

AUDIT PRESENTATION

AFAAS INTERNAL AUDIT UNIT

2024

OUTLINE

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- 2) Why Auditing is Important
- 3) Types of Audits;
- 4) Frequency if the different types of Audits;
- 5) Scope of Audit;
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INTRODUCTION

- An audit is when financial statements of an (entity/ Project/ funding) are subjected to an independent check.
- This is needed to satisfy the needs of many stakeholders of that an entity has (Shareholders, lenders, Suppliers, Government regulators, Donors, etc)
- While most of the stakeholders have unrestricted access to the books of accounts and daily workings of an entity, they find it cumbersome, disruptive and unnecessary to do an independent review by themselves.

Why Audit

The importance of auditing is not just in its ability to identify fraud or errors in financial matters. There are manifold advantages to all stakeholders which auditing professionals can bring to the table.

- **Establishing Trust** - not everyone has access to the same amount of information. The latter have to rely on the former for a fair and balanced picture of the affairs of the company.
- **Complying with Laws** - entities have an obligation imposed by regulators to carry out an auditing activity yearly. However, all businesses have to adhere to the law in regards to preparation of accounts in matters such as following certain international (IFRS and GAAP) and local frameworks and regulations

Why Audit Cont'd

- **Transparency** - An organization that opens itself up to regular appraisals by a third-party is viewed as open and more responsible. People are more inclined to engage in business that is transparent and reliable than one that indulges in secrecy and media censure.
- **Confidence in Systems and Processes** - Management will have in place internal controls and systems to ensure the smooth flow of operations without mistakes and opportunities for deception by outsiders and employees.
- **Benefitting from Auditor Expertise** - As professionals governed by strict regulations and with a wealth of experience from dealing with many organizations, auditors have a unique value proposition over regular accountants. They bring with them a fresh perspective and knowledge about global best practices.

Types of Audits

1. **Statutory Audit** - legally required;
2. **Internal Audit** - Legally required as a support system for stakeholders and management;
3. **Special Audits** - Commissioned as a verification or confirmation exercise to support subsequent actions.

Frequency of Auditing

- 1) **Statutory Audit** – Annually (undertaken by a Qualified Independent Audit, Once a Year, and follows a prescribed format dictated by International Auditing Standards.

The Exercise results in expression of an Opinion in a standard form (*Qualified, Unqualified*);

- 2) **Internal Audit** – Quarterly (undertaken by an Internal Auditor to review a set of parameters regarding the control environment. The Exercise is largely risk based and results into an Internal audit report that provides an assessment of the reliability of the control systems.
- 3) **Special Audits** – These are commissioned audits based on circumstances and are thus Undefined.

What do we Review

- Compliance to Fiduciary Requirements;
- Organisation setup;
- Internal Controls;
- Compliance to funding requirements;
- Reporting Requirements;
- Any other statutory needs

Compliance to Fiduciary Requirements

- 1) Legally registered entity (CF) - If not registered, the CF should be hosted by a registered institution;
- 2) Governing Body of the CF (Focal Person, CF Executive, etc)
- 3) Qualified people including designate for Accounting;
- 4) Bank Account for the CF with specified Signatories;
- 5) Assurance of no Litigation issues for past 3years and continues in the state;
- 6) Documented Manuals, procedure and operations guidelines;
- 7) Annual Audits, with highlight of Internal control compliance;
- 8) Accounting and Reporting.
- 9) Board executions and compliance to requirements (Periodic meetings and discussions)

Organisation setup & Continuity

- Entity should have the required structures to the bare minimum to enable a verifiable control environment;
- If it is hosted, the Host institution should be having the structures to enable existence of the control environment;
- Systems and controls (Approvals, Checks and Balances, Bank Account, signatories, Vouching systems and approvals, accountability requirements;
- Organisational policies (Human Resource Management, Financial Management, Procurement, etc)

Internal Controls

- Internal control structure is a system used by an organization to manage risk and diminish the occurrence of fraud.
- It is made up of:
 - the control environment,
 - the accounting system,
 - and procedures called control activities.
- The internal control structure of a company consists of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved.
- An effective internal control structure includes a company's plan of organization and all the procedures and actions it takes to protect its assets against theft and waste, ensure compliance with company policies and federal law, and evaluate the performance of all personnel to promote efficient operations.

Compliance to funding requirements

- Funds provided to AFAAS, CF will come with Compliance requirements that the entity must met.
- These may be in Areas of:
 - Activity implementation;
 - Timing and period of Implementation;
 - Reporting Requirements;
 - Accountability requirements;
 - Contributions like co-funding, staff Allocation, input, etc
 - Budgetary Controls.
- None compliance to the funding requirements can be catastrophic and may lead to refund requests

Reporting Requirements

- Annual planning and approval processes;
- Statutory reporting requirements (Annual Financial reports, Annual Performance reports, Annual evaluation)
 - In the reporting, it is important that you report on the parameters under the fiduciary requirements (*Section on technical matters, Finance, Board activities, achievement of strategic priorities, General entity operations as well as challenges*)
- Fund based reporting requirements;
- Financing and Cash flow alignment.

Frequent Audit Finding

- Delays in submitting accountabilities for grant funds released;
- Slowed Implementation of grant Activities;
- Failure to utilize funds under the grants due Covid effects;
- Low capacity of players in Financial Reporting;
- Some expenditures submitted not adequately supported;
- Delay in reporting on utilisation and implementation of grant activities;
- None aligned CF Strategic plans to the AFAAS Strategic plan;
- Lack of AFAAS Sustainability approaches at the CF Level;
- Staffing on volunteer arrangement with a big risk of resource safety and business continuity;
- Poor record keeping and Record Management at the CF level;

Frequent Audit Finding Cont'd

- Inadequate resource allocation to meet the full implementation of some activities yet there are no alternative additional funding;
- Some payment vouchers and support not aligned and numbered as required;
- Payments lacking requisitions that explain in detail the activity implemented;
- Monthly bank statements not prepared on a monthly basis as required;
- Cases of missing bank statements;
- Cases where some key staff at country fora were not signatories to the CF account;
- Some CF submitted documents had not been endorsed by CF authorities;
- Inadequate capacity for CFs in financial management especially those not hosted;

Frequent Audit Finding Cont'd

- Diverging procurement process from one CF to another;
- Expenditure claimed not based on actual costs;
- Expenditure on unbudgeted activities;
- Expenditure incurred outside agreed implementing periods;
- No evidence or insufficient evidence provided by the recipient of funds;
- Lack of supporting documents for expenditure made;
- Incomplete documentations
- Lack of segregation of duties and responsibilities;
- Governance issues

Conclusion

- The Internal Audit Unit at the Secretariat is for the service of the entire network. Not only internal audit but all the units at the Secretariat (Technical, Finance, Procurement, etc);
- A request can be lodged by the any member of the network for the services of internal audit. Especially those that are receiving direct granting from donors.
- This can help put the house in order before the external reviewer comes in.
- It could help to ensure that we are able to assess ourselves before we open up to third parties.
- We need to ensure that we remain compliant to fiduciary requirements at any particular time.

Conclusion Cont'd

Divided we Collapse and Fall;
Together we Stand and Succeed;

Thank You

