.

5.4 Quick Checklist

1. Independent chair and members appointed appropriately
2. Meets quarterly with clear agendas and documented minutes
3. Reviews and approves risk-based audit plans
4. Monitors follow-up on audit recommendations
5. Ensures internal audit remains independent and objective
6. Coordinates with MoF and other IACs as needed
7. Provides input to Secretary on high-risk governance issues

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FMM 05.6 Proficiency, Independence and Objectivity of the Internal Audit

6.1 Introduction

The quality and credibility of an internal audit function depend not only on procedures, but on people and principles. For internal audit to function as a respected oversight mechanism, auditors must demonstrate high levels of professionalism, ethical and be technically proficient, and maintain clear independence and objectivity from management and other influence.

6.2 Mandated Policy

- 1. The Heads of Internal Audit, Internal Audit Committee members and other employees within the Internal Audit Unit are required to act in the public interest, not in favour of a particular person, minister, or department head.**

This is also means that in their conduct:

- Using language and behaviour that reflects honesty and respect.
 - Refusing gifts, favours, or hospitality that could compromise integrity.
 - Documenting and reporting audit results without bias.
 - Standing by your findings, even when pressured to soften or remove them.
- 2. All internal audit staff are expected to adhere to the IIA Global Code of Ethics Principles (provided as Appendix to this FMM). Breaches of ethical conduct can result in disciplinary action and may be referred to the Department of Finance or external professional/oversight bodies.**

The IIA provide a published guide on the implementation of the International Professional Practices Framework Global Code of Ethics

6.2.1 Proficiency and Capacity Building

- 3. Internal auditors must have financial, operational, and public sector knowledge relevant to their audits and Heads of Internal Audit are expected to hold professional qualifications (e.g., CPA, CIA, or postgraduate audit training) (please refer to FMM 02.02).**
- 4. Where full qualifications are not to be attained/yet held, a professional training and development plan must be in place, supported by the departmental head.**
- 5. Internal auditors are required to undertake and develop proficiency over time and departmental heads are required to track and report on the training hours of their internal audit staff as part of annual performance monitoring.**

6.2.2 Independence and Objectivity

- 6. Independence protects internal audit from undue influence by management or external parties. In PNG:**
 - The Head of Internal Audit must report functionally to the Audit Committee and administratively to the departmental head (PFMA Section 4, IPPF 1110).
 - The internal audit unit must be structurally separate from the functions/areas it audits—no auditor can audit their own work or supervise their own former team.
 - Internal audit must be free to:
 - Set its own work plan (based on risk);
 - Access all relevant documents and systems;
 - Report findings without fear or favour.
 - Internal auditors must declare any conflicts of interest before accepting an assignment.
 - Auditors must avoid auditing functions they previously managed, unless three years have passed.

- Personal relationships (e.g. family or close friends) with auditees must be disclosed.
- Every audit file should contain a signed conflict of interest declaration by the team.

6.3 Quick Checklist

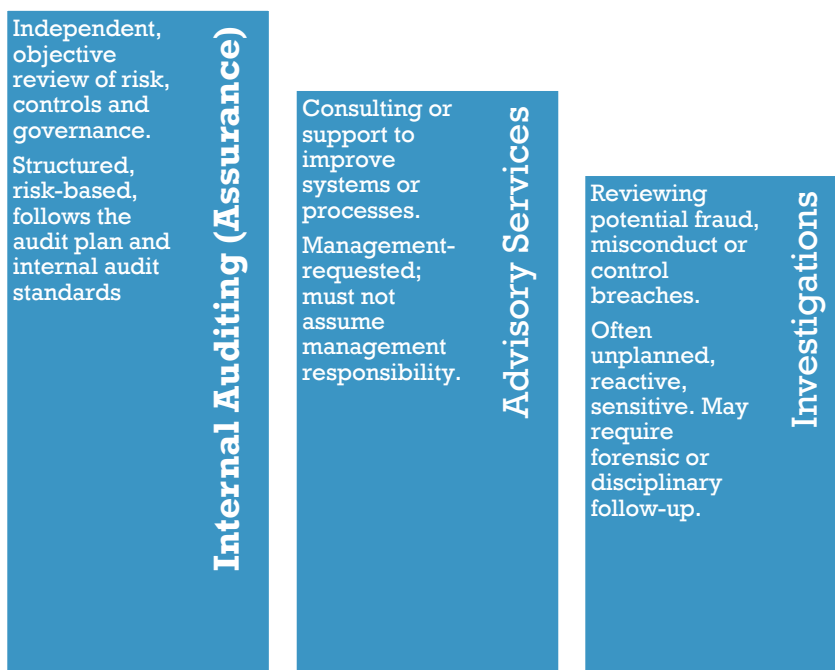
1. The Head of Internal Audit reports functionally to the Audit Committee.
2. All internal auditors have completed a conflict of interest declaration.
3. Internal audit staff have participated in relevant training in the past 12 months.
4. Audit findings are issued without interference or changes from management.
5. The agency maintains a log of auditor qualifications and CPD hours.
6. Auditor must attain accounting or business studies qualification.

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FMM 05.7 Audits versus Investigations versus Advisory activities

7.1 Introduction

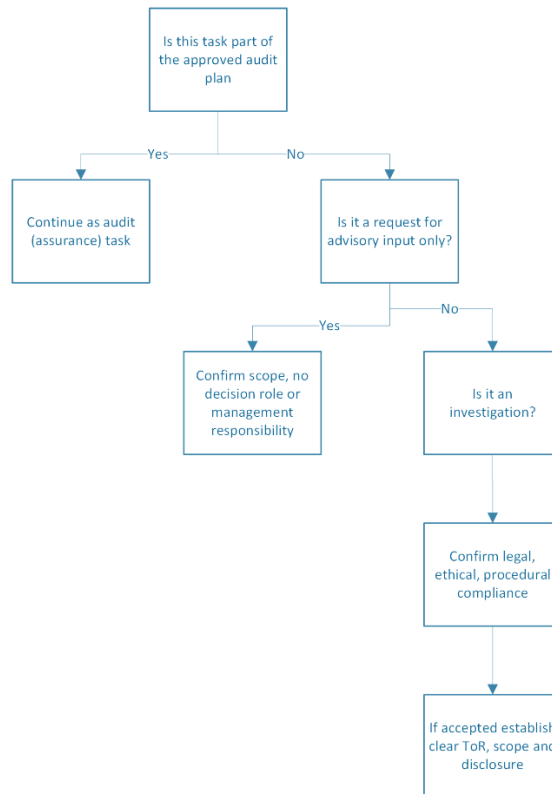
Internal audit units often face pressure to respond to a wide range of requests—from assurance audits to advisory tasks and even investigations. While internal audit plays a valuable role across all three areas, it is critical to maintain clear boundaries to protect independence, objectivity, and professional credibility.



7.2 Mandated Policy

1. Internal auditors in public entities may perform advisory or investigative work if clearly authorised and if independence is protected (INTOSAI GOV 9140).
2. Internal auditors should not undertake tasks that involve management decision-making or create conflicts of interest in future audits and therefore units must:
 - a. Clearly define permitted roles in the Internal Audit Charter.
 - b. Use a Terms of Reference (ToR) for any advisory engagement.

- c. **Avoid auditing activities the unit has recently advised on.**
- d. **Ensure staff assigned to investigations are trained, and have clear protocols.**
- e. **An agency must have a decision making framework in place that considers how to respond to requests of the internal audit unit:**



| Type of Work | Allowed? | Conditions |
|--|----------|--|
| Risk-based assurance audits | Yes | Must be core focus. Planned and structured per audit standards. |
| Advisory on new controls/processes | Yes | If requested by management, no decision-making by audit, no later self-review. |
| Support to investigations (fraud, mismanagement) | Caution | Only if permitted by charter and staff have training. Otherwise, refer to other appropriate authorities. |
| Advising on policy or systems design | Caution | Allowed if documented and audit will not later evaluate the same process. |

| | | |
|--|----|--|
| Leading HR or disciplinary investigations | No | These are HR/legal functions. Internal audit must not take responsibility. |
| Auditing areas where recent advice was given | No | Wait at least 12 months or assign to a different auditor/team. |

IPPF (International Professional Practices Framework) provide guidance on defining what role an internal audit unit can consider:

- **Standard 1000** – Internal audit must have a defined purpose, authority, and responsibility.
- **Standard 1110** – Independence must be maintained in all engagements.
- **Standard 1130.C1** – Advisory work is permitted if it does not impair independence.
- **Standard 2120.C1** – Advisory work must still address risk and control objectives.
- **Standard 2440.C1** – Results of advisory work must be properly communicated.

7.3 Findings during Internal Audits that result in Investigations

During the course of an audit, inspection, examination, auditors may encounter elements of potential theft, embezzlement and misappropriation.

3. All auditors working on the engagement with the suspected crime involved must inform their Head of the Internal Audit immediately who must then inform the departmental head.

The departmental head must decide on the course of action including the application of the agency’s fraud control policy.

Internal audit will encounter several types of control failures leading to the following types of investigations –

- administrative – in a financial setting, these may represent an improperly completed form or other unintentional failure to follow the rules and regulations. with immaterial damage. When an auditor finds an administrative offence, he or she should note the offence as part of

their test of controls. Most of these errors form the focus on compliance and similar audits.

If an offence unrelated to the audit is found, the auditor should advise the Head of Internal Audit who will provide further directions.

Administrative offences found in other settings (like in an environmental regulatory compliance or regulatory audit) will require different treatment.

- civil offences – many risks deprive the government of life-time value-for-money and/or its legally mandated control over spending. When money – or the material economic equivalent value – is lost, the auditor may recommend proceeding with a civil case to recover damages. The departmental head will decide on the relative merits – including the referral to National Anti-Corruption and Fraud Squad for independent criminal investigation.

- 4. If an auditor has a reasonable belief that anyone attached to an audit committed a crime, he or she has the duty to inform his or her Head of Internal Audit and departmental head immediately.**
- 5. Like any other requirements for criminal evidence, any audit evidence obtained from private individuals and expected to be confidence shall have the protection of confidentiality and equally protected under the *Whistleblowers Act 2020*. The requirement for court orders to obtain documentation and working papers keeps the auditors independence and due diligence intact.**

7.4 Quick Checklist

1. Does the internal audit charter define rules for advisory/investigative work?
2. Has the unit refused or referred work that would compromise independence?
3. Are all advisory engagements documented with a Terms of Reference?
4. Have auditors declared and managed any role conflicts?

5. Does the internal audit plan remain focused on high-risk assurance work?

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FMM 05.8 Risked-Based Auditing

8.1 Introduction

Traditionally, internal audits focused on checking compliance with policies and procedures, often using a cyclical approach where every unit or process was audited at a set interval/frequency.

While compliance remains important, modern internal audit functions are increasingly risk-based. This shift ensures priority is given to areas where the agency is most exposed to negative outcomes—financial loss, fraud, reputational damage, or service delivery failures.

A risk-based approach focuses the audit plan and resources on the highest-risk activities, meaning those that could significantly impact the agency's mission or integrity if not well-controlled.

8.1.1 Why Risk-Based Auditing Matters?

By identifying and ranking risks, internal audit ensures that critical vulnerabilities receive prompt attention.

It also recognises, especially in PNG's fiscally constrained environment, that time and budget are limited. A risk-based plan allocates audit resources where they yield the greatest benefit—no wasted effort on low-risk, low-impact areas.

Agency leadership (including the Audit Committee) gain insights into top risks and receives targeted recommendations to strengthen controls and also encourages ongoing risk assessment, adapting as the agency's environment changes.

In more modern organisations it is common to merge the risk and audit functions together and form Risk and Audit Committees.

8.2 Mandated Policy

- 1. All agencies are directed to adopt a risk-based approach in formulating their annual internal audit plans. The Department of Finance, through the**

PFMA and relevant sections of the Finance Management Manual, will supervise and guide agencies to ensure this method is consistently applied.

8.3 Non-mandatory Guidance

8.3.1 Authority and Prescribed Requirements

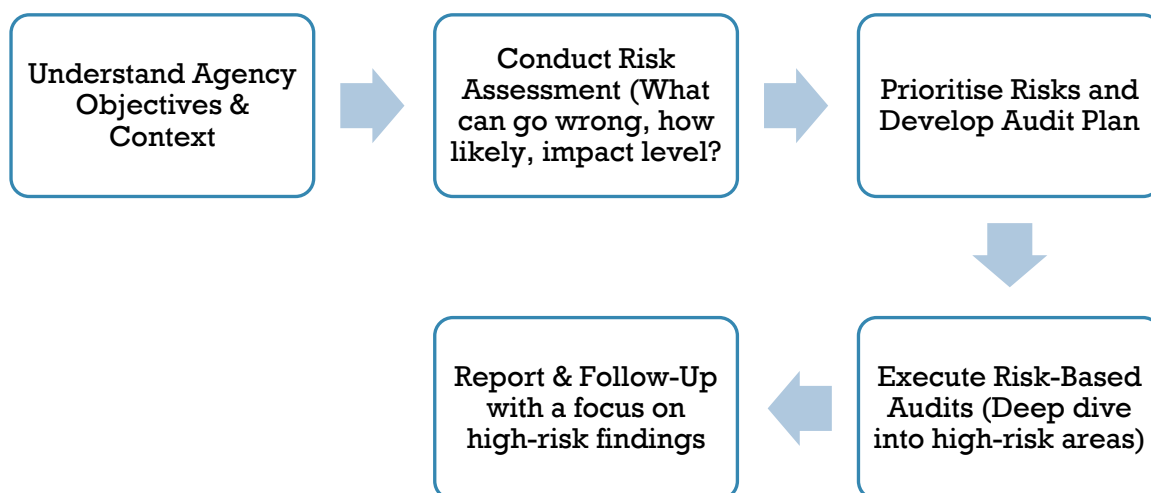
- Public Finances (Management) Act 1995 (PFMA) emphasises responsible use of public funds, implying that agencies should regularly assess and address areas posing significant risks to financial integrity.
- FMM Volume 2 sets out governance and accountability principles that require an understanding of operational and financial risks.
- IIA IPPF:
 - Standard 2010 (Planning) states: “The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity...”
 - Standard 2120 (Risk Management) underscores the internal audit’s role in evaluating risk exposures and risk management processes.
- INTOSAI Guidance: INTOSAI’s GOV 9140 on “Internal Audit Independence in the Public Sector” and related documents highlight the need for risk-focused audits to enhance accountability and transparency in government entities.

8.3.2 Understanding Risk-Based Auditing vs. Traditional Approaches

The following table simply summarises the differences between traditional and risk-based auditing:

| Traditional (compliance-focussed) | Risk-based |
|--|--|
| Audits every unit/process on a fixed cycle | Audits areas based on priority of risk and impact. |
| Checklist-driven; often uniform scope. | Scope tailored to the specific risk profile. |
| Heavy emphasis on policy compliance. | Emphasises risk identification, mitigation, and strategic alignment. |
| May overlook emerging risks if not on the cycle. | Agile approach; adapts to new/emerging risks. |
| Often treats all findings as equally urgent. | Findings prioritised by potential impact and likelihood. |

Much like the designing of internal controls, risk-based auditing starts with an identification of risks and below is a simplified diagram showing how risk-based auditing fits into an agency's audit cycle:



8.3.3 Understand Agency Objectives & Context

This requires a review of the agency's mandate (e.g., delivering health services, maintaining roads) and strategic priorities. It also requires the identification of laws, regulations, and policies that frame operations (e.g., PFMA but also others including departmental instructions). For example, a review of health services would also need to consider the laws related to patient privacy, handling and storing on prescription medications etc.

8.3.4 Established rules and procedures

The *Public Finances (Management) Act 1995 (as amended)*, Financial Instructions and the Finance Management Manual set out the rules and procedures to be followed in the management of public moneys. All internal auditors carrying out public financial audits must have a sound understanding and working knowledge of the Act and the Instructions. They must equally have a sound understanding and working knowledge of the *Public Services (Management) Act 1995*, General Orders, and the Code of Conduct.

The auditors must identify and refer to other authorities as appropriate. For instance, the *Organic Law on Provincial Governments and Local-level Governments*, when auditing Provincial Administrations and District Administrations, or *Hospitals Act* when auditing a public hospital. It is also required to have a good understanding of other Acts that relate to good governance such as the *Organic Law for the Independent Commission against Corruption*, *Whistleblower Act*, *Digital Government Act* etc.

8.3.5 Conduct Risk Assessment

There needs to be a collaboration between management, risk officers, or subject matter experts to identify inherent risks (risks before controls) and residual risks (risks after current controls).

When reviewing risk, the assessment also needs to consider both impact (financial, reputational, operational) and likelihood.

8.3.6 Prioritise Risks & Develop the Audit Plan

As with any risk framework, risks are categorised (eg, “High,” “Medium,” “Low”) and you would allocate audit resources to “High” risks—these become top priorities in the audit work program. Lower-risk areas may receive periodic or rotational reviews.

8.3.7 Execute Risk-Based Audits

Scope each audit according to the identified risk. For instance, if within procurement, the management of contracts, is high-risk, the audit might delve deeply into tender processes, contract performance management, and contract controls. The aim is to test controls specifically designed to mitigate the identified high risks, rather than generic compliance checklists.

8.3.8 Report & Follow-Up

Emphasise significant, high-risk findings in reports and work with management and the Audit Committee to track remediation efforts, ensuring the biggest risks are addressed quickly.

8.3.9 Practical Considerations for Agencies

Internal audit, particularly a highly functioning audit committee, is a mandatory requirement but often difficult to implement, particularly in PNG

where there are insufficient resources assigned or audit skills are difficult to recruit. To support this please consider:

- The internal audit's risk assessment should be tied directly to the agency's strategic mission (e.g., delivering essential services, controlling public expenditures). Focussing on what matters.
- Smaller agencies with fewer auditors must be especially selective—risk-based planning is key to making the most of limited audit capacity. Also consider collaborating with other agencies to share resources to deliver high-risked audit plans.
- Political, economic, and environmental factors can shift rapidly in PNG and an audit committee is essentially for establishing the minimum expectations for risk assessment. Internal auditors or those officers assigned to audit functions, should establish a routine (e.g., quarterly) to update the risk assessment.
- Departmental heads and management is ultimately responsible for addressing high risks. A risk-based audit approach fosters closer collaboration, as both internal audit and management share a common focus on the biggest threats to success.
- Keep clear records of how risks were identified, how they were rated, and why certain areas were selected (or not selected) for audit. This transparency boosts credibility with the Audit Committee and external auditors.

A major challenge in PNG is implementing audit findings – this requires ongoing efforts to ensure the 'tone at the top', it's not just the oversight of audit committees but the consistent and ongoing efforts to not tolerate lack of priority placed on implementing audit findings for high-risk areas.

8.3.10 How Internal Audit & The Audit Committee Collaborate

Risk-based auditing is the cornerstone of modern internal audit. By aligning the audit program with the areas that pose the greatest threat to an agency's

financial integrity and mission, internal audit provides maximum value. This approach not only meets the PFMA’s call for responsible financial management but also ensures efficiency—limited auditing resources target the issues that matter most.

The draft risk-based audit plan should be presented to the Audit Committee for discussion and endorsement (aligns with INTOSAI GOV 9140). If a high-risk situation emerges mid-year (e.g., a new IT system or a budget shortfall), internal audit may revise the plan in consultation with the Audit Committee.

Summaries of major risks, audit findings, and recommended actions are shared regularly with the committee to ensure timely decisions.

8.3.11 Quick Checklist

1. Does your internal audit plan clearly link each chosen audit to the agency’s top risks?
2. Have you considered emerging or external risks (e.g., climate change, or technology changes)?
3. Do you review and update the risk assessment at least annually (or more frequently if needed)?
4. Is the Audit Committee involved in endorsing risk priorities and discussing high-risk issues?

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FMM 05.9 Planning Internal Audit Activities – Annual Audit Work plan

9.1 Introduction

The audit plan is the single most important management tool for an internal audit unit. It defines the scope, timing, and purpose of all audit work during the year. A good plan ensures that audit resources are focused where they are needed most: on high-risk, high-value areas of public spending and service delivery.

9.2 Mandated Policy

1. Internal audit plans must:

- a. Be risk-based and aligned with the agency’s strategic and operational priorities;
- b. Reflect input from management, the audit committee and key stakeholders; and
- c. Be approved by the department head and monitored by the audit committee.

2. Audit work plans are not static. Agencies must:

- a. Review progress quarterly with the Audit Committee
- b. Re-assess priorities if new risks or concerns emerge
- c. Track performance against the plan (e.g. % complete, audit time used, issues resolved)
- d. Adjust timelines if resources change—but document all changes

| Standard | What It Requires |
|-----------------------------------|---|
| 2010 – Planning | The Head of Internal Audit must establish a risk-based plan to determine the audit function’s priorities. |
| 2020 – Communication and Approval | The plan must be communicated to senior management and the audit committee for review and approval. |

| | |
|--------------------------------|---|
| 2030 – Resource Management | Audit plans must be realistic based on available resources/staff and budget. |
| 2040 – Policies and Procedures | Planning must follow documented methods and link to internal audit’s charter. |
| INTOSAI GOV 9100 | Internal audit in public entities should plan work to support governance, risk and performance oversight. |

9.2.1 Minimum content for an audit work plan

3. The following is the minimum elements within a work plan (a recommended templates is provided as an Appendix to this FMM):

| Component | Description |
|---------------------------|---|
| Purpose and Context | A brief overview linking the plan to the agency’s goals and associated risks. |
| Audit Universe | A list of all auditable areas in the agency. |
| Risk Assessment Summary | How risk ratings were developed (based on risk registers, interviews, data). |
| List of Audits | Scope, estimated days, responsible staff, and timing for each engagement. |
| Resources and Constraints | Number of staff, budget, tools or limitations. |
| Unplanned Work | Allow for advisory tasks, investigations, or emerging risks. |
| Monitoring and Review | How the plan will be tracked and revised during the year. |

9.2.2 Audit Planning and the Agency’s Business Cycle

4. Internal audit planning must align with the agency’s broader corporate and financial planning processes, including:

- What the agency aims to achieve over 3–5 years
- Annual activity and budget planning
- Quarterly/annual reporting that is completed on what was achieved, and where risks or weaknesses were identified.

5. Audit teams should aim to complete their annual plan by 1st quarter of each year, so that fieldwork and reporting can begin early and align with operational cycles.
6. Head of Internal Audit Division/Units should apply the required sample of Annual Internal Audit Plan Summary that should be used by all internal auditors across government agencies for formulating annual audit plans for the year (a templates is provided as an Appendix to this FMM).

9.3 Non-mandatory Guidance

9.3.1 Assurance Mapping – A Practical Planning Tool

The agency should complete an assurance map which is reviewed annually and can be presented alongside the audit plan to the Audit Committee.

An *assurance map* is a visual or tabular tool that shows which areas of the agency are being reviewed—and by whom (internal audit, external audit, risk management, regulators, etc.). It helps to:

- Identify gaps in assurance coverage
- Avoid duplication of effort
- Prioritise areas where only internal audit can provide insight

| Strategic risks | Risk rating | Type and level of assurance provided | | | | | | | Risk rating after assurance | Is level of assurance adequate? Yes/No | Previous and proposed internal audit activity 2015–16 to 2018–19, external audit and other independent reviews | |
|--|-------------|--------------------------------------|-----------------------|-----------------------|-----------------|---------|-----------------------|------------|-----------------------------|---|--|--|
| | | 1st line of assurance | | 2nd line of assurance | | | 3rd line of assurance | | | | | |
| | | Management reviews | Management Committees | Compliance | Risk management | Quality | Internal audit | VAGO audit | | | | Independent consultants |
| 1 Failure to keep pace with emerging technologies | H | ● | ● | IT | | | | | | H | No | |
| 2 Failure to recruit, develop and retain skilled staff | H | ● | ● | HR | | | ● | | | M | Yes | IA—Workforce planning (2015) |
| 3 Succession planning | L | ● | ● | HR | | | ● | | | L | Yes | IA—Workforce planning (2015) |
| 4 Ineffective financial management | M | ● | ● | ELT | | | ● | | | L | Yes | IA—Long term financial planning (2017) |
| 5 Failure to manage contractual arrangements | M | ● | | | | | ● | | | M | Yes | VAGO—Managing contracts (2015) |
| 6 Failure to comply with legislative requirements | M | ● | | ● | ● | | | | | L | Yes | IA—Legislative compliance framework review (2018) |
| 7 Failure to maintain safe work practices | H | ● | ● | OHS | ● | ● | ● | ● | | M | Yes | IA—OHR&S (2017). XYZ Ltd—Review of OHS framework (2016) |
| 8 Vulnerability to cyber attack | H | ● | | | | | ● | ● | | M | Yes | IA—IT Security review (2017-18) ABC Ltd—IT penetration testing (2016) |

Risk rating

| | | |
|------|--------|-----|
| | | |
| High | Medium | Low |

Level of assurance

| | |
|---|-----------|
| ● | Extensive |
| ● | Good |
| ● | Partial |
| ● | Limited |
| ○ | None |

FIGURE 4 MODEL ASSURANCE MAP REPRODUCED FROM THE VICTORIAN AUDITOR GENERAL OFFICE

9.4 Quick Checklist

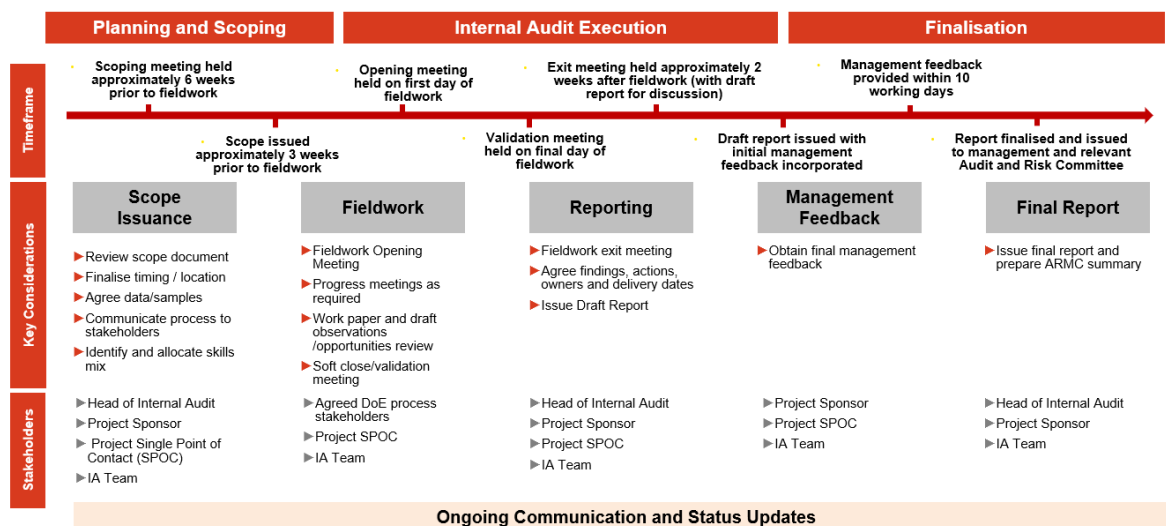
1. Is there a current audit plan, approved by the Audit Committee?
2. Was input obtained from management and key stakeholders?
3. Does the plan focus on high-risk, high-value areas of activity?
4. Is there a current assurance map to identify gaps and overlaps?
5. Is progress against the audit plan tracked and reported each quarter?

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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 |

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|----------------------------|---------------------|
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FMM 05.11 Internal Audit Fieldwork and Testing

11.1 Introduction

Fieldwork is the phase where the internal audit team gathers audit evidence to evaluate the effectiveness of internal controls and confirm whether risks are appropriately managed. This is the practical application of the engagement plan. Quality fieldwork depends on clear objectives, a well-structured test program, and professional judgement.

Fieldwork is about verification — not opinion — and must remain neutral, focused, and evidence-based.

11.2 Mandated Policy

1. Internal auditors must:

- a. Conduct all audit testing according to a documented test program.
- b. Maintain working papers that meet professional documentation standards.
- c. Collect sufficient, relevant, and reliable evidence to support findings.
- d. Communicate major emerging issues to the Head of Internal Audit and management during the audit — not at the end.
- e. Audit units may not collect evidence beyond the authorised scope without formal re-approval.

11.2.1 Planning Fieldwork

2. Before starting, auditors must:

- a. Finalise the test program based on risk and scope.
- b. Confirm logistics (access to systems, premises, personnel).
- c. Meet with the client for a formal opening interview.

d. Set expectations on communication, draft reviews and reporting.**3. Evidence must be gathered on a risk and materiality basis — exhaustive testing of all transactions is neither expected nor efficient.****11.3 Non-mandatory Guidance****11.3.1 Gathering Audit Evidence**

Audit evidence is information collected and used to support audit findings. The conclusions and recommendations in the audit report stand or fall based on such evidence. There are many types of evidence:

| Type | Description |
|-------------|---|
| Documentary | Memos, policies, financial records, contracts, logs |
| Oral | Interviews, meetings, verbal confirmations (must be corroborated) |
| Physical | Observation of assets or activities (e.g. site visits) |
| Analytical | Trend analysis, reconciliations, ratios, variance analysis |

11.3.1.1 Test of Quality - Sufficiency, competence and relevance of evidence

Sufficiency: Is there enough?

Competence: Is it valid and reliable?

Relevance: Does it relate directly to the audit objective?

Evidence is sufficient when there is enough relevant and reliable evidence to persuade a reasonable person that internal audit finding, conclusions and recommendations are warranted and supported.

In determining whether documentary evidence is sufficient, the auditor must take account of the status of the document. For example, auditors within the Department of Finance may gather draft internal memos, which have little status, whereas advice from the Department of Finance to its Minister is considered stronger evidence of an agencies intentions and decisions.

The factors that dictate the strength of evidence required to support an observation in internal auditing include:

- Level of materiality or significance of the observation
- Degree of risk associated with coming to an incorrect conclusion
- Experience gained in previous audit examinations on the degree of operational area's records and representations
- Known operational area sensitivity to an issue
- Cost of obtaining the evidence relative to the benefits in terms of supporting the observation

Evidence is competent (valid or reliable) if it actually represents what it purports to represent. The reliability of evidence can be assessed by considering the following matters:

- Corroboration of evidence is a powerful technique for increasing reliability. The auditor looks for evidence from different sources and of different types to support each other.
- Evidence sources from outside the Department (or operational area) is normally viewed as more reliable for audit purposes than information generated within the Department (or operational area).
- Documentary evidence is usually considered to be more reliable than oral evidence.
- Evidence generated through direct audit observation is more reliable than indirectly obtained evidence.
- Oral evidence that is corroborated in writing is more reliable than oral evidence alone,

Relevance requires that the evidence bear a clear and logical relationship to the audit objectives and to the criteria. One approach to planning for data collection is to list, for each issue and criterion, the nature and location of evidence that is needed, as well as the audit procedure that is to be implemented.

11.3.2 Conducting Audit Tests

Audit procedures must align with the test program. Common procedures include:

- Document review and walkthroughs
- Compliance testing of control steps
- Re-performance of calculations
- Observation of procedures
- Interviews with staff and clients

All tests must be documented in working papers with clear cross-references to the audit program.

11.3.3 Working Papers

Working papers are the backbone of audit credibility, and:

- Provide audit trail and support conclusions
- Enable quality review and replication
- Document decisions, findings, and test results

Auditors must adequately document the audit, including the basis and extent of planning, audit methods and procedures, research design, the work performed and the audit results and findings.

Working papers serve as the connecting link between field work and the audit report and they should contain the evidence accumulated in support of the opinions, conclusions and recommendations included in the report.

The prime need is to demonstrate the quality of evidence and opinions, conclusions and analysis supporting recommendations, in the interests of presenting a credible report for consideration by management and the audit committee.

11.3.3.1 Characteristics of good working papers

There are several broad characteristics which all working papers should exhibit.

- Completeness and accuracy

Working papers should be complete and accurate. They should provide proper support to the findings, conclusions and recommendations, and demonstrate the nature and scope of the examination performed.

- Clarity and conciseness

Working papers should be clear and concise. Without supplementary oral explanations, anyone using the working papers should be able to understand their purpose, the nature and scope of the work done, and the conclusions reached. A summary, Indexed and cross referenced to the documents, or photocopies of key pages, are all that is necessary in the working papers

- Ease of preparation

Working papers should be easy to prepare. This may be achieved by using wherever possible Department's produced schedules, pre-printed audit stationary, and automatically generated working paper formats, or standard formats.

- Legibility and neatness

Working papers should be neat and legible. If they are not, their use in report preparation will be restricted and they may lose their value as audit evidence.

- Relevance

The information contained in working papers should be restricted to matters which are materially important, and useful with reference to the objectives the audit assignment.

- Organisation

Working papers should be organised and exhibit a consistent structure. This is facilitated by a logical and easy-to-follow index. The filing and indexing of working papers as they are prepared promote an efficient cross-referencing system which can help avoid the continual restatement of information.

It is important to reference the documents obtained during filed work to their sources and record those details in a document register. An efficient indexing system will assist when writing summaries and reports.

The filing system should be electronic and should allow the reader to proceed from summary to supporting details. All supporting documentation should be cross-referenced to related working papers, where necessary, and also to the test program. This provides for easy access to all information concerning the audit.

To aid understanding and avoid confusion in filing, working papers should be restricted where practicable to one subject per worksheet. Where this is not feasible, for example a wide ranging report, consider placing cross-references to the report in appropriate sections of the working papers.

- Ease of review

Reviewers are presented with a less onerous task if working papers exhibit the characteristics discussed in the points above.

When preparing working papers, their end users should be kept in mind. These include forming the basis for audit findings and recommendations, and facilitating prompt answers to questions pose by management and the audit committee.

- Role of the registry file

A registry files should be created for each audit. The purpose of this file is to provide a chronological summary of the audit and to show key milestones. It is recognised that contents of this file will vary depending on the type of audit. Keeping this in mind, the registry file could include:

- internal correspondence relating to the management of the audit
- correspondence with the operational area relating to the audit
- correspondence to and key groups connected with the audit topic
- key meeting details and outcomes
- major audit development
- a copy of the proposed report and subsequent correspondence
- a final copy of the audit report, and

- a copy of the master index to provide an outline of the content of the working papers.

This list is by no means exhaustive; it is to be used as a guide for the content of the folder.

11.3.3.2 Structure of working papers

A good working paper structure will facilitate the production of a set of working papers which 'stand-alone' and fully support the audit report, generate consistency and enhance efficiency of review.

The form and content of working papers can be expected to be affected by such matters as:

- the nature, complexity and geographical dispersion of the activity under review
- the nature and condition of the agency records
- the degree of need for direction, supervision and review of audit staff of each particular audit team.

There are at least three sections required in the working papers. Although the order is not prescriptive, the sections are considered to be a minimum requirement of the working papers. They are:

Planning

- audit engagement plan
- test program
- task management
- audit objectives
- audit-criteria

Execution

- background information
- legislation
- Finance Instructions

- General Orders
- previous audit coverage
- test program
- sample selection
- testing and analysis section
- audit conclusions
- minutes of meetings and discussions.

Reporting

- presentations to management
- issues papers
- responses to issues papers
- response to proposed reports
- audit report drafts
- final audit report
- follow-up

The structure of the working papers evolves as the audit progresses; the final details of the structure will be determined by the key issues emerging from the audit.

11.3.4 Communication During Fieldwork

Auditors must follow a “no surprises” approach. This includes:

- Weekly updates to the audit sponsor
- Mid-point review to confirm direction
- Immediate escalation of serious or sensitive findings to Head of Internal Audit
- Maintaining professional and cooperative conduct

Use short “issue briefs” for emerging high-risk observations, especially in long audits.

11.3.5 Ending Fieldwork

Once testing is complete:

- Hold a closing meeting with management to preview findings.
- Allow discussion on factual accuracy, context and implementation feasibility.
- Record management views and clarifications.

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| Further Information | iacd@finance.gov.pg |
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FMM 05.12 Audit Findings and Developing Recommendations

12.1 Introduction

Audit findings form the central result of internal audit work. They present what was discovered, how it differs from expectations, what risks arise, and what action should be taken. The development of findings must be grounded in evidence, tested against valid criteria, and framed in a way that drives positive change.

A poorly formed finding may be ignored. A well-framed one can trigger meaningful reform.

12.2 Mandated Policy

1. Internal audit units must:

- a. Prepare findings in a consistent format grounded in audit evidence and criteria.**
- b. Use the 5-element method to structure audit findings (Criteria, Condition, Cause, Effect, Recommendation).**
- c. Rate the impact and risk of each finding.**
- d. Engage with management to verify factual accuracy and context prior to reporting.**

12.3 Non-mandatory Guidance

12.3.1 Communicating Findings

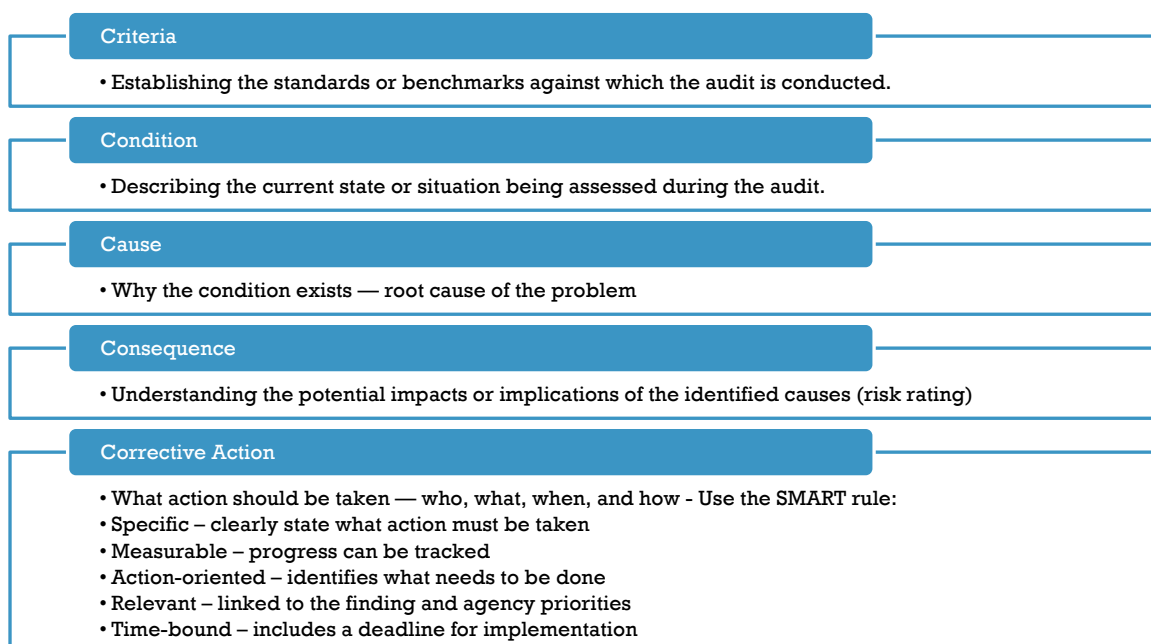
Audit observations and evidence are compared with the audit criteria and the difference is an audit finding. Findings of performance exceeding the criteria are good practice findings; these should also be reported. For example, in addition to the regular bank reconciliations, the cash operation area may prepare daily cashflows/reports of available cash to management.

The development and evaluation of audit findings take place throughout the various phases on an audit.

They may start at the planning stage as matters of potential significance. Potential findings identified during the audit planning are followed up on in the field work phase.

The detailed evaluation of audit findings is generally completed during the preparation of working papers/issues papers for distinct segments of audit work or near the completion of the audit field work. However, some evaluation may extend into the reporting phase, as findings are challenged and further evidence is obtained.

It is at the reporting stage that a final decision is reached of the findings and recommendations that will be reported.



Once an audit finding has been identified, two complementary forms of assessment take place - the assessment of significance of the finding and the determination of the causes of increased performance or lack of performance where performance is below that expected.

The auditor should identify the cause of the finding, as this forms the basis for the recommendation. The cause is that which, if changed, would prevent similar findings. The cause may be outside the control of the operational area under audit review, in which case the recommendation should direct attention

outside the operational area. This factor should also be taken into consideration while developing the timeline for reporting.

The effect of a finding may be quantifiable. For example KXOXO of claims were not approved by the correct delegate.

The effect should demonstrate the need for corrective action. The effect and also have occurred in the past, be occurring now or possibly occur in the future. To make a finding stand, be certain that, if the effect occurred in the past, the situation has not already been remedied to prevent it recurring.

The auditor may identify a cause-and-effect chain and have the option of reporting the findings at different points in the chain. In this situation the auditor should focus on the most critical deficiency in the chain. For example, claims are not approved by an appropriate delegate, there is no register of quotation and the supporting documentation is missing. The development of audit findings and the formulation of recommendations for improvement in administrative or operational performance are the important feature of the internal audits.

The recommendations made by internal audit have to be argued in a logical fashion. Some recommendations are based on unfavourable finding; other refer to wider employment of better practice. Detailed directions to the operational area are generally not appropriate, but the recommendation should indicate broadly what issues might be examined by management in seeking solutions. It is not sufficient that the management of a particular operational area requires improvement without indicating options for consideration in achieving this.

Recommendations require careful review to ensure that they are practicable and add value. The auditor should check, for example, that the recommendation addresses the objectives of the audit; i.e. efficiency, economy, administrative effectiveness or accountability as appropriate. A good test for the auditor is to consider how the recommendation would be followed up. How would we test whether the recommendation has been implemented? Are there specific actions that the operational area can undertake which can satisfy the recommendation?

When formulating recommendations, the auditor should estimate where possible the likely net savings arising from the recommendations. In this way the 'value added' of the audit and the benefits of internal audit will be identified. Without such estimates, implementation of change is much less likely.

12.3.2 Reporting of Findings

Findings must be presented to the operational area management for comment as they arise. In this way operational area responses can be documented and analysed. Where the operational areas disagree with the audit findings and recommendations, the reasons for such disagreement are fully analysed.

Before finalising findings:

- Discuss them with the operational area
- Invite feedback, context, or explanations
- Adjust only where factual errors are confirmed — not based on discomfort or disagreement

Engagement enhances acceptance. Do not weaken findings unless evidence supports it.

Each finding must be traceable to:

- A specific test or observation
- A document, interview, or calculation
- A working paper reference

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FMM 05.13 Final Audit Report

13.1 Introduction

Audit reports are the formal channel for communicating the results of internal audit work. A well-prepared report adds value by clearly presenting the key risks, supporting evidence, conclusions and practical recommendations.

Reporting should build trust, support reform, and promote better governance — not merely highlight deficiencies.

13.2 Mandated Policy

1. Internal audit units must:

- a. Prepare timely and balanced reports following fieldwork.
- b. Present findings in a clear, factual, and constructive manner.
- c. Seek and incorporate management comments to the extent appropriate.
- d. Submit the final report to the department head, Audit Committee and other designated recipients as per the Annual Work Plan.
- e. Retain a formal, documented reporting trail.

2. Reports must comply with mandatory standards (IPPF 2400–2440) and this Manual.

13.2.1 Exit Meeting and Draft Report

3. An exit meeting is to be conducted and serves to:

- Share draft findings and recommendations.
- Confirm factual accuracy.
- Discuss the practicality and timelines of remedial actions.
- Hear management’s initial response or concerns.

During this meeting auditors must remain open to legitimate evidence but avoid altering findings without documentation.

4. The draft report should be issued promptly after the exit meeting, ideally within 10 working days

13.3 Non-mandatory Guidance

13.3.1 Management Response

Management has the opportunity to:

- Agree or disagree with recommendations.
- Provide reasons for any disagreement.
- Propose an action plan with timeframes and responsibilities.

A standard response format should be used. If management does not respond by the deadline (generally 10 working days), a non-response will be noted in the final report.

13.3.2 Final Report Preparation

The final report includes:

- Agreed and qualified responses
- Clear indication of each recommendation's status: agreed, agreed in part, not agreed
- Summary of key issues in a cover memorandum (optional)

Reports must be reviewed by the Head of Internal Audit and signed by the departmental head before distribution. Only minor editorial changes should be made after management review.

A standard report format is recommended:

| Section | Purpose |
|----------------------------|--|
| Cover Page | Title, date, distribution, classification |
| Executive Summary | Objectives, scope, overall conclusion, risk rating |
| Background | Context and rationale for audit |
| Audit Objectives and Scope | Clear statement of what was audited |
| Methodology | Summary of approach and sampling |
| Findings | Structured using the 5C+I model (criteria, condition, cause, etc.) |
| Risk Ratings | Highlight high or extreme risks |

| Section | Purpose |
|---------------------|--|
| Recommendations | SMART, practical, and linked to findings (see FMM 05.12) |
| Management Response | Response summary and implementation plan |
| Appendices | Supporting detail, acronyms, tools, evidence list |

5. Reports must be:

- Free of bias or unsupported judgement
- Simple language and logical flow
- No unnecessary detail or repetition
- Support reform rather than blame
- Delivered within agreed timeframes
- Avoid emotive language or overly technical phrasing.

The distribution list is defined in the audit plan or agreed with the Head of Internal Audit and departmental head. Generally, includes:

- Audit Committee
- Operational management
- Other stakeholders as relevant (e.g. Finance, AG, Ombudsman if required)

Confidentiality must be safeguarded where required. Summaries may be used where full reports are sensitive

Audit reports may include:

- Examples of better practice
- Insights from repeat findings and systemic issues
- Opportunities for control or policy reform
- Lessons learned should be shared across government.

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FMM 05.14 Monitoring and Follow up

14.1 Introduction

Internal audit is not finished when a report is issued. In many ways, it has only just begun.

The purpose of an audit is not to identify gaps alone, but to see those gaps closed. The monitoring and follow-up process is the bridge between audit findings and improved systems. Without structured follow-up, even the best recommendations are at risk of being ignored, misapplied, or only partially implemented.

14.2 Mandated Policy

- 6. The Department of Finance, under Section 4 of the PFMA, requires all agencies to establish and maintain a functioning system of audit follow-up. Each internal audit unit must:**
 - a. Maintain a live, regularly updated register of all audit recommendations.**
 - b. Track the status, due dates, risk levels and responsible officers.**
 - c. Conduct verification activities for all closed recommendations.**
 - d. Provide progress updates to the Audit Committee and Head of Agency.**
 - e. Escalate non-implementation of high-risk items to the Audit Committee.**
- 7. Management remains accountable for implementation, but internal audit is responsible for independent tracking and reporting.**
- 8. Internal audit does not enforce implementation, but it does verify and report – refer to the Standard Operating Procedures provided as an Appendix to this FMM Manual**
- 9. Agencies must aim to implement all recommendations within the timeframe agreed in the final report. Where extensions are required, the**

responsible officer must submit a justification to internal audit and request a revised deadline.

14.2.1 Tracking and Documentation

10. All audit units must maintain a Recommendation Register or digital tracking system that is tabled with the Audit Committee quarterly that records:

- Unique ID or reference for each recommendation
- Audit name and issue date
- Description of the recommendation
- Responsible officer or unit
- Target implementation date
- Status (e.g. Not started, In progress, Implemented, Overdue)
- Evidence of completion
- Internal Audit’s verification outcome
- Escalation history (if applicable)


DEPARTMENT OF FINANCE

INTERNAL AUDIT & COMPLIANCE DIVISION AUDIT RISK MATRIX

CONSOLIDATED AUDIT RECOMMENDATION FINANCIAL REPORT FROM 2019 - 2024

KEY: NANCE AUDIT RISK MATR

| | |
|-------|-----------------|
| 1-2 | Negligible Risk |
| 3-9 | Low Risk |
| 10-19 | Moderate Risk |
| 20-39 | High Risk |
| 40-80 | Extreme Risk |



| YEAR | REPORT # | COMPLETION DATE | AUDIT TITLE | # | AUDIT ACTIVITY | # | RECOMMENDATIONS | RISK RATING | DIVISION/OFFICE RESPONSIBLE | PROGRESS | | |
|------|------------|-----------------|--|---|--|---|---|---------------|-----------------------------|----------|----|--------|
| | | | | | | | | | | YES | NO | Status |
| 2019 | 03 of 2018 | Dec-19 | Performance Review on Public Expenditure and Financial Accountability (PEFA) | 1 | IFMS Rollout | i | With IFMS officers providing intensive concentration on the subsequent issues arising from the application, hands on practice training should be conducted for designated officers to comprehensively acquire the skills so that smooth operations are maintained | Moderate Risk | Manager PMIP | | | |
| | | | | 2 | Review of PFMA | i | Responsible divisions should ensure sufficient supplies in hard and soft copies are provided for the abreast and familiarity to changes in the amendments | Moderate Risk | PEFA Secretariat | | | |
| | | | | 3 | Rollout of Cashless Receipting | i | Identify all revenue collecting departments and agencies and negotiate CAS installations to both collecting due revenues for the government and keep designated officers from being alleged of losses incurred. | High Risk | FAS - NTRD | | | |
| | | | | 4 | Train & Capacity Building in Provinces & Districts | i | Provincial Support Advisors (PCaB) must be more familiarised with the training areas so that while in the provinces they provide the necessary support required of them so as to utilise their skills which is more convenient for officers on the ground. | Moderate Risk | PCaB, FMTB & CSD | | | |
| | | | | 5 | Internal Audit Committee Establishment in various Agencies | i | Enforce Audit Committee establishment in government agencies to monitor prudent financial management. | High Risk | FAS - IACD | | | |
| | | | ii | | | Conduct awareness on underlying factors of Audit Committee to encourage establishment of AC. | High Risk | FAS - IACD | | | | |
| | | | iii | | | Divisional and Provincial Heads must be directed to establish Audit Committee | High Risk | FAS - IACD | | | | |
| | | | iv | | | Increase manpower and budget so that responsible division can pursue the initiative to have as many Audit | Moderate Risk | FAS - IACD | | | | |

11. Audit recommendations are not considered “implemented” until internal audit has:

- Reviewed documentary or physical evidence of implementation (e.g. policy updates, system reports, training logs);
- Assessed whether the action addresses the root cause;

- Conducted follow-up tests or interviews as appropriate;
- Confirmed that risks have been reduced to an acceptable level.
- For lower-risk actions, management attestation may be accepted. For medium or high-risk findings, independent verification is mandatory.

12. Repeated failure to act is to be reported to the Department of Finance for oversight intervention or referral to the Auditor-General.

14.3 Non-mandatory Guidance

14.3.1 Risk-Based Prioritisation of Follow-Up

Not all findings require the same level of follow-up effort. Internal audit should focus its resources on:

- High-risk findings, particularly those involving financial loss, non-compliance or systemic control failure.
- Recommendations that have passed their due date without implementation.
- Repeat issues from prior audits that suggest cultural or systemic weaknesses.
- Recommendations with significant operational or reputational consequences if not addressed.
- Lower-risk items may be reviewed less frequently but must still be tracked.

14.3.2 Reporting to the Audit Committee

The internal audit unit must prepare a quarterly follow-up report to the Audit Committee, including:

- Total number of open, closed and overdue recommendations;
- Implementation rates by department or risk category;
- Major delays or refusals to implement;
- Escalation actions taken and any concerns raised by management;
- Trends or repeat issues requiring deeper review.

Reports should be visual, using dashboards or traffic-light coding to clearly show implementation progress and risk.

14.3.3 Recommendations Unimplemented

Where recommendations remain unimplemented:

- Internal audit should issue a formal reminder to the responsible officer and escalate to senior management if necessary.
- The Head of Internal Audit must bring unresolved high-risk issues to the attention of the Audit Committee.
- The Audit Committee may refer matters to the Finance departmental head for executive direction.

Internal audit must remain independent throughout. It does not advocate or enforce—it informs and escalates.

14.3.4 Learning from Follow-Up

Follow-up isn't just a compliance task — it is also an opportunity for learning.

Internal audit units should analyse:

- Which types of recommendations are implemented most effectively?
- What delays implementation — resourcing, clarity, resistance?
- Are repeat findings appearing in multiple audits or years?
- Can the format or timing of recommendations be improved?

This feedback should be built into future audit planning, risk assessments, and internal audit training programs.

Audit follow-up is the final test of whether internal audit is working. Strong findings, well-written reports and effective engagement are all important—but if nothing changes, risk remains.

Every internal audit unit must build monitoring into its core processes, apply a structured and consistent approach, and work closely with the Audit Committee to ensure recommendations are acted upon.

| | |
|----------------------------|---------------------|
| Further Information | iacd@finance.gov.pg |
| Version | 1.0 |
| Date Issued | 30 June 2025 |

Appendix A Internal Audit Charter Template

1. Introduction

This Internal Audit Unit (IAU) Charter establishes the purpose, authority, and responsibilities of the internal audit function within [Agency Name]. It is issued in accordance with the Public Finances (Management) Act 1995 (PFMA), the Finance Management Manual (Volume 5), and the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA).

2. Purpose

The IAU provides independent, objective assurance and advisory services designed to add value and improve the operations of [Agency Name]. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

3. Authority

The IAU is authorised to:

- Have full, free, and unrestricted access to all records, property, personnel, and systems of the agency, as necessary to carry out its responsibilities.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of agency personnel and access the services of specialists, as needed.

The IAU is not authorised to:

- Perform any operational duties for the agency.
- Initiate or approve transactions external to the IAU.
- Direct the activities of any employee outside of the IAU, except to the extent such employees have been appropriately assigned to audit teams.

4. Independence and Objectivity

The IAU will remain free from interference in determining the scope of internal auditing, performing work, and communicating results. The Head of Internal Audit will report functionally to the Audit Committee and administratively to the departmental head.

All internal auditors will maintain objectivity, avoid conflicts of interest, and not undertake any operational roles within the areas they audit. Where an advisory role has been provided, the IAU will not audit that area for a minimum of 12 months.

5. Scope of Work

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the agency's governance, risk management, and internal control processes in relation to the following objectives:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and programs
- Safeguarding of assets
- Compliance with laws, regulations, and policies

6. Responsibilities

The IAU is responsible for:

- Developing a risk-based annual audit plan
- Conducting internal audit engagements in line with approved plans
- Reporting significant risk exposures and control issues
- Monitoring the implementation of audit recommendations
- Maintaining a quality assurance and improvement program
- Coordinating with external auditors and regulators, as required

7. Standards of Audit Practice

Internal audit activities will conform to:

- The IIA's International Standards for the Professional Practice of Internal Auditing
- INTOSAI standards (where applicable)

- The Code of Ethics of the IIA
- The Government of PNG's Finance Management Manual (Volume 5)

8. Quality Assurance and Improvement

The Head of Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. This includes:

- Ongoing supervision and periodic internal assessments
- External assessments at least once every five years (or as directed by the Department of Finance)

9. Review and Approval

This Charter will be reviewed every three years or upon significant changes to the IAU's mandate or structure. Updates will be approved by the Audit Committee and endorsed by the Secretary.

Approved by:

Head of Internal Audit Name: _____

Signature: _____

Date: _____

Chair, Audit Committee Name: _____

Signature: _____

Date: _____

Secretary / Head of Agency Name: _____

Signature: _____

Date: _____

Appendix B Audit Committee Charter Template

1. Purpose

This Audit Committee Charter sets out the mandate, authority, composition and responsibilities of the Audit Committee of [Agency Name], established in accordance with the Public Finances (Management) Act 1995 (PFMA) and the Government of Papua New Guinea's Finance Management Manual (Volume 5).

The Audit Committee provides independent oversight and advice to the departmental head on the agency's governance, risk management, internal controls and audit functions. Its primary role is to strengthen public accountability and support the effectiveness of the Internal Audit Unit (IAU).

2. Authority

The Audit Committee is authorised to:

- Access any information it requires from any employee or contractor of the agency
- Require the attendance of any employee at Committee meetings
- Obtain legal or other professional advice where necessary
- Review and approve the Internal Audit Charter and annual audit work plan
- Monitor implementation of internal and external audit recommendations

3. Composition

- The Committee shall consist of a minimum of three (3) and a maximum of five (5) members.
- At least one/two member must be independent and external to the agency.

4. Independence and Ethics

- Members must declare all conflicts of interest.
- Members shall act with integrity and in the public interest.
- Independent members must not have been employees of the agency in the last two years.
- Members who hold a professional audit designation (e.g. CIA) must comply with their respective codes of ethics.

5. Roles and Responsibilities

The Audit Committee is responsible for advising the departmental head on:

- The adequacy of internal control systems
- The effectiveness of risk management and governance arrangements
- The performance and independence of the Internal Audit Unit
- The approval and monitoring of the internal audit work plan
- Oversight of management's response to audit findings
- Interaction with the Auditor-General and external auditors
- Review of financial management reports and PFMA compliance
- Endorsement of the Internal Audit Charter and monitoring quality assurance

6. Meetings

- The Committee will meet at least four times per year.
- Special meetings may be convened at the request of the Chair or the departmental head.
- A quorum shall consist of a majority of three (3) members, including at least one independent member.
- The Head of Internal Audit and relevant senior executives may attend by invitation.

- The agenda and supporting papers must be circulated at least five working days in advance.

7. Secretariat

The agency shall provide secretariat support to:

- Schedule meetings and circulate materials
- Maintain minutes and records
- Track action items and follow-up
- Agency will after three to five years take ownership of Secretariat roles, cost sharing.

8. Reporting

The Audit Committee will:

- Provide a written report to the departmental head after each meeting
- Submit an annual report summarising its activities, findings and recommendations
- Raise with the departmental head or the Department of Finance any material risks or concerns that remain unaddressed

9. Performance Evaluation

The Committee will evaluate its own performance annually, including:

- Effectiveness in fulfilling its mandate through performance scorecard
- Quality of engagement and decision-making
- Compliance with its Charter Findings will be submitted to the departmental head with any proposed improvements.
- Report to the Department of Finance on this performance evaluation along with meeting statistics including meetings held and attendees

10. Review of the Charter

This Charter shall be reviewed subject to policy change if required by changes in legislation, governance structure or internal audit arrangements.

Amendments must be approved by the departmental head and endorsed by the Audit Committee.

Approved by:

Chair, Audit Committee Name: _____

Signature: _____

Date: _____

Departmental Head Name: _____

Signature: _____

Date: _____

Appendix C Audit Committee Agenda Listing

AUDIT COMMITTEE MEETING NO. _____

DATE :

VENUE :

TIME :

| <u>AGENDA</u> | | |
|----------------------|---|---|
| PART | AGENDA ITEM | STATUS OF AGENDA |
| (A) | <u>INTRODUCTION & MEETING FORMALITIES</u> 1. Opening Prayer, Welcome & Introductions | AC Chairman / Host Agency CEO or SECRETARY |
| | 2. Declaration of conflict of interest | |
| | 3. Head of Agency remarks & Executive Summary of Agency Functions or Activities | |
| (B) | <u>MEETING PRELIMINARIES:</u> Minutes of Previous Meetings 4. Acceptance of previous meeting | |
| | 5. Matters Arising / Outstanding Action Items | |
| | 1 – 6 No. of Action Items | |
| (C) | <u>INTERNAL AUDIT ACTIVITIES UPDATES</u> 6. Preliminary: Audit Calendar, Budget & Activity Summaries | |
| | 7. Special Investigations | |
| | 8. Payroll Audit Report | |
| | 9. Asset Audit Report | |
| | 10. Operational Funds Audit Report | |
| | 11. IT or System Audit Report | |
| | 12. Project Audit Report | |
| | 13. Trust Account/s Audit | |
| (D) | <u>CORPORATE RISK MATTERS</u> 14. Corporate Risk Profile & Assessment Report | |
| | 15. Litigation Matters Update (Legal Officer) | |
| | 16. Staff & Workplace Health & Safety | |
| | 17. Staff Disciplinary Matters | |
| | 18. Disaster Recovery (IT & Records) | |
| | 19. Law & Order & Security Update | |
| (E) | <u>FINANCIAL REPORTS</u> 20. Last signed Quarter Financial Statements including Budget vs Actual Report | |

| | | |
|------------|--|------|
| | 21. Listing of payments in excess of K500,000.00 | |
| | 22. Signed summary of Bank Rec. Reports/ Various accounts incl. listing of un-reconciled amounts | |
| | 23. Cash Advance listing and un-acquitted funds Report | |
| | 24. List of Debts & Credits | |
| | 25. Assets Register: Asset list & movements (disposal and purchases/acquisitions) Report | |
| (F) | SUBSIDIARY BUSINESS ARMS FIN REPORTS (where applicable) | |
| | 26. Last Quarter Financial Statements including Budget vs Actual Report | |
| | 27. Listing of Payments in excess of K100,000.00 | |
| | 28. Signed summary of Bank Rec. Reports/ Various accounts incl. listing of un-reconciled amounts | |
| | 29. Cash Advance listing and un-acquitted funds Report | |
| | 30. Listing of Debts and Credits | |
| | 31. Asset Register: Asset list and movements Report | |
| (G) | AUDITOR GENERAL'S OFFICE MATTERS | |
| | 32. Outstanding Audit Report | |
| | 33. Current Audit Updates | |
| | 34. Presentation of latest Management Letters issued to entity | |
| | 35. Actions of Management to address of control issues raised by AGO in Management Letter | |
| (H) | DEPARTMENT OF FINANCE UPDATES | |
| | 36. Organization Audit Performance Benchmark - Reports & Scorecard Reporting | |
| | 37. Audit Meetings, Training & Workshops | |
| | 38. Financial & Other support under PSAP | |
| (I) | MEETING CONCLUSION | Open |
| | 39. Any other Business | |
| | 40. Date of next meeting | |
| | 41. Final remarks by Chair & Head of Agency | |
| | 42. End of Meeting | |

Appendix D PSAP Performance Assessment Benchmarks Form

Public Sector Audit Program (PSAP):

Department of Finance, Auditor Generals Office and Host Agency

2020 – 2024 PNG PFMA FINANCIAL GOVERNANCE AND COMPLIANCE

ANNUAL ASSESSMENT FORM

| Name of Agency | | | | | | | | | |
|---|---|-------------------------|------|------------------------------|------------------------------|------------------------------|------------------------------|--|--|
| Name of Head of Organisation | | Name of Head of Finance | | | | | | | |
| Name of Audit Head (CIA) | | Date completed | | | | | | | |
| Public Sector Audit Program. Financial Accountability Assessment Organisational Financial Governance Standards | | Weighting | 2024 | 1 st Quarter 2025 | 2 nd Quarter 2025 | 3 rd Quarter 2025 | 4 th Quarter 2025 | Progressive Score (without Weight) | Weighted Scores (Weight x Score) |
| 1 | 4 Audit Committees are held annually and as scheduled | 1.00 | | | | | | | |
| 2 | Agency Head must attend in person all Audit Committee Meetings | 0.50 | | | | | | | |
| 3 | All Audit Committee Meeting Minutes are circulated within 14 Days after meeting | 1.00 | | | | | | | |
| 4 | All action items are addressed or resolved within the following quarter after the meeting. | 1.00 | | | | | | | |
| 5 | All Audit programs are fully funded and audit schedule completed up to 90% by year end. | 0.25 | | | | | | | |
| 6 | 26 Payroll Variation Audits are completed fortnightly against Alesco threshold report | 0.25 | | | | | | | |
| 7 | Update Asset register audited annually and signed and copies provided by March annually | 1.50 | | | | | | | |
| 8 | All Trust Accounts Bank Reconciliation completed by the 14th day of the following month | 1.50 | | | | | | | |
| 9 | All Operational Accounts Bank Reconciliation completed by the 14th day of the following month | 1.50 | | | | | | | |
| 10 | Quarterly Financial report completed by 14th day of the following quarter | 2.00 | | | | | | | |
| 11 | List of Payments in excess of K100,000 provided and reported each Audit Meeting | 0.50 | | | | | | | |

Appendix E – Annual Internal Audit Plan Summary

| ANNUAL INTERNAL AUDIT PLAN SUMMARY | | | | | | | | | | | | |
|-------------------------------------|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------------|----------------------|----------------------|------------------------------------|-------------------------------------|
| Department: [Insert Name of Branch] | | | | Year:[Insert Year] | | | | Quarter: [Insert Quarter] | | | | |
| Audit number | Risk Area | Dates | | | | | | | | Date Tabled at AC | Follow up | Comments |
| | | Planning | | Field Work | | Report | | Management Response | | | | |
| | | Planned Date | Actual Date | Planned Date | Actual Date | Planned Date | Actual Date | Planned Date | Actual Date | | | |
| <i>[Insert Project No]</i> | <i>[Insert name of Project]</i> | <i>[Insert date]</i> | <i>[Insert date]</i> | <i>[Insert date]</i> | <i>[Insert date]</i> | <i>[Insert date]</i> | <i>[Insert date]</i> | <i>[Insert date]</i> | <i>[Insert date]</i> | <i>[Insert date]</i> | <i>[Insert date & outcome]</i> | <i>[Insert applicable comments]</i> |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

Appendix F IIA Global Code of Ethics

Internal auditors are expected to apply and uphold the following principles:

14.4 Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

14.5 Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

14.6 Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

14.7 Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

14.8 Rules of Conduct

14.8.1 Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

14.8.2 Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

14.8.3 Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use the information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

14.8.4 Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Appendix G Engagement Plan Template

1. Audit Title:

[Insert audit name, e.g. "Review of Payroll Management Controls"]

2. Engagement Reference Number:

[Assign unique identifier, e.g. IAU/2025/03]

3. Background and Context:

[Summarise the purpose and operational importance of the area under review, including recent changes, risks, known concerns, or relevant legislation.]

4. Audit Objective(s):

[Clearly state what the audit seeks to achieve. Objectives must be specific and measurable.]

5. Audit Scope:

[Define the boundaries of the audit — what is included, what is excluded, the period under review, and geographical or system limitations.]

6. Audit Criteria:

[List the policies, laws, procedures or performance benchmarks against which the audit will assess compliance and effectiveness.]

7. Key Risks and Rationale for Audit:

[List the main risks identified through the risk assessment process that justify this engagement. Include linkages to the agency's strategic or operational risk register if relevant.]

8. Methodology and Approach:

[Describe how the audit will be conducted — interviews, document reviews, sampling, walkthroughs, data testing. Clarify sampling method and tools.]

9. Resources and Audit Team:

- Team Leader: [Name and designation]
- Team Members: [Names and roles]
- Estimated person-days: [Total number]

- Specialist inputs (if required): [IT, legal, engineering, etc.]

10. Fieldwork Start and End Dates:

Start: [Insert date]

End: [Insert date]

11. Reporting Timeline:

- Draft report: [Date]
- Exit meeting: [Date]
- Final report: [Date]

12. Stakeholder Engagement Plan:

[List the divisions or units to be consulted, management contact persons, and communication approach. Include plan for opening and exit meetings.]

13. Confidentiality and Access:

[Confirm that audit staff will have unrestricted access to records, staff and systems in accordance with the Internal Audit Charter. State that all information will be handled confidentially.]

14. Approval and Endorsement:

Prepared by:

Name: _____

Title: _____

Date: _____

Approved by Head of Internal Audit:

Name: _____

Signature: _____

Date: _____

Acknowledged by Departmental Head:

Name: _____

Signature: _____

Date: _____

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

Appendix I Standard Operating Procedures for on the implementation and follow - up of audit recommendations



DEPARTMENT OF FINANCE
Internal Audit & Compliance Division



**STANDARD OPERATING PROCEDURES (SOPS)
ON THE IMPLEMENTATION AND FOLLOW - UP OF AUDIT
RECOMMENDATIONS**

MAY 2025

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List of Abbreviations and Acronyms

| | |
|-------|--|
| | |
| AC | Audit Committees |
| DoF | Department of Finance |
| IACD | Internal Audit and Compliance Division |
| IA | Internal Audit |
| PFMA | Public Finance Management Act |
| SOPs | Standard Operating Procedures |
| GoPNG | Government of Papua New Guinea |
| FMM | Finance Management manual |
| | |

A. Introduction

1.1 Background and Context

Internal Auditing is a cornerstone of good public sector governance¹. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organisations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The public sector auditor’s role supports the governance responsibilities of oversight, insight, and foresight.

Having oversight ensures public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision makers by providing an independent assessment of public sector programs, policies, business processes, operations and results. The foresight identifies trends and emerging challenges. Internal Auditors use tools such as financial audits, performance audits, investigations and advisory services to fulfil each of these roles.

The audit follow-up is a continuous process ensuring that corrective actions are effectively implemented as recommended. This process verifies that remedial actions are not only executed but done effectively and efficiently in order to properly to minimise recurrence of audit issues.

Time lags in audit follow – up have major consequences. Firstly, they leave internal control anomalies unattended; secondly, they dilute the importance of audit quality by undermining the motivation of internal auditors and weakening the audit process (when auditors can reuse may of the pending audit issues for their current audit instead of digging deeper into new issues)

This Standard Operating Procedures (SOPs) supplements a public sector obligations under the PFMA and FMM Vol 5 to define how Internal Audit and the auditees/stakeholders should work together to achieve the key goals of audit follow-ups, that is, timely resolutions of audit observations and agreement on the recommendations, implementation of the recommendations through an effective tracking system, and dissemination of the audit follow –ups data including the sections imposed on auditees.

The SOPs can be used by all relevant stakeholders—including the Internal Audit & Compliance Division, Government Departments and Agencies, Auditee Liaison Officers, and Audit Committees (ACs).

1.2 Objective of the audit follow-up Standard Operating Procedures

Audit follow – up is a process which verifies that corrective actions have been adequately agreed upon and accomplished as scheduled. It determines that the follow – up actions not only provide remedies for the respective audit issues but also serve effectively in preventing or minimising future recurrence.

¹ <https://ia.theiia.org/standards> – guidance of Public Sector Governance

The three (3) objectives for audit follow –up

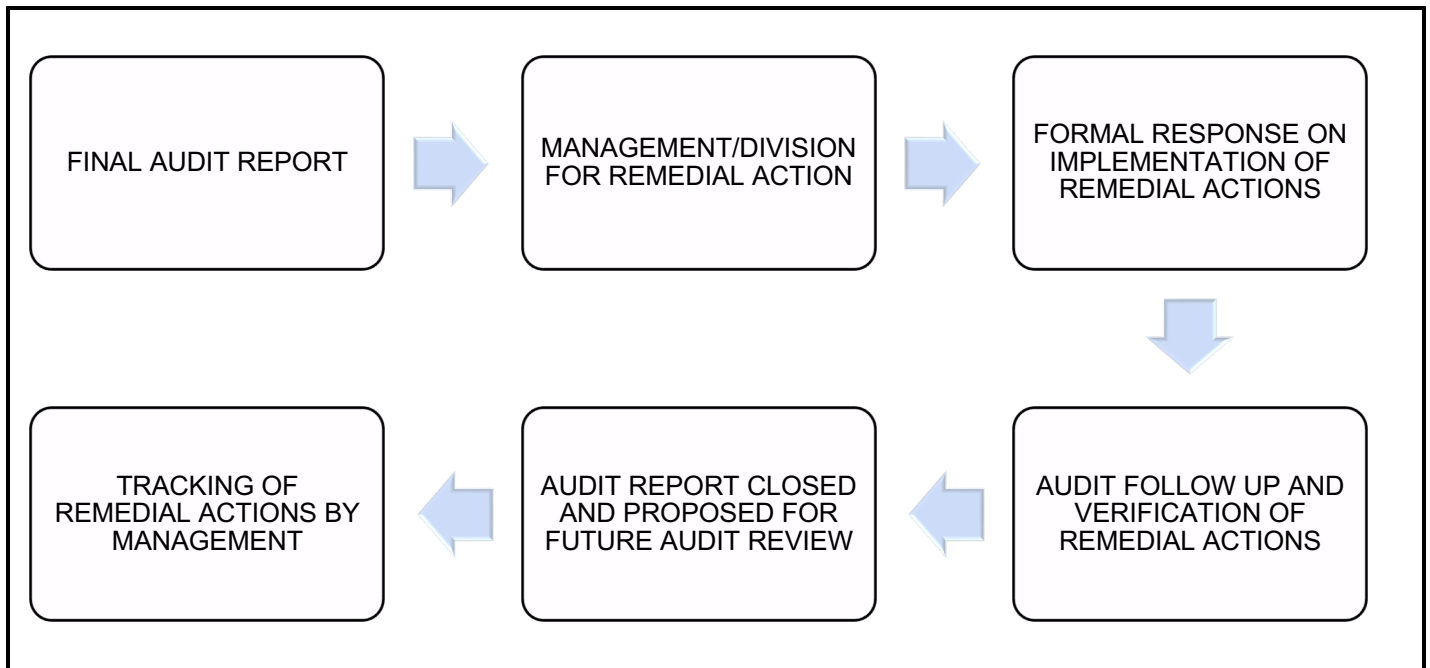
- Determine the status of audit issues and suggested recommendations to confirm executive commitment to implement recommendations already agreed upon during the audit process, or to come up with executive commitments to solve issues through the audit follow-up mechanism.
- To confirm the implementation of the management/divisions by verifying the remedial actions taken.
- To analyse and disseminate audit follow-up information to improve the overall governance and accountability environment.

The SOPs on Audit Follow – up are to improve and clarify the audit follow-up processes to all relevant stakeholders/divisions by detailing the follow-up procedures, responsibilities and actions of concerned parties/auditees.

The SOPs bring procedural clarity on how:

- a) the internal audit issues and recommendations are implemented,
- b) management/auditees’ commitment to implement remedial actions are documented,
- c) the actual implementation of those actions is tracked; and
- d) the results of the follow-up processes are disseminated by the auditees. The SOPs will also address the audit issues and recommendations emanating from AC, predominately based on the reports by DoF IACD.

Figure 1: Audit Cycle of Internal Audit Report



B. Governance and Accountability Arrangements for Audit Follow -up

1.0 Compliance

- The SOPs apply to entities under the scope of the PF(M)A – Public and Statutory Bodies including Constitutional entities
- Compliance with these SOPs is mandatory in accordance with Section 117 of the PFMA.
- If an auditee is unable to comply, they must submit a written request to the Finance departmental head stating their reasons.

2.0 Legal & Regulatory Framework

The legal and regulatory framework for Audit follow-up procedures strictly align with:

- Section 117 of the PFMA
- Government of PNG Financial Management Manual, Volume 5
- The Internal Audit Charter
- The Audit Committee Charter

C. Implementation of Audit Recommendations

C.1 Assess Key Risks

Risk identification and mitigation should be an annual process and generally, you can use brainstorming, process walk-throughs, or prior audit findings to spot vulnerabilities (e.g. procurement, payroll). You can also look at other agencies or similar agencies overseas on identified key risks.

Part of this process is also evaluating risk likelihood and potential impact (financial loss, lack of service delivery or reputational harm).

C.2 Select & Design Control Activities

Based on the risk assessment, choose the best preventive, detective, directive, and corrective controls (and a combination of these). In doing so, consider the cost–benefit of each control—some high-risk areas might need stronger controls.

Preventative controls

Preventative controls are those that are designed to prevent undesirable events such as loss, errors, fraud, theft, misuse, inefficiencies, ineffectiveness, waste, etc and generally anomalies and irregularities. The following table provides some examples of preventative internal controls.

Detective controls are those measures that are designed to detect in a timely manner any breakdowns in the preventative controls. It would allow timely actions to recover any loss, rectify any anomalies and irregularities, reduce and prevent any further occurrences.

The cost and impact of operating an internal control measure should be assessed against the associated benefits.

C.3 Control weaknesses

One of the purposes of an internal audit is to identify weaknesses in the internal control system, the cause of the weakness, and the effect of the weakness on the agency in order for appropriate actions to be taken. It is useful to distinguish between:

- system weakness - a situation where there is insufficient, or lack of, internal control mechanisms in the system; and
- operational weakness – a situation where there are control mechanisms but are not working (e.g. a Certifying Officer not checking the claims properly).

C.4 Implement & Communicate

Once these controls are identified, document each control (e.g. flowcharts, SOPs, finance forms) and train staff on roles, procedures, and the importance of following them.

For example, the Finance Management Manual is a designed internal control – a collection of directive controls – and are implemented into daily operations (e.g., sign-off procedures, logs, IFMS system authorizations).

C.5 Categorisation of Audit Observations and Recommendations

Categorisation of audit observations/issues and audit recommendations are the most important building blocks for the audit follow-up process, data analysis and dissemination. Auditors are required to categorize their audit observations as defined in the following categories:

Table 01

| Category/Audit findings | Narrative |
|---|---|
| Records Management Issues/Records not kept or produced/Absent of supporting documents | Failure to maintain or produce required documentation |

Standard Operating Procedures (SOPs) for Follow –up on Audit Recommendations

| | |
|------------------------------------|---|
| Inaccurate financial reporting | Errors in accounting methods or financial statements |
| Expenditure Control weakness | Non-compliance with legislative frameworks |
| Management of Assets and Registers | Loss or unaccounted cash/assets |
| Procedural non compliance | Non-adherence to internal controls or guidelines |
| Internal control weakness | Lack of proper checks and balances |
| Other(s) | Includes payment, procurement, and system-related matters |

Audit recommendations are similarly categorised for tracking Executive Management commitments during the follow-up process.

1.2 Audit Recommendations Categories:

Auditors are also required to sort their audit recommendations into the following categories. These categories are also used to classify Executive management commitments for new actions during the audit follow up process.

Audit should never recommend a ‘fine or penalty’ that is not their responsibility.

Table 02

| RECOMMENDATION TYPE | Narrative |
|---|---|
| Production, improvement and verification of records | Submission of required documents for audit verification |
| Fine/penalty imposed | Financial or HR-related penalties for non-compliance |
| Recovery of funds/assets | Return of misappropriated funds or assets |
| Departmental/administrative enquiry or HR actions | Internal reviews for corrective measures |
| Improvement of Internal Controls | Strengthening procedural safeguards |
| Improvement on timeliness of financial reports | Ensuring timely financial disclosures |
| Referral to Police Fraud Squad | Handling cases with potential criminal elements |
| Others | Miscellaneous recommendations |

2.0 Audit Follow-Up Tracking Template

An Audit Follow-Up Tracking Sheet serves as the primary record-keeping tool, documenting each audit issue and its resolution. This sheet is updated regularly and may be maintained in MS Word, MS Excel, or an automated database accessible to relevant stakeholders.

The Tracking template will also be the standard management response template, and will be issued with the final audit report to the auditees.

Template 1 - Audit Follow-up Tracking Sheet

| Name of Auditee: | | | | | | | | | |
|------------------|-----------------|------------------------|--|-------------------|---------------|------------------------------|-----------------------------------|--------------------|--|
| Audit Issue | | | | | Risk Category | Remedial Action Taken | | | |
| Audit Rept No | Audit Rept ref: | Audit Issue category | Description of audit | Amt if applicable | H/M/L | Remedial Action/Improvements | Verified/Continue | Amt (Materialised) | |
| 1 | 01/2025 | Ineligible expenditure | Salary budget for vacancies used to buy vehicles | 80,000 | high | Letter dated by management | By Senior Auditor To: AS Audit | 80,000 | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

*(a) Records not kept or produced/Absence of supporting Documentation (b)Inaccurate Financial Report (c) Ineligible expenditures (d) Missing cash or assets (d)Procedural non-compliance (e) Internal Control Weaknesses

Template 2 – Follow-up and Status of Implementation of Audit Recommendations

Note: The respondent/s must fill Part B only to respond to Part A of this form. Part C will be used by IACD for the assessment

| Name of Division: | | | | | | | | | | | |
|---|--|--|---|--|--|--------------------------|--|---|--|---|--|
| Audit Period: | | 20xx to 20xx | | | | | | | | | |
| Report Type: Financial/Operations/Compliance | | | | Name of Audit: | | Procurement Audit | | | | | |
| | | | | Date: | | | | | | | |
| PART A IACD | | | | PART B Management or Division Responsible | | | | PART C IACD Assessment – Remedial Action Taken | | | |
| Ref No | (a) Category of Audit findings/ observation | (b) Title/Short description of the audit findings/ observation | © Auditors Recommendations | (d) Category of audit recommendations | (e) Management Action | (f) Timeli ne | (g) Responsible officer (Designation of the person | (h) Remedial Action Implemented (Evidence provided) and date | (i) Confirmation of evidence and date | (j) Status of Implementation and Remarks (if any) | |
| 1 | Procurement Irregularity | Composition/ Tender Committee not consistent with regulations and business processes | The composition of tender processes should be in compliance with regulations and set business processes | Preventative Control | Management will reinstitute the Procurements processes to comply with PFMA and NPC ACT | 60 DAYS | Head of Procurement FAS FRCD | The NPC has per letter dated xxx January 20xx Been recommended by Management (Refer attached) | Evidence received and confirmed by IACD on April 2025 (Refer attached) | Fully Implemented | |

D. Role of Internal Audit in the Audit Follow – up Process

The internal audit (IA) function within the public sector entity should have a system that provides the structure and discipline needed to ensure aggressive and continuous follow up processes until all audit recommendations have been resolved and correctly implemented. The internal audit function should also assess whether the entity/auditee also has a system that adequately meets the basic responsibilities for resolving and implementing audit recommendations.

a) Tracking of Audit Recommendations

The responsible management is required to respond within three (3) months upon the acknowledgement of the receipt of an audit report. When tracking the audit recommendations, the internal auditor would issue written follow-up letters on three occasions on a monthly basis.

This is to ensure that both the internal auditor and management responsible are engaged in resolving issues highlighted in the audit reports. The response of the responsible management will be monitored closely and captured in the audit recommendation matrix and provided to the executive management and the internal audit committee for their deliberation.

b) Determining The Adequacy of Actions Taken On Audit Recommendations

The audit follow-up team to assess whether the recommendations agreed/endorsed by the Secretary were correctly implemented and yielded the intended results. This requires the internal auditor to verify the management response by the auditee to ascertain that the actions taken by management have corrected the problem to which the audit recommendations were directed.

- For more significant audit recommendations, implemented action should be tested.
- For critical audit recommendations that have not been implemented within a reasonable time, another audit or strategy such as follow up – on audit could be planned and implemented to maximize the likelihood of achieving intended results.

c) Taking Additional Steps to Get Audit Recommendations Implemented.

When status monitoring identifies dormant audit recommendations due to management resistance/objections, lack of follow up by previous audit team (process owners) or implementing difficulties, the audit follow up team should determine why actions have not been taken.

The next move is to develop with management, agreeable alternatives that will meet the objectives to which the recommendations were directed. Alternatively, it may become apparent that the environment has changed such that the problem/issue no longer exists or the recommendation is no longer relevant or feasible.

d) Following Up On Audit Issues for Which the Process Owner Is No Longer in Office

Standard Operating Procedures (SOPs) for Follow –up on Audit Recommendations

The effective system for implementing audit recommendations is supported by an audit committee that monitors managements implementation of audit recommendations, prioritising recommendations that are overdue or that pose significant risk or exposure to the department

In accordance with the Audit Committee Charter, the Audit Committee should meet on quarterly basis to monitor the progress of the audit recommendations and its implementation processes.

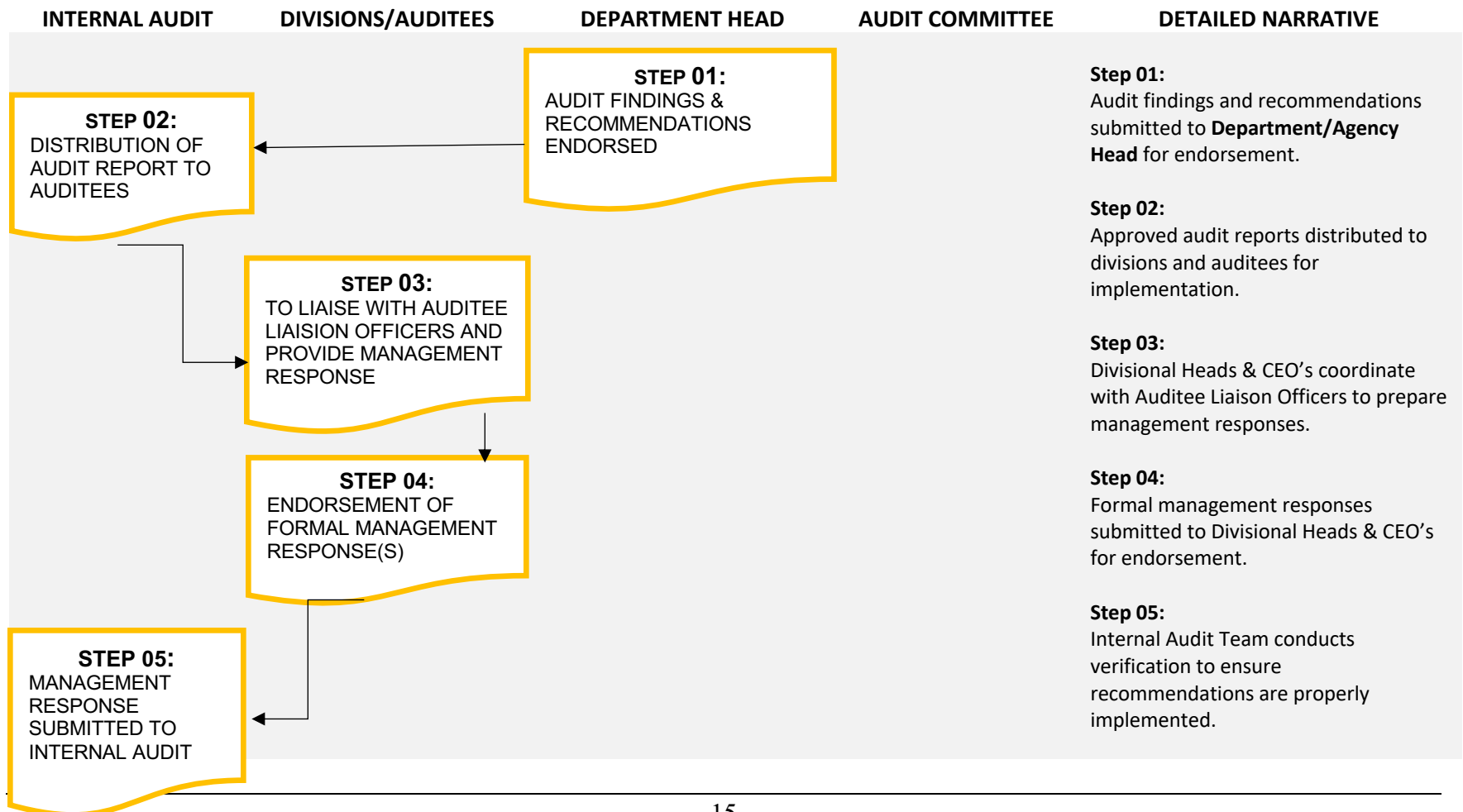
8.0 Roles & Responsibilities

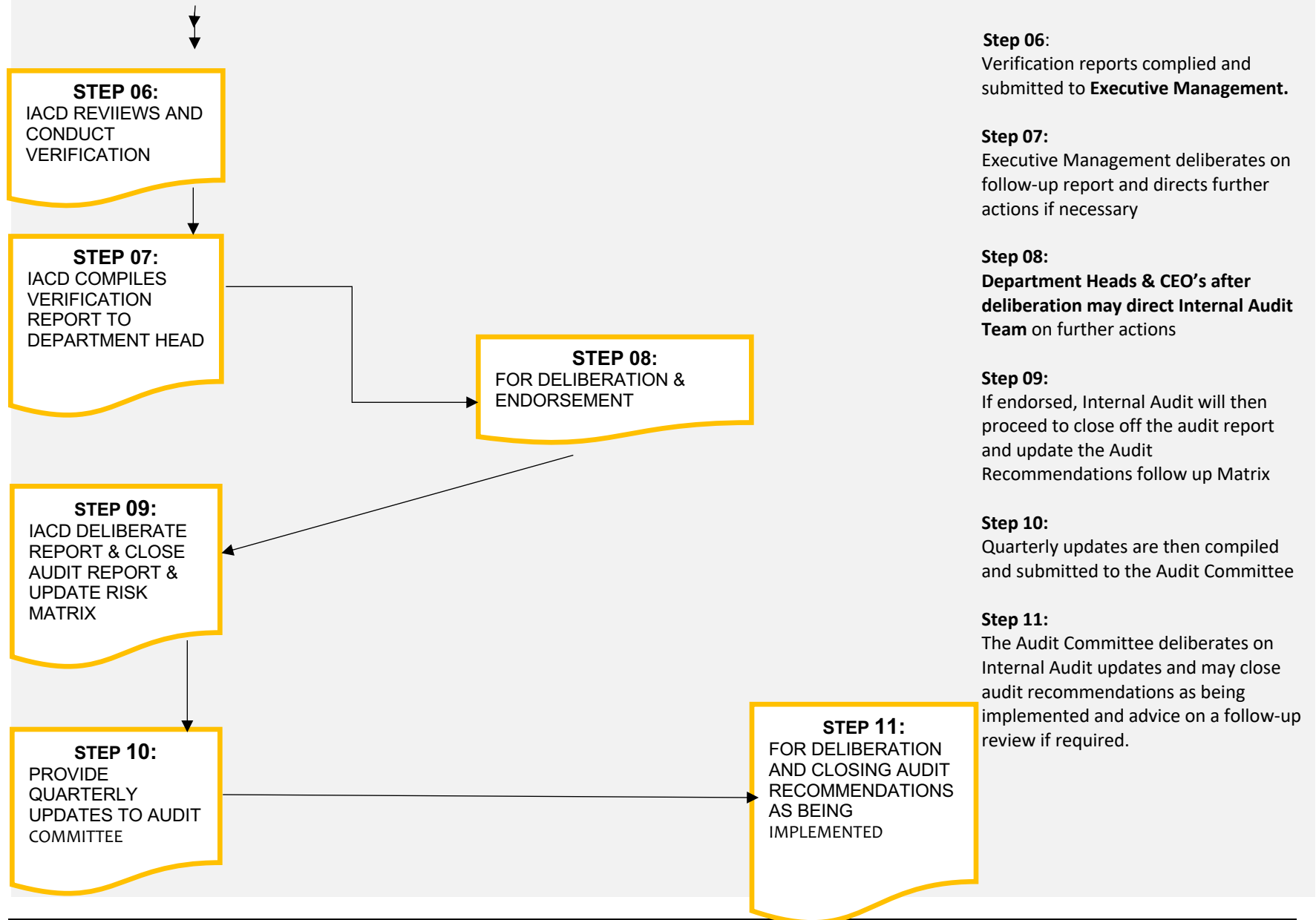
| PROCESS OWNERS | ROLES & RESPONSIBILITIES |
|--------------------------------------|--|
| | |
| DEPARTMENTAL/AGENCY HEAD | <ul style="list-style-type: none"> – Deliberate audit findings and Endorse Audit Recommendations for implementation |
| DIVISIONAL HEAD | <ul style="list-style-type: none"> – Ensure the correct implementation and provide formal management responses to IA within the required audit period – Liaise with their Auditee Liaison officers to implement and provide management responses to audit findings and recommendations |
| INTERNAL AUDIT | <ul style="list-style-type: none"> – Assess whether the entity/auditee has a system that adequately meets the basic responsibilities for resolving and implementing audit recommendations |
| AUDITEE LIAISON OFFICER | <ul style="list-style-type: none"> – Acts as the point of contact between audit teams and process owners |
| INTERNAL AUDIT FOLLOW UP TEAM | <ul style="list-style-type: none"> – Conducts verifications, monitors implementation, and reports findings |
| AUDIT COMMITTEE | <ul style="list-style-type: none"> – Follow up on key Audit Findings – Reviews implementation status and provides feedback to the Internal Audit Team |

9.0 Audit Recommendation Business Process Flow Chart

The follow-up process involves systematic steps to ensure audit findings and recommendations are effectively implemented:

Step-by-Step Process





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Elements of this manual will be updated regularly. To access the most up to date version of the Finance Management Manual visit the Department of Finance website www.finance.gov.pg. and for Department of Treasury references including Volume 7 Budget Manual visit www.treasury.gov.pg