

Topic 7: Internal Audit Reporting (Worksheet)

7.1 Key Governance & Policy Documents Required Before Audit

Before commencing internal audit work, the Chief Audit Executive (CAE) must ensure the following governance documents are in place:

Policy / Document	Purpose
Internal Audit Charter	Defines mandate, authority, responsibility, independence, and reporting lines of Internal Audit. The mandate is also defined by Regulations like: Financial Institutions Act (2004), Section 60 Financial Institutions (Corporate Governance) Regulations (2024), and Public Finance Management Act (2015), Sections 47–49
Board Audit Committee (BAC) Charter	Defines the BAC oversight role over Internal Audit
Organizational Structure	Clarifies reporting lines, roles, and internal audit positioning
Internal Audit Strategic Plan	Long-term plan aligned with organisational strategy
Internal Audit Manual	Procedures and methodology for audit execution
Annual Internal Audit Plan	Audit engagements schedule, scope, and resource needs

7.2. Internal Audit Governance Structure

Board of Directors

- Highest oversight body
- Delegates oversight through Board committees

Board Audit Committee (BAC)

- Composed mainly of Independent Non-Executive Directors (INEDs)
- Approves internal audit plan, budget, and staffing
- Receives and discusses internal audit reports quarterly
- Recommends/approves hiring or removal of CAE

Chief Audit Executive (CAE)

- Functionally reports to BAC
- Administratively reports to the CEO
- Ensures independence and adequate resources

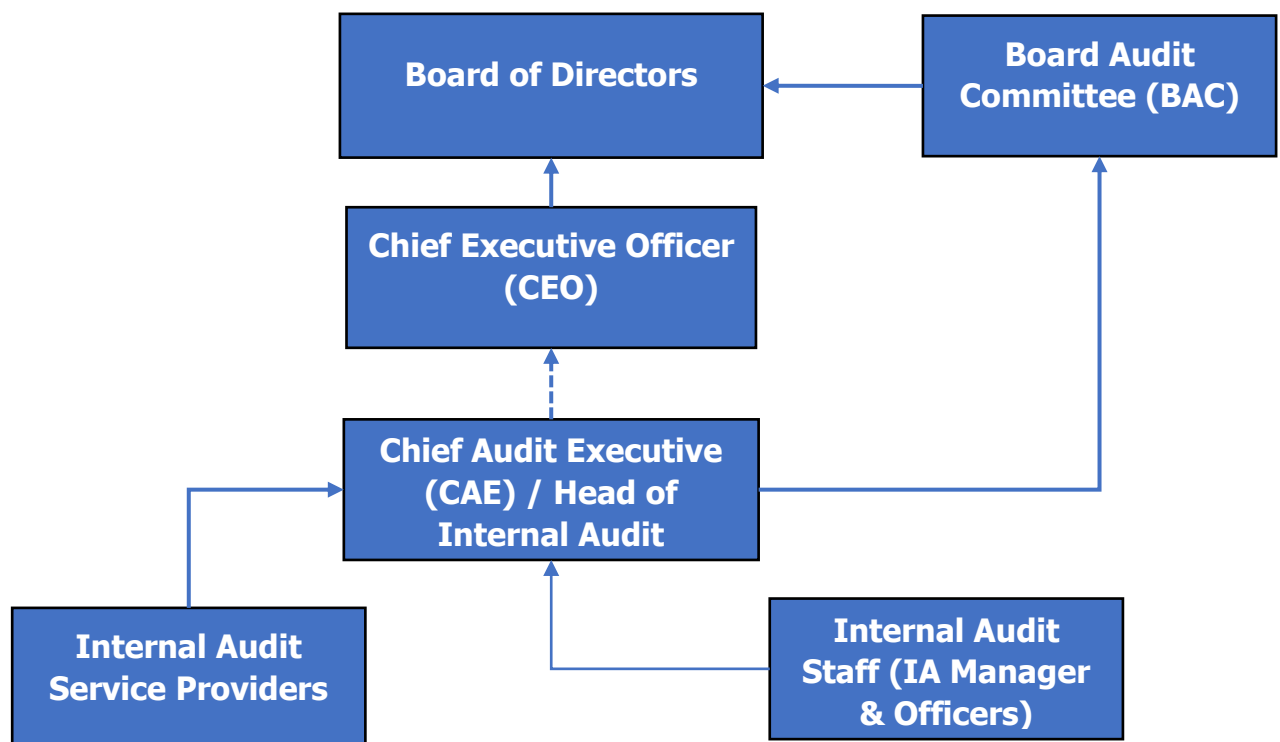
Internal Audit Team

- Internal Audit Manager
- Internal Audit Officers
- CISA specialist, where applicable

Independence Requirement:

CAE holds a private meeting with the BAC Chair at least once a year.

Organizational structure of internal audit



7.3. Internal Audit Process

Internal Audit engagements follow these phases:

Stage	Key Activities
1. Planning	Announcement, risk assessment, planning memorandum, entry meeting, work program
2. Fieldwork	Testing, evidence gathering, analysis, findings, recommendations
3. Reporting	Draft report, management responses, final report submission
4. Follow-Up	Review implementation of recommendations

7.4. Audit Entity Example – BBA Commercial Bank

Board of Audit Committee (BAC)

- **Chairperson of the BAC:** CPA Frank Kabuye
- **Members of BAC:**
 - ❖ Kasaija Elijah Henry
 - ❖ Patience Mary

Senior Management

CEO: Catherine Mirembe

ED: Josephine Nabukenya

Internal Audit Department (IAD)

- **Chief Audit Executive (CAE) / Head of Internal Audit (HIA):** CPA Titus Mugenyi
- **Internal Audit Manager:** Mercy Kimuli Atugonza
- **Internal Audit Officers:** Joan Prossy
- **CISA:** Tracy Ayebazibwe

Audit client (Department to be audited): Credit Department

- ❖ **Head of Credit:** Darrenson Musoke
- ❖ **CRB Manager:** Ruby Birungi
- ❖ **Credit Analysts:** Barbra Giramia
- ❖ **Credit Officer:** Rebecca Adong

7.5 Internal audit/engagement detailed steps

7.5.1 Step 1: Engagement/audit planning

The following outlines the approach to planning audit engagements.

- Announcing the engagement (S 13.1)
- Conduct Engagement Risk assessment (S 13.2)
- Develop Engagement Planning Memorandum (audit plan memorandum)
 - ❖ Engagement objectives and scope (S 13.3),
 - ❖ Identify the evaluation criteria of the engagement (S 13.4)
 - ❖ Engagement resources (S 13.5)
- Hold the Entry/entrance meeting between Internal audit and the client (auditee) (S 13.1)
- Develop/prepare the engagement work program (S 13.6)

a) Announcing the engagement

The head of Internal Audit announces the engagement by email (Engagement communication GIAS 13.1)

ANNOUNCEMENT OF THE INTERNAL AUDIT ENGAGEMENT FOR THE CREDIT DEPARTMENT – FINANCIAL YEAR 2025

Dear Darrenson,

In line with the approved Internal Audit Plan for FY 2025, Internal Audit will be conducting a review of the Credit Department. The scope of this engagement / review will cover the period from **1 October 2024 to 30 September 2025**.

We propose to carry out the audit over a four-week period, from **23 October to 22 November 2025**.

To formally commence the engagement, we kindly request to hold the **entry meeting on Friday, 28 October 2025, at 10:00 AM** in the Credit Department. Please find attached the list of requirements and the agenda for the entry meeting to facilitate the planning and execution of the audit.

Should you have any questions or require further clarification, please do not hesitate to contact us.

Thank you for your cooperation and continued support.

Best wishes,

CPA Titus Mugenyi

Head of Internal Audit

CC: - Internal Audit Manager: Joan Prossy

- Internal Audit Officer: Tracy Ayebazibwe

b) Engagement Risk Assessment

This process involves identifying potential risks within the function being audited. The preliminary risk assessment also evaluates the likelihood (probability) and potential impact (such as financial loss or missed business opportunities) of these risks within the client's (auditees') operations.

Before commencing the audit, internal auditors are required under Section 13.2 to perform a preliminary risk assessment. This assessment helps identify high-risk areas, which then become the primary focus during the main audit. This is in line with the risk-based audit approach.

Risk Assessment Process

The risk assessment process involves systematically identifying, evaluating, and prioritising risks to determine areas requiring audit focus. The steps include:

- i) Identify Potential Risks. Use preliminary audit procedures (analytical review, inquiry, document inspection, confirmation, observation, etc.) to identify risks within the audit area.
- ii) Assess Likelihood of Occurrence. Evaluate the probability that each identified risk may materialise based on historical trends, control strength, and environmental factors.
- iii) Assess Impact / Consequence. Determine the potential effect of each risk on the organisation, considering financial loss, regulatory non-compliance, reputation damage, operational disruption, and stakeholder impact.
- iv) Prioritize and respond. Assign a risk rating based on likelihood and impact. Prioritize high-risk areas in the audit work plan. Conduct detailed audit procedures to confirm the existence and significance of the risks identified.

Outcome

The results of the risk assessment guide the audit scope, efficient allocation of audit resources, and ensure that high-risk processes receive appropriate audit attention.

Procedures for conducting preliminary risk assessments

A

Conduct Analytics / Analytical Procedures

This involves performing comparisons of current financial and non-financial performance against previous periods, industry benchmarks (Averages), and established risk tolerance levels or thresholds. Auditors may also compare actual results with budgeted figures. Significant variances or unusual trends between actual and expected performance may indicate potential risk areas that warrant further investigation and should be prioritized during the audit.

Electricity expenses

Jan	Feb	Mar	April	May	June	July	August	Sept	Oct
11m	12m	20m	13m	10m	50m	25m	11m	9m	15m

- Sharp/significant increase in March, June and July (was all this electricity consumed?)

Revenue

2025	2024	2023	2022	2021
90m	110m	150m	120m	80m

E

Enquiry / Inquiry

This involves conducting interviews with the head of the department being audited and other relevant internal personnel. The objective is to gain a deeper understanding of the processes, controls, and risks within the area under review.

Examples:

- Inquire from the production manager whether there was higher production in the months of July, June and March to justify the high electricity expenses.
- **Recruitment & Selection:** Inquire how recruitment, approvals, and background checks are conducted and whether policies/regulations are followed.
- **Payroll & Compensation:** Inquire how payroll, salary adjustments, bonuses, and overtime are authorized and verified.
- **Training & Development:** Inquire how training needs are identified, budgets managed, and effectiveness evaluated.
- **Performance Management:** Inquire how appraisals are conducted, poor performance addressed, and promotions/bonuses determined.
- **Staff Exit & Benefits:** Inquire how resignations and terminations are handled, final dues calculated, and access to systems revoked.

External Confirmation / Circularization

This process entails obtaining information directly from third parties who have dealings with the organization. Such external parties may include **banks, creditors, debtors, insurers, lawyers, and agents** (e.g., inventory custodians). External confirmations help verify the accuracy and completeness of the organization's records and provide independent assurance on key audit assertions.

E.g.,

- Obtain written confirmation of the actual electricity bills from UEDCL for the months of July, June and March.
- Obtain the bank statement from the bank to confirm the payments of electricity in the months of March and June
- Write to URA to confirm the discrepancies between the PAYE tax computations
- Obtain written confirmation from the receivables to confirm the accuracy of the balances in the general ledger
- Circularize the bank manager of the auditee to confirm the cash balances in the cashbook or the loan obtained.

I

Conduct Inspection of Documents

This involves a detailed **review** of key documents to assess compliance, performance, and risk management practices within the audited function. The auditor should:

- Agree the electricity bills and tax invoices of the electricity expense in March and June with the electricity general ledger to confirm accuracy and completeness.
- Review previous internal audit reports and assess the implementation status of prior audit recommendations.
- Review external audit reports and verify the implementation of their recommendations.
- Review inspection reports issued by regulatory bodies such as the Bank of Uganda (BOU) and the Deposit Protection Fund (DPF).
- Review internal management, departmental, periodic, and incident reports.
- Review risk assessment reports and Key Risk Indicator (KRI) reports.
- Examine any other relevant documentation that may provide insight into potential risk areas.

Inspection of documents also involves agreeing or matching figures and information in different documents. Discrepancies indicate inaccuracies, incompleteness, non-occurrences, inexistence of assets, liabilities, expenses, incomes and equity. These become areas of focus in audit engagement.

Inspection by Tracing (Agree information in the source documents / physical assets) with the accounting records (ledger & journal) and financial statements (Forward movement). The objective is to test accuracy and completeness in the accounting records and financial statements.

e.g., Agree the customer orders, GDN and invoices (source documents) with sales journal and ledger to confirm completeness and accuracy of sales in the General ledger

Match the cash receipts with the cash book to confirm the accuracy and completeness of cash sales.

Agree the amounts in the sales ledger (total sales) with the trial balance and the statement of profit or loss to confirm the accuracy and completeness of sales

Inspection by Vouching: The auditor agrees/matches information in the financial statements with the accounting records (Ledgers and journals) and with the source documents / physical assets. This tests whether the transaction occurred (occurrence) or if the assets exist (existence). [Backward movement]

- Match the sales transactions in the sales ledger and the sales journal with the invoices and customer orders to confirm the occurrence of sales.
- Agree the amount of land in the SOFP and asset register with valuation reports

- Match the land in the asset register with the land title and the confirmation of the land title from the Ministry of Lands to confirm the rights (ownership) of the land

Inspection of Assets

This entails verifying the existence and condition of physical assets by comparing the asset register (record of assets) with the actual physical assets. Missing, obsolete, or unrecorded assets, as well as discrepancies in asset descriptions, serve as potential indicators of risk and should be further investigated.

E.g.,

- Inspect all the land titles in the asset register with the PHYSICAL land

O

Observation

Risk areas can also be identified through direct observation of organisational activities, processes, and personnel behaviour. By physically observing operations, the auditor can assess whether procedures are being followed as documented, identify control weaknesses, and detect irregular or inefficient practices that may pose potential risks.

U

Recalculation

This involves independently verifying the mathematical accuracy of figures in the financial records to confirm their correctness. Recalculation helps ensure that amounts have been properly computed and recorded in accordance with applicable accounting principles and internal policies.

- Recalculate the electricity expenditure on the invoice to confirm accuracy

Reperformance

This entails independently redoing or replicating specific control or accounting procedures to verify their accuracy and reliability. For example, the auditor may reperform bank reconciliations, inventory reconciliations, or other key processes to confirm that they were completed correctly and that no material errors or irregularities exist.

Note: These audit procedures or tests are used to conduct the preliminary risk assessment and the final audit.

Output of the risk assessment process

- Assessed risks are incorporated into the audit plan

Assessment of the likely risk in the Credit Department

Risk assessment procedure	Evidence	Risks identified	Rating (High, moderate, low)
Analytical procedures (Comparisons) <ul style="list-style-type: none">- Compare the actual credit disbursed with the budget to ascertain any huge differences.- Compare the non-performing loans (NPL) for 2025 with 2024. Increase in NPLs, watch accounts and substandard accounts shows risks	<ul style="list-style-type: none">- Loan book/listing- Budget	<ul style="list-style-type: none">- Credit portfolio is 30% below budget by the start of Q4- High NPLs and watch loans	Moderate risk High risk
Inquire from the credit manager on the turnaround for processing a loan, restructuring of loans		<ul style="list-style-type: none">- High turnaround time- Restructuring by following the credit policy and Bank of Uganda guidelines	
External confirmation: write to the borrowers to ascertain the reasons for diminishing payments, increased arrears, etc.		<ul style="list-style-type: none">- High arrears-	
Inspection of documents	Previous audit reports and implementation of recommendations	<ul style="list-style-type: none">- Unimplemented recommendations- Recurring audit issues- Loans disbursed with proper credit scoring/analysis	

		<ul style="list-style-type: none"> - Missing documents in clients' files like collateral, audit books etc - Missing insurance - Limited monitoring - Incomplete information in the core banking system (journals) 	
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Rating risks

- Probability / Likelihood (0 – 1)
- Impact (1 – 10) (Financial loss / missed opportunity/reaction of key stakeholders)

Performance below budget BY 30%

Rating parameters	Score
- Probability / Likelihood (0 – 1)	0.8
- Impact / CONSEQUENCE (1 – 10)	3
Total risk score	2.4

After assessing all risks, a risk heat map is generated

LIKELIHOOD	almost certain	Moderate	Major	Critical	Critical	Critical
	likely	Moderate	Major	Major	Critical	Critical
	possible	Moderate	Moderate	Major	Major	Critical
	unlikely	Minor	Moderate	Moderate	Major	Critical
	rare	Minor	Minor	Moderate	Moderate	Major
		insignificant	minor	moderate	major	critical
CONSEQUENCE						

High probability and high impact = High/critical risk areas

High probability & moderate impact = Moderate

Moderate Probability & High impact = Major

Low probability and high impact = minor

High probability & low impact = minor

The risk heat map helps in developing the audit universe

An audit universe is a comprehensive list of all **auditable areas** within an organization, such as departments, processes, and systems. It serves as the foundation for internal audit planning by providing a structured way to identify, assess, and prioritize areas based on risk, ensuring efficient allocation of resources.

Components of an audit universe

- **Business units:** Departments, divisions, and geographical locations.
- **Processes:** Specific activities like accounts payable, procurement, and customer onboarding.
- **Systems:** Software and IT infrastructure, including ERP platforms and cloud applications.
- **Projects and initiatives:** Strategic projects and special programs.
- **Other entities:** Legal entities, third-party relationships, and emerging risks like ESG and AI governance.

How it's used

- **Risk assessment:** It forms the basis for risk assessments to identify and prioritize high-risk areas.
- **Audit planning:** It allows internal audit to develop a risk-based audit plan and allocate resources effectively.
- **Prioritization:** It helps determine which areas require more frequent or in-depth auditing based on risk.
- **Transparency:** It promotes transparency and helps with oversight of the organization's controls.

Developing an audit universe

1. **Understand the organization:** Start by understanding the organization's objectives, strategies, and structure.
2. **Identify auditable entities:** List all potential audit areas, including business units, processes, systems, and projects.
3. **Document interrelationships:** Map the dependencies and connections between different areas to identify potential cross-functional risks.

4. **Perform a risk assessment:** Evaluate each item in the universe based on factors like likelihood and potential impact.
5. **Prioritize for the audit plan:** Use the risk assessment results to prioritize audits and build the annual audit plan.
6. **Regularly update:** Continuously review and update the audit universe to reflect changes in the organization and its risk landscape.

Develop an Engagement Planning Memorandum (audit plan memorandum)

After the engagement risk assessment, the internal audit now knows the risky areas (audit universe from the risk heat map). These are the areas which are included in the engagement planning memorandum. This comprises the following aspects of the audit:

- ❖ Engagement objectives and scope (S 13.3),
- ❖ The evaluation criteria of the engagement (S 13.4)
- ❖ Engagement resources (S 13.5) ETC

(See attached engagement planning memorandum).

c) Engagement entry meeting

- See the attached agenda of the internal audit entrance meeting and the corresponding minutes.

7.5.2 Step Two of the Internal Audit Process: Field Work

Transition from Planning to Fieldwork

Upon completion of the engagement planning phase, two key documents are finalised:

- **Engagement Planning Memorandum** – outlines the audit objectives, scope, timelines, resources, and key risk areas.
- **Engagement Work Program** – specifies detailed audit procedures, evaluation criteria (e.g., policies, laws, regulations, best practices), and tools to be used in executing the audit.

These documents guide the fieldwork phase, which involves executing the audit procedures to obtain sufficient and appropriate evidence.

Principle 14: Conduct Engagement Work

The fieldwork phase is performed in accordance with Principle 14 of the Global Internal Audit Standards and includes the following standards:

Standard	Description
14.1 Gathering Information for Analyses and Evaluation	Obtain relevant, reliable, and sufficient information through document reviews, inquiries, observations, analytics, and other audit techniques.
14.2 Analyses and Potential Engagement Findings	Analyse the collected evidence to identify control gaps, non-compliance issues, process weaknesses, or areas of inefficiency.
14.3 Evaluation of Findings	Compare observed practices with established criteria such as internal policies, regulatory requirements, industry standards, and organizational expectations to determine deviations.
14.4 Recommendations and Action Plans	Provide practical, risk-based recommendations to address identified issues. Management develops action plans with timelines and responsible persons.
14.5 Engagement Conclusions	Form an overall audit conclusion or opinion based on the results of the audit procedures and evidence obtained.
14.6 Engagement Documentation	Document all procedures, evidence, analyses, conclusions, and communication in accordance with internal audit documentation standards.

Outcome

At the end of fieldwork, the internal audit function will have sufficient evidence to support findings, formulate recommendations, and develop the draft audit report.

Example

S.14.1 Information needed for the Audit of non-current assets (Property, plant and equipment-PPE)

- The previous year's audit report and recommendations on assets
- Implementation status of recommendations from the audit of assets
- Previous period's financial statements (SOF)
- Current year's draft financial statements
- Trial balance
- General ledgers of assets
- Asset register
- PPE schedule (Cost at start, acc depn at start, carrying value (NBV) at start, additions disposals, depreciation during the year, revaluation gain/loss, acc depn at end, carrying value (NBV) at end)
- Source documents for new assets (invoice, receipt, etc.)
- Asset management policy
- Financial manual (it also contains the depreciation policy).
- Insurance policy
- Capital expenditure (CAPEX) Budget
- External confirmations for assets held by third parties, etc.

S.14.2 Analyses conducted on the audit of PPE. The audit procedures/tests are used.

Analytical procedures / substantive analytical procedures

- Compare the opening balance of PPE in the current year's PPE schedule with the previous year's PPE schedule and SOFP to ascertain the correctness of the opening balances.
- Compare the asset turnover ratio of the current financial year with the previous years and industrial averages (performance of other companies) to establish any significant/big changes (increases/decreases). Huge declines in asset turnover mean that assets are not generating enough revenue. On the other hand, turnover without an increase in revenue is problematic. Assets will be replaced earlier with generating enough revenue.
- Compare the actual expenditure on assets with the budget to ascertain any significant differences

- Analyse the assets ledgers to establish unusual postings, e.g., mis-posting, incorrect reversals, etc.
- Compare the depreciation percentages with those of URA's wear and tear (capital allowance) schedule, which are expected to be used. For example, the Income Tax Act requires computers and data handling equipment to be depreciated by 40%.

Inquiry –

- Discuss CAPEX utilisation with Finance Manager
- Confirm alignment of accounting depreciation policy with Income Tax Act requirements

External confirmation

- Write to the third parties holding the auditee's assets to confirm existence
- Obtain written confirmation from the bank to confirm the custody of the land titles, etc.
- Circularise third-party asset custodians where applicable

Inspection of documents (review documents, agree / match documents): agree information in source documents, accounting records and financial statements

- Agree confirmations of assets held by third parties with the asset register to confirm completeness
- Match the asset register with the PPE ledger to confirm completeness and accuracy
- Agree the source documents (invoices and receipts) for new assets with the asset register, general ledger (PPE ledgers) and PPE schedule to confirm accuracy and completeness
- Agree the capital expenditure budget with the cash receipts and cash book to confirm accuracy and completeness
- Agree the assets valuation reports with the general ledger
- Match the total assets in the ledgers with the PPE schedule, trial balance and the SOFP to confirm accuracy and completeness
- Agree the assets in the SOFP with the trial balance, ledger, and asset register to confirm existence
- Review the asset management policies and procedures to confirm adequacy and existence

Inspection of assets

- Match the assets in the asset register with the ownership documents and the physical assets to confirm existence, etc

- Inspect the condition and existence of assets

Observation

- Observe asset usage practices and safeguarding controls (security, tagging, etc.)

Recalculation

- Recalculate depreciation of assets to ascertain accuracy
- Recalculate the closing balance of assets to ascertain accuracy

Reperformance

- Repperform reconciliation of the asset register with the ledger and the trial balance

Sales revenue

While auditing, the auditor uses audit procedures/tests.

1. Analytical procedures (Comparisons)

- Compare the actual revenue for the current year with previous years to ascertain any significant decreases or increases. Huge declines show poor performance, and big increases may show fictitious revenue, which is window dressing. Sales can increase, but check the credibility.
- Compare the gross profit margin of the current year with the previous years and industrial averages to ascertain the big increases or decreases. Big decreases show a decline in profits and performance.
- Compare financial information, e.g., sales revenue, with the number of customers (non-financial). Having a few customers but with high sales is problematic. This high concentration risk.
- Compare the opening balances of the account balances in the new period, e.g., assets, to the closing balances of the previous period to confirm accuracy.
- Other comparisons. Compare with industry thresholds, e.g., tax rates.
Reasonableness tests. This tests whether the figures are relevant, real and make sense. Analyse the students' marks. If all have above 80%, then there is a problem.
- Analyse the ledgers, e.g., sales ledger, to identify the unusual transactions (huge amounts, mis-postings)

2. Inquiries

Inquire from the Humna resources manager on whether trainings on safety were conducted

3. External confirmation/circularisation

Write to

Obtain written confirmation from

Circularisation

- Send circularisation letters to customers (debtors) confirming balances and transactions

4. Inspection of documents

Inspect ...

Check

Review

Agree/match.....

Examine

- Inspect supporting sales documents (orders, invoices, delivery notes)
 - Check reconciliations, contract files, and customer approvals
 - Review returns, credit notes, and discounts for irregularities
5. Observation ---- Observe sales processes (e.g., order booking, invoicing, delivery)
 6. Recalculations ----- Recalculate sales invoices and posted amounts to verify accuracy
 7. Repformance --- Reperform sales reconciliation between subsidiary ledgers and the general ledger

7.5.3 Step Three of the Internal Audit Process: Reporting

Principle 15: Communicate Engagement Results and Monitor Action Plans

Standard 15.1 Final Engagement Communication

Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

7.5.4 Step Four: Follow-up and monitoring

Question

Internal audit reporting lines

The Head of Internal Audit has a dual reporting line—functionally to the Board Audit Committee (BAC) to ensure independence, and administratively (dotted line) to Senior Management for operational support.

Functional reporting to the BAC (Board Audit Committee):

This means the Head of Internal Audit is accountable to the Board Audit Committee for matters related to the **independence, quality, and results of internal audits**. The BAC approves the audit plan, budget, and staffing, and reviews audit findings, ensuring the audit function is objective and not influenced by management. The BAC has the power to hire and fire the Head of Internal Audit.

Administrative (dotted line) reporting to Senior Management:

This means the Head of Internal Audit interacts with Senior Management for day-to-day administrative issues — such as office space, access to systems, staff logistics, or coordination of activities — but management does not control audit priorities or conclusions.

Internal audit in the financial institutions