



GOVERNMENT OF KHYBER PAKHTUNKHWA
FINANCE DEPARTMENT
(PIAC)

No.SO(R)FD/2-8/2016-17

Dated Peshawar the 25/09/2017

To,

01. The Senior Member, Board of Revenue, Khyber Pakhtunkhwa.
02. All Administrative Secretaries to Govt: of Khyber Pakhtunkhwa.
03. The Principal Secretary to Governor, Khyber Pakhtunkhwa
04. The Principal Secretary to Chief Minister, Khyber Pakhtunkhwa.
05. The Military Secretary to Governor Khyber Pakhtunkhwa.
06. The Secretary, Provincial Assembly, Khyber Pakhtunkhwa
07. All Heads of Attached Departments in Khyber Pakhtunkhwa.
08. All Commissioners in Khyber Pakhtunkhwa.
09. All Deputy Commissioners in Khyber Pakhtunkhwa.
10. The Registrar, Peshawar High Court, Peshawar.
11. The Chairman, Public Service Commission, Khyber Pakhtunkhwa.
12. The Chairman, Services Tribunal, Khyber Pakhtunkhwa.

(PHE)

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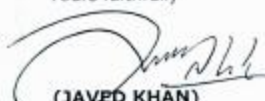
Subject: POLICIES & PROCEDURE FOR INTERNAL AUDIT FUNCTION IN KHYBER PAKHTUNKHWA.

Dear Sir,

I am directed to refer to the subject noted above and to enclose herewith a copy of the policy regarding Internal Audit, dually approved by the Provincial Cabinet for perusal and further necessary action, to ensure efficient administration and financial discipline.

Yours faithfully

U. Call of: Director (Int. Audit)



(JAVED KHAN)
DEPUTY COORDINATOR (PIAC)
FINANCE DEPARTMENT

ps

Encls: as above.

Endst of even No & Date even.



A copy for information is forwarded to:-

01. The Secretary Finance Department, FATA.
02. The Accountant General, Khyber Pakhtunkhwa, Peshawar.
03. The Director, Treasuries & Accounts, Khyber Pakhtunkhwa.
04. All the District Comptroller of Accounts in Khyber Pakhtunkhwa.
05. The Director, Local Fund Audit, Khyber Pakhtunkhwa, Peshawar.
06. The Director, FMIU, Finance Department.
07. Section Officer (Cabinet), Govt. of Khyber Pakhtunkhwa E & A Department, w/r to his letter No.SOC(E&AD)27-296/2017 dated 20.05.2017.
08. The Treasury Officer, Peshawar.
09. All Audit Officers in Internal Audit Cells in Khyber Pakhtunkhwa.
10. All the District/Agency Accounts Officers, Khyber Pakhtunkhwa/FATA.
11. The PS to Minister Finance, Khyber Pakhtunkhwa.
12. The PS to Additional Chief Secretary, FATA.
13. The PS to Secretary Finance, Department, Khyber Pakhtunkhwa.
14. The PS to Special Secretary, Finance Department, Khyber Pakhtunkhwa.
15. HR Finance Department (Assistant Director Web).


DEPUTY COORDINATOR (PIAC)
FINANCE DEPARTMENT

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1. Policy Statement.

The provincial government intends to establish and put in place effective internal controls in every department and office for the purposes of efficiency, transparency, judicious use of resources and assets, better management to avoid wastage and misappropriation, prevention and timely detection of errors and irregularities in the financial proceedings and other processes of the government. The Provincial Government considers Internal Audit a very important management tool. This policy tasks the Finance Department to establish Internal Audit Cells and provide sustainable support and assistance for running the activity effectively.

2. Purpose.

The purpose of this policy document is to provide a legal basis for the functioning of Internal Audit in all the departments of the Government of Khyber Pakhtunkhwa. It defines the broad principles related to the purpose, authority and responsibility of the Internal Audit Cells (IACs) and the role of the Provincial Internal Audit Cell (PIAC) with regard to coordination, support and functioning of IACs and PIAC.

3. Purview.

The jurisdiction of the Internal Audit shall include all payments made out of the provincial consolidated fund, contract award and management- its processes and record, recruitments, risk and asset management. This policy shall be applicable to all departments, directorates, attached departments, attached offices and autonomous/semi-autonomous bodies, authorities and boards working under the administrative departments.

4. Objectives.

The Internal Audit Cell shall determine whether the Department's governance, processes, internal controls and risk management systems are adequate and functioning in a manner to ensure that:-

(i) The application of risk management procedures and methodologies (including risk identification and management) and the functioning of internal control system are effective.

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- (ii) Significant financial, managerial, and operating information is accurate, reliable, and timely.
- (iii) Employees' actions are in compliance with the internal control policies, standards, procedures and applicable laws and regulations.
- (iv) Department's resources and assets are economically acquired, efficiently used, properly accounted for and adequately safeguarded.
- (v) Department's Key Performance Indicators (KPI), programs, plans and objectives are achieved.
- (vi) Quality and continuous improvements are fostered in Department's control processes.
- (vii) Significant legislative or regulatory issues impacting the Departments are recognised and appropriately addressed.
- (viii) The Internal Audit Cell shall also aim to identify opportunities for improving management controls, cost savings, and Department's image during audits and shall communicate its recommendations to the appropriate level of management in a timely manner.

5. Scope of Work.

- (i) The scope of work of the Internal Audit Cell includes the following:-
 - (ii) Examination and evaluation of the adequacy and effectiveness of the internal control systems.
 - (iii) Review of the application and effectiveness of risk (ii) management procedures and risk assessment methodologies.
 - (iv) Review of the accuracy and reliability of accounting records and financial reports.
 - (v) Review of the measures for safeguarding assets.

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(vi) Review of the systems established to ensure compliance with the legal and regulatory requirements, code of conduct and implementation of policies and procedures.

(vii) Carrying out special investigations and reviews.

(viii) Examine and audit any activity of the Department and Attached Departments.

6. Organization of Internal Audit.

6.1. Provincial Internal Audit Cell (PIAC).

The Provincial Internal Audit Cell (PIAC) shall be a wing of the Finance Department, administer the internal audit function and to provide support, assistance, technical backstopping and coordination for the functioning of the Internal Audit Cells across the Provincial Government. The PIAC shall be headed by the Additional Secretary Finance Department as Provincial Coordinator Internal Audit (PCIA), who shall report to the Secretary Finance.

Function of Provincial Internal Audit Cell.

(i) Formulation Policy, Procedure and Rules:-The Provincial Internal Audit Cell Finance Department shall responsible to prescribe the Policies, Procedures and Rules for efficient and effective function of Internal Audit System. Such policies and procedure shall be applicable to all departments, directorates, attached departments, attached offices and autonomous/semi-autonomous bodies, authorities and boards working under the administrative departments. (Such NGOs funded by the Provincial Government)

(ii) Annual Audit Plan:-Receiving, compiling, consolidating and presenting annual audit plan to the Chief Secretary.

(iii) Progress Report:-Collecting progress reports from the IACs and their submission to the Chief Secretary.

(iv) Review: - Prepare, review and update Internal Audit Manual and Toolkits, where required;

(v) Capacity Building:-The PIAC shall assess and determine training needs of the IACs and arrange necessary training resources and assistance to enable personnel to develop and maintain required competence and capabilities.

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(vi) Advisory Committee/Cell:-The Finance Department shall appoint Advisory Committee and prescribe Term of Reference for Role and Responsibility of the Advisory Committee. The committee consisting of a sufficient range of expertise retired senior civil servants and other qualified experts of relevant areas to accomplish the organization's mission. Those personnel would assist the Audit Executive in addressing the most urgent organizational and management issues and help the Audit Executive to prepare, plan, and implement the new internal audit function effectively.

(vii) Conduct the Internal Audit of such NGOs, Body to whom Provincial Government of Khyber Pakhtunkhwa either provided or provides Grant-in Aid.

6.2. Departmental/District Internal Audit Cells (IACs).

(i)The Provincial Internal Audit Cell Finance Department shall establish and conduct Internal Audit in each department, attached department, directorates, attached offices, autonomous/semi-autonomous bodies, authority, board, university, district government and major development projects working under the administrative departments of the Government of Khyber Pakhtunkhwa.

(ii) There shall be an Audit Officer along with Auditors and supporting staff who shall be appointed keeping in view the volume of budget and scope of activities. The Audit Officer/Assistant Audit Officer shall be the Head of the IAC.

6.3. Independence.

(i)The Head of the IAC shall report functionally to the PAO of the Department and administratively to the PIAC to ensure independence from Department's operations. Furthermore, the Head of the IAC shall be Drawing and Disbursing Officer for the operations of the IAC.

(ii) All employees within the IAC shall maintain independence from the operational management and shall have no direct authority over any of the operational activities of the Department. In addition, they shall not have any conflict of interest with the Department.

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(iii) The Head of the IAC may be nominated on various committees of the Department to ensure that the IAC keeps abreast of all the significant developments and issues within the Departments and for providing valuable advice to such committees e.g. Departmental Accounts Committee, Public Accounts Committee and Procurement Committees etc.

(iv) Facilitations and assistance:-The head of all departments. Organizations, offices including Autonomous, Semi-Autonomous organizations shall be responsible to ensure assistance and provision of necessary operational and mobility facilities to Internal Audit Staff for independent, smooth functioning of internal audit and discharge of duties and functions assigned under this Policy. Regulations and SOPs made there under.

6.4. Objectivity and Impartiality.

(i)All employees within the IAC shall maintain objectivity while performing their responsibilities.

(ii) Objectivity requires that the employees do not subordinate judgement on audit matters to that of others and to perform audits in such a manner that no quality compromises are made.

(iii) Where possible, staff assignments within the IAC shall be rotated periodically. In addition, internally-recruited auditors shall not audit activities or functions they performed within the last year. Such audit staff shall work under the supervision of the Head of the IAC concerned. Furthermore, the IAC shall ensure that its objectivity is not adversely affected when it recommends standards of control for systems, or review procedures or capital projects while they are being implemented.

(iv) All employees of the IAC shall be impartial and shall be in a position to perform their assignments free from bias and interference. They shall not have any vested interest in the area being audited or the auditee. Thus, they shall not be involved in operations of the auditee and in selection or implementation of internal control measures.

6.5. Professional Standards and Competence.

(i)The Head of the IAC shall ensure that internal audit activities are performed according to the Institute of Internal Auditors' mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing in addition to applicable Government of Khyber Pakhtunkhwa's rules and such policies and procedures as may be prescribed by the PIAC.

(ii) The internal audit activity needs to collectively possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Professional competence should be maintained and enhanced through systematic continuing training (including IT). The PCIA shall ensure necessary training for the auditors.

7. Responsibilities of Internal Audit Cells.

The IACs shall have the following responsibilities:

(i) Carrying out strategic long-term planning (for at least three years), two month prior to the commencement of preceding financial year for the IAC in order to cover all formations of the Department; submitting the approved plan to the PIAC within one month of its approval

(ii) Preparing and implementing an Annual Audit Plan as approved by the PAO; submitting the approved plan to the PCIA latest by 1st July of the year planned for. The Head of the IAC shall convey the plan to the entities to be audited;

(iii) Assessing the quality of the Department's risk management, governance and internal control systems and providing an overview of the effectiveness of the internal control system;

(iv) Assessing compliance of the management's activities with the relevant laws and regulations;

(v) Ascertaining the adequacy of and compliance with the governance policies and procedures;

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(vi) Appraising the effectiveness and application of the administrative, financial, operational and IT controls and the data security procedures;

(vii) Reviewing the adequacy, application and effectiveness of risk management policies and procedures and risk management methodologies to ensure that all material risks, inherent in the Department's activities are identified, assessed and adequately controlled by the management;

(viii) Considering development and maintenance of a mechanism for assessment of fraud risk within the Department;

(ix) Assisting the Department's management in the investigation of significant suspected fraudulent activities within the Department and notifying the PAO of the results;

(x) Testing of the reliability and timeliness of the regulatory reporting (if any);

(xi) Review of the management and financial information systems, including the electronic information system;

(xii) Appraising the economy and efficiency with which resources are employed;

(xiii) Assessing the adequacy of and compliance with the internal controls for safeguarding the Department's assets and wherever appropriate, verifying the existence of assets.

(xvi) Reviewing specific matters and carrying out special tasks, projects or investigations requested by the PAO. Opinion may be sought on important reorganizations, initiation of important **or** new activities, creation of new establishments, and the setting up or reorganization of risk control systems, management information systems or information technology systems. However, the responsibility for establishment and introduction of these measures will remain with the respective management.

(xv) Reviewing existing operations or programs to determine whether results are consistent with those expected.

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(xvi) Presenting, at the end of each audit/ special assignment, a report containing the summary and detailed description of issues, making recommendations thereon and assigning audit ratings, wherever necessary.

(xvii) Submitting a periodic (preferably quarterly) Internal Audit progress report to the PAO along with summarised results of audit activities; sharing the progress report with the PCIA within one month of the close of the concerned quarter.

(xviii) Monitoring, taking follow-up action and evaluating the corrective actions taken by the management and reporting any significant delays in clearance of audit observations of any auditable entity.

(xix) Assessing, at least on an annual basis, adequacy and effectiveness of the Department's internal control processes and presenting these ratings to the PAO.

(xx) Suggest changes for updating Internal Audit Toolkits to the PIAC, where required.

(xxi) Close coordination with external auditors and facilitate the department in forums like Departmental Accounts Committee and Public Accounts Committee.

(xxii) Determining the need for outsourcing/co-sourcing of any internal audit activity(ies) or other assignment(s) within the IAC and submitting a formal proposal to the PAO.

8. Authority of Internal Audit Cells

8.1. The IACs shall be authorised to:

(ii) Have unrestricted access to the Department's books and records (including confidential records and information), functions, property, facilities and personnel;

(ii) Consult with and seek any information it requires from any employee and all employees shall be required to cooperate with any request made by the IAC in the course of its duties;

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- (iii) Conduct any examination within the scope of this policy or as assigned by the PAO;
- (iv) Examine and audit any activity of the Department within all the controlling offices including autonomous bodies, public sector entities, projects etc;
- (v) Access minutes of relevant consultative and decision-making bodies/ committees of the Department;
- (vi) Set frequencies, select subjects and apply techniques required to accomplish audit objectives;
- (vii) Seek to obtain necessary assistance from outside sources while carrying out responsibilities under this policy; and
- (viii) Monitoring, taking follow-up action and evaluating corrective actions taken by auditee.

The IAC shall not have the authority to:

- (i) Perform any operational duties for the Department or its affiliates;
- (ii) Initiate or approve accounting transactions external to the IAC;
- (iii) Direct the activities of any employee of the Department, not employed by the IAC; and
- (iv) Assume a role other than in an advisory capacity in the design, installation or operation of control procedures.

9. Audit Execution and Reporting Cycle.

- (i) General audit planning:-The Head of the IAC shall develop a strategic risk- based plan to determine the priorities of internal audit activity, consistent with the organisation's goals. The Head shall submit the periodic audit plan to the Secretary/PAO at least one month prior to the commencement of preceding financial year.
- (ii) Approval:- The Head of the IAC shall communicate the Internal Audit Plan and resource requirements, including significant interim changes to the Secretary/PAO for review and approval. The Secretary/PAO may approve the plan with or without amendments within two weeks.

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(iii) Intimation Letter:- Upon approval of the Audit Plan, the Head of the IAC shall intimate the auditee/DDO vide a letter that Internal Audit of the entity has been scheduled one week before the date fixed for commencement of internal audit.

(iv) Initial/Opening meeting: - In order to proceed further with audit fieldwork phase and to understand the entity's business, the Head of the IAC shall hold an opening meeting with the auditee to formally discuss the scope of the audit, its objectives and procedures. The DDO shall arrange the meeting on first working day of commencement of Internal Audit.

(v) Fieldwork: - The Internal Audit team shall perform fieldwork in order to obtain and record relevant, reliable, sufficient and convincing audit evidence to support their audit findings, conclusions and recommendations. The Internal Audit team shall be responsible for reporting to the Head of the IAC within approved planned days

(vi) Closing Meeting/Draft Report to the auditee:- Within seven (07) days of the completion of the fieldwork, the Head of the IAC shall write a draft Internal Audit report and provide the auditee with an opportunity for review and discussion. The DDO shall arrange the meeting within seven days of the completion of internal audit.

(vii) Reply, Comments:-The auditee shall provide their reply /comments within 14 days of receipt of the formal draft. In case of failure in timely reply of the auditee, the Head of the IAC shall inform the Secretary/PAO. If the reply of the auditee is not received within 30 days thereof, the Head of the IAC, without further waiting, shall submit the report to the Secretary/PAO for appropriate action.

(viii) Final Internal Audit Report: After compilation of internal audit findings and management responses thereof, the Head of the IAC shall, within fourteen (14) days thereof, submit the final report to the respective Secretary/ PAO. The Secretary may issue directions directly to the auditee or may require the Head of the IAC to take necessary action(s).

(ix) The Secretary/PAO may himself/ herself follow up or assign to any other officer(s) for follow-up action on the recommendations involving other Government entities external to his/ her Department within two weeks.

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(x) Follow-up of Internal Audit Report: The Head of the IAC shall be responsible for the verification of compliance/actions taken in the light of directions issued by the Secretary/ PAO and reporting back.

(xi) The Head the IAC shall prepare quarterly internal audit progress reports and submit to the Secretary/PAO with a copy endorsed to the PCIA at Finance Department within one month after approval of report by the PAO. In case of no compliance for remedial action by the DDO, the report will be treated as final and communicated to the PAO for further necessary action.

(xii) Internal Audit Report Implementation Committee:- Each PAO shall establish an (IARIC) to maintain accountability the Committee including responsibilities under the government's policies on Internal Audit and Program Evaluation involving the PIAC for planning and establishing audit, evaluation and review priorities; examining the results of audit and evaluation studies and reviews, including assessment of related actions taken; and promoting effective management and performance monitoring of departmental programs, services and operations.

(xiii) The Finance Department shall prescribe procedure for composition of Committee and TOR for execution assigned job.

10. Accountability.

(i) The Head of an IAC and his/ her staff, in the discharge of their duties and functions shall functionally be accountable to the Secretary/ PAO and administratively to the Secretary, Finance Department..

(ii) They shall submit an assessment of the adequacy and effectiveness of the Department/ organisation's processes for controlling its activities and managing its risks in all the core and non-core areas of operations on periodic basis.

(iii) In addition, they shall report significant issues related to the processes for controlling the activities of the Department and its affiliates, together with recommendations for improvements to those processes. Furthermore, they shall provide information on the status and results of annual audit plan on quarterly basis under intimation to the PCIA.

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(iv) Periodical Progress Report:-The Head of IAC/Team shall compile and submit periodical progress reports on Internal Audit Activities to PAO and PIAC (Each Quarter, First Week of November, March and July & Annual Report First week of the month of August to PAO AND PIAC)

(v) Reporting to Senior Management:- Periodical Progress Report on Internal Audit Activities shall be submitted to office of the Chief Secretary (Quarterly Report within one month after receipt from the IACs and annual report during the month of October

11. Quality Control Review.

(i) On an annual basis or as and when required, for appropriate audit assignments, the PIAC shall conduct quality control review (QCR) in order to ensure that internal audit activities are being performed in accordance with the professional standards, regulatory and legal requirements.

(ii) Periodical Quality Control Review:-The PIAC shall conduct quality control review (Each Quarter, during the month of December, April and August.

12. Formulation and Review of Policies, Procedures and Internal Audit Rules.

The PIAC shall prescribe and review policies, procedures, and Internal Audit Rules including Internal Audit Manual framed under this policy and ethical requirements (integrity, objectivity, confidentiality, professional behaviour, competence and due care) subject to consultation with all stakeholder departments/ organizations across the Province.

13. Human Resource Management.

(i) The Finance Department shall, in consultation with the Establishment Department, lay down the qualifications and prescribe Appointment, Promotion and Transfer Rules and procedure for providing human resource to the Internal Audit Function.

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(ii) Civil Servants may apply for the posts advertised in the Internal Audit Cell with prior permission from their parent department.

(iii) The vacant posts can be filled through transfer of Civil Servants till the appointment of regular staff.

(iv) The number of personnel shall be determined by the Finance Department provided additional audit staff if so warranted by the workload.

(v) The Finance Department shall appoint Specialist Expert, Consultant for Advisory Panel/Committee to provide high level input into identifying and addressing strategic issues concerning the Internal Audit profession.

(vi) Appointment thereof shall be made on open merit on contract basis and for specified period on market based salary.

13.2. Removal of difficulties.

The PIAC shall have a primary role (for review and revisit) under this policy in case of any difficulty arising out during implementation of this policy regarding discharge of duties (related to Internal Audit function) prescribed therein, it shall propose suitable changes in the Policy, regulations or SOPs to the government for affecting these as needed.

14. Commencement Date of the Policy.

The Policy will come into force from the date of its notification.