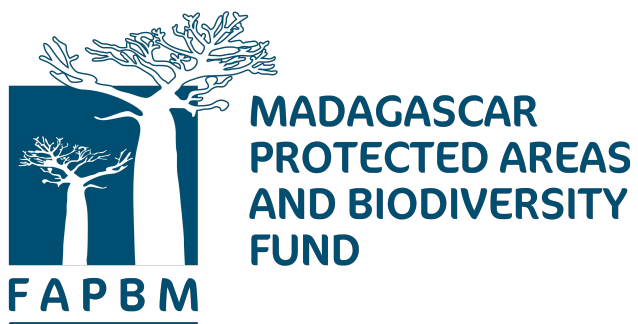




MADAGASCAR  
PROTECTED AREAS  
AND BIODIVERSITY  
FUND

# Internal audit manual

INVESTIR POUR UNE NATURE QUI NOUS PROTÈGE  
INVESTING IN NATURE THAT PROTECTS US



## INTERNAL AUDIT MANUAL

### MADAGASCAR PROTECTED AREA and BIODIVERSITY FUND

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Date : March, 02nd 2020
Signature
Sahondra Rajoelina

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## PREAMBLE

### Purpose of the manual

This manual provides a framework for the activities and organization of the Internal Audit function within the Foundation for Protected Areas and Biodiversity of Madagascar, hereinafter referred to as FAPBM or Foundation.

The manual is established to assist FAPBM's internal auditors in carrying out their missions in an effective and efficient manner.

### Update and validation:

The manual will be periodically reviewed by the Auditors (internal and external) and the Executive Management in order to reinforce risk control, good governance, and compliance with professional standards and best practices.

It will be updated in particular when there are changes in the legal and regulatory framework, business conditions or expansion of the Foundation's scope of activities.

It may also be modified to reflect changes in the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors (IIA).

## I. General Framework:

### Introduction

FAPBM supports the internal audit function as defined by its charter (see Internal Audit Charter) as a cornerstone of good governance within the Foundation.

Internal audit is an independent evaluation function to review and assess the financial and operational activities of the Foundation. It also assesses compliance with rules and procedures prescribed by the Foundation, regulatory authorities and/or donors. It provides direct and objective analysis, evaluation, observations, and recommendations to senior management regarding the activities that it reviews.

### 1. The purpose of the internal audit :

The main objective of the internal audit is to provide reasonable insurance on the effectiveness of the arrangements in place within FAPBM, including the system of internal control, governance and risk management. Through its recommendations, it contributes to improving security and optimizing the Foundation's overall performance.

### 2. Internal audit activities :

The main objective of the internal audit is to provide reasonable insurance on the effectiveness of the arrangements in place within FAPBM, including the system of internal control, governance and risk management. Through its recommendations, it contributes to improving security and optimizing the Foundation's overall performance.

#### 2.1 Insurance missions

Insurance missions are performed as part of an objective examination of evidence to provide an independent assessment of the governance, risk management and internal control processes.

The following is a summary of the different types of insurance missions that will be conducted by FAPBM internal audit function :

### 2.1.1 Audits of the head office departments or support functions:

These audits consist of examining and evaluating the operation of a department, its organization, and the system put in place to control its activities and achieve its objectives, including procedures, the information system and the human factors. These audits will also assess the compliance of the department's operations with the Foundation's general policy and the compliance with applicable laws and regulations.

### 2.1.2 Accounting and financial audits :

Accounting audits ensure that account balances are justified and that regulations, standards and accounting principles in force are correctly applied. These audits will assess the reliability and efficiency of the accounting production and control process set up by the Executive Management.

Financial audits, on the other hand, ensure that the financial statements and other reports intended to assist the governing bodies in their decision making are consistent with the accounting information recorded in the Foundation's accounts. These audits will also assess strict compliance with financial statement preparation standards.

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### 2.1.3 Managers (and) sites audits:

These audits are designed to assess the compliance of all managers' activities with the Foundation's contracts and procedures. They also assess the impact of managers' activities in achieving the Foundation's objectives for the protected areas. These audits also assess compliance with applicable laws and applicable laws and regulations.

The scope of the insurance missions depends on the overall risk category of the activity and the unit being audited. The scope of the audit may warrant a compliance audit, an effectiveness audit, a management audit, or a strategy audit.

## 2.2 Consulting missions :

The purpose of consulting missions is to provide advice on improving and optimizing governance, risk management and internal control processes without the internal auditor assuming any operational or managerial responsibility. Unlike insurance missions, consulting missions are not intended to evaluate past events but rather to be forward-looking. These missions, at the request of the Audit Committee or the Executive Management, generally occur when there are significant changes in the economic environment or business environment or business conditions.

## 2.3 Organizational missions :

Organizational missions, which are essential to the organization and the quality of the internal audit, include:

1. The development and the updating of the risk mapping,
2. The development of the audit plan,
3. The updating of the charter and the internal audit manual,
4. Management of the internal auditors' skills,
5. The internal audit quality assurance and improvement program

## II. Elaboration and updating procedure of the risk mapping:

### 1. General principles

The Head of the Internal Audit aims to ensure that the scope of the internal audit adequately covers the areas most exposed to the main risks that could prevent FAPBM from achieving its objectives. According to the Standard 2010.A1, «the internal audit plan should be based on a documented risk assessment performed at least annually. ...».

The glossary of CRIPP standards (International Reference Framework for the Professional Practice of Internal Auditing) defines risk as «the possibility of an event occurring that will have an impact on the achievement of the objectives.» They are subdivided into four (4) categories that correspond to the risk management objectives of the COSO (Committee Of Sponsoring Organizations of the Treadway Commission) framework:

1. Strategic risks, related to the achievement of the strategic objectives serving the Foundation's mission
2. Operational risks, related to the effective and efficient use of resources,
3. Risks related to the reliability of financial and management reporting,
4. Risks of non-compliance with applicable laws and regulations.

The site managers are each considered as a specific area.

### 2. Process description:

ACTORS	ACTIVITIES / TASKS
Audit Committee and Executive Director	1- Share with the Internal Audit Manager the strategy, the policies, the main operational objectives as well as the risk management in place.
Head of the Internal Audit	2- Identify the areas in relation to the Foundation's activities and operations as well as the role and responsibilities of each entity according to the organizational structure
	3- Identify the risks that may affect the achievement of the Foundation's objectives
	4- Categorize these risks in relation to the risk management objectives of the COSO framework
	5- Evaluate the control environment within FAPBM (culture of ethics, management culture, management style, allocation of authority and responsibilities, ...)
	6- Evaluate the level of inherent risks (IR) in relation to its probability of occurrence and its impact in case of occurrence
	7- Evaluate the design and the existence of the internal control system, and complete the internal control questionnaire
Executive Director	8- Provide the IAO with the answers to the internal control questionnaire
Head of the Internal Audit	9- Evaluate the level of internal control risk (ICR)
	10- Analyze the combined risk level (IR + ICR) and proceed to the forcing of the combined risk level if necessary to have the global risk level
	11- Motivate the forcing in an objective and professional way
	12- Send the «draft» of the mapping to the Audit Committee for validation
Audit Committee	13- Validate the final risk mapping

### III. Elaboration procedure of an audit plan :

#### 1. General Principles:

According to CRIPP 2010, The chief audit executive should establish an audit plan based on a risk-based approach to define priorities consistent with the organization's objectives. The areas and/or activities with an overall level of risk:

1. **High**, should be audited at least annually,
2. **Moderate**, every two years,
3. **Low**, every five years.

#### 2. Description of the process

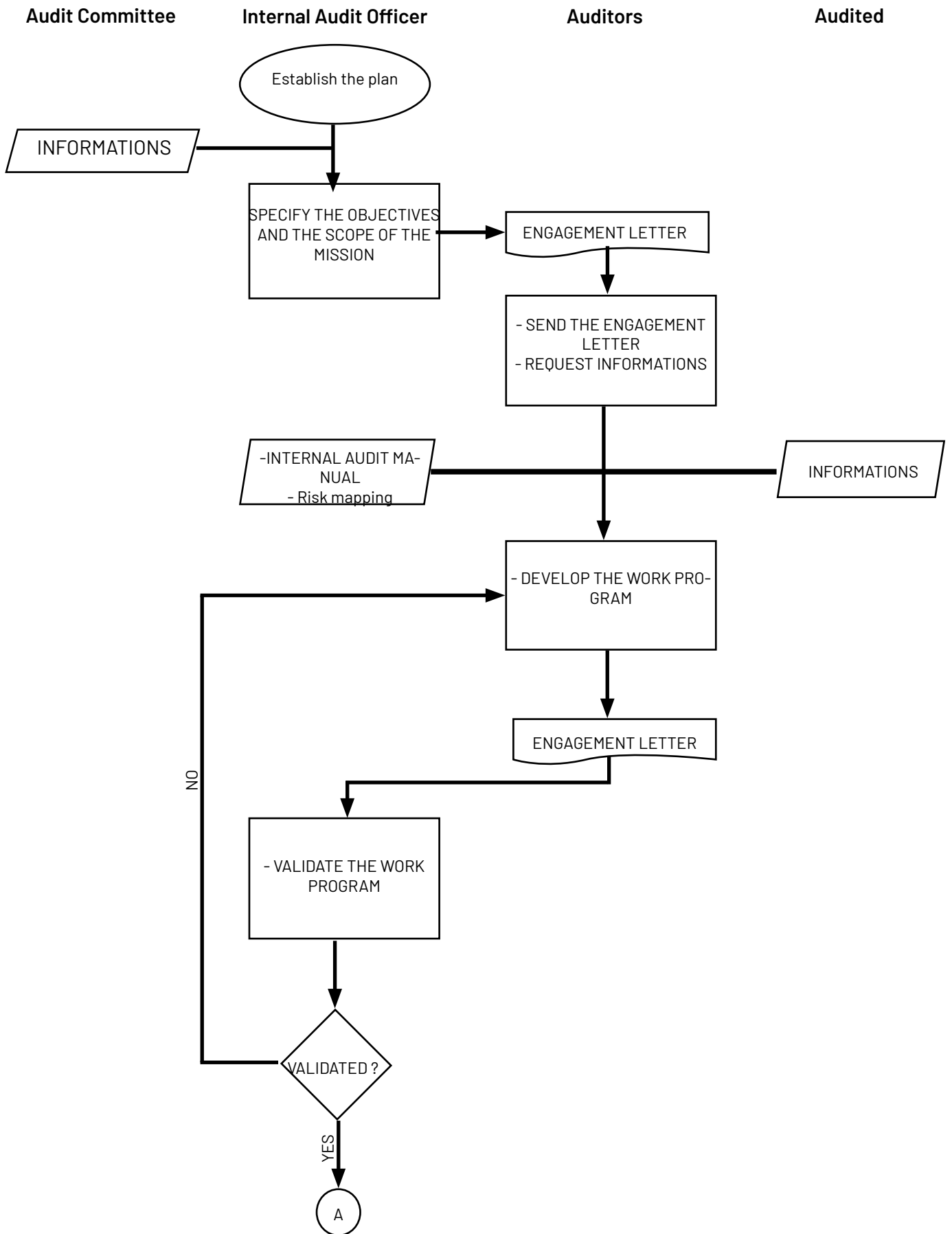
ACTORS	ACTIVITIES / TASKS
Head of the Internal Audit	> List the audit missions in order of priority with respect to the risk mapping
	> Define the objectives and scope of the proposed missions
	> Propose a timetable for completion
	> Express the Internal Audit department's resource needs to carry out the plan
	> Motivate these needs and advise the Audit Committee of the impact of any limitations of the Internal Audit resources on the outcome of the intervention
	> Develop a draft audit plan
	> Present the plan and its arguments to the Audit Committee
Audit Committee	> Discuss the proposed plan and resources requested by the RAI
	> Validate the audit plan
	> Share the validated the audit plan with the Executive Director

### IV. Process for Conducting an Audit mission:

Unless expressly authorized or directed by the Audit Committee, the auditors shall perform only the missions that are identified in the approved audit plan. However, this plan may be revised once a year.

The process for conducting an audit mission generally involves four steps:

#### 1. Planning phase





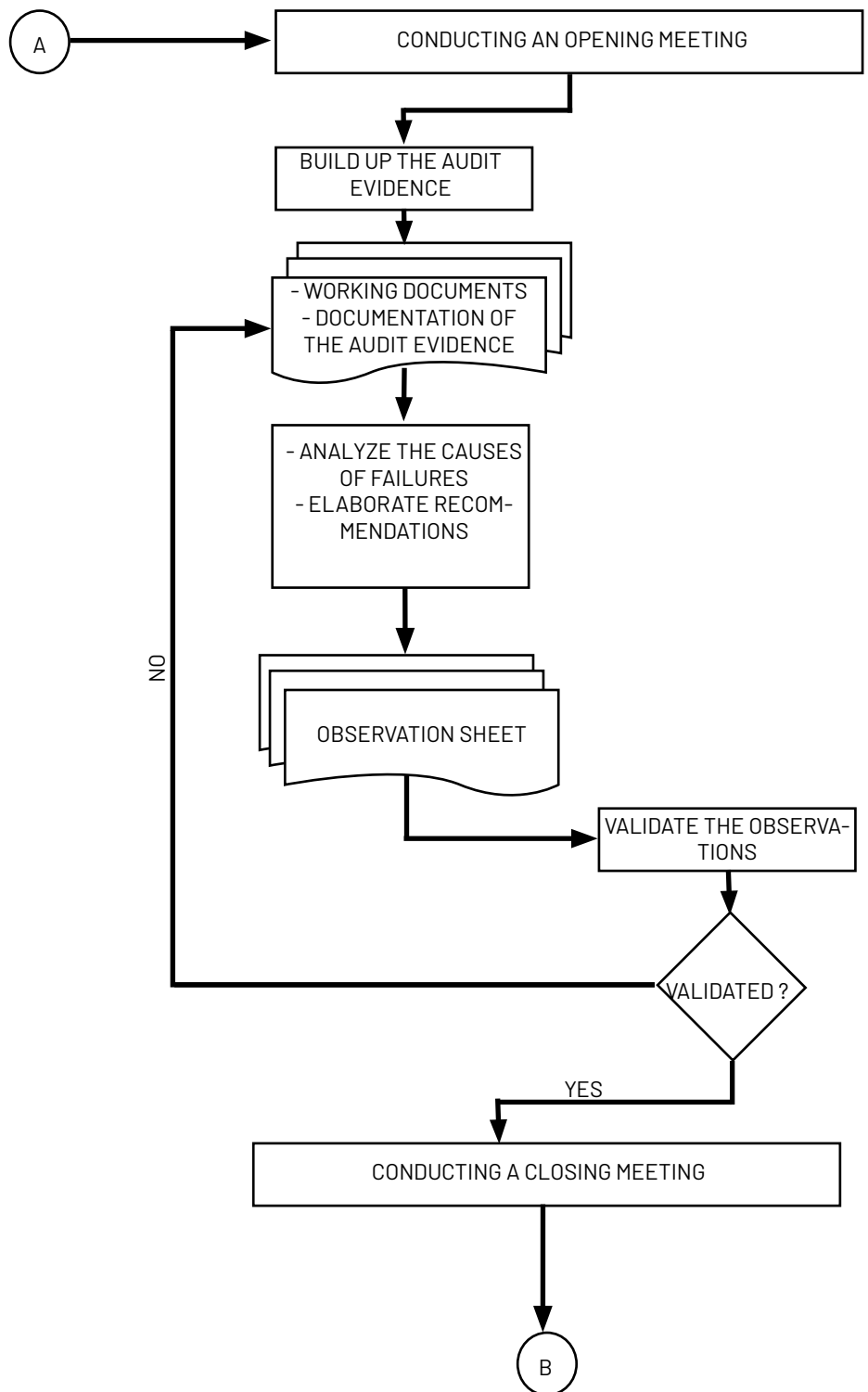
2. Achievement phase:

Audit Committee

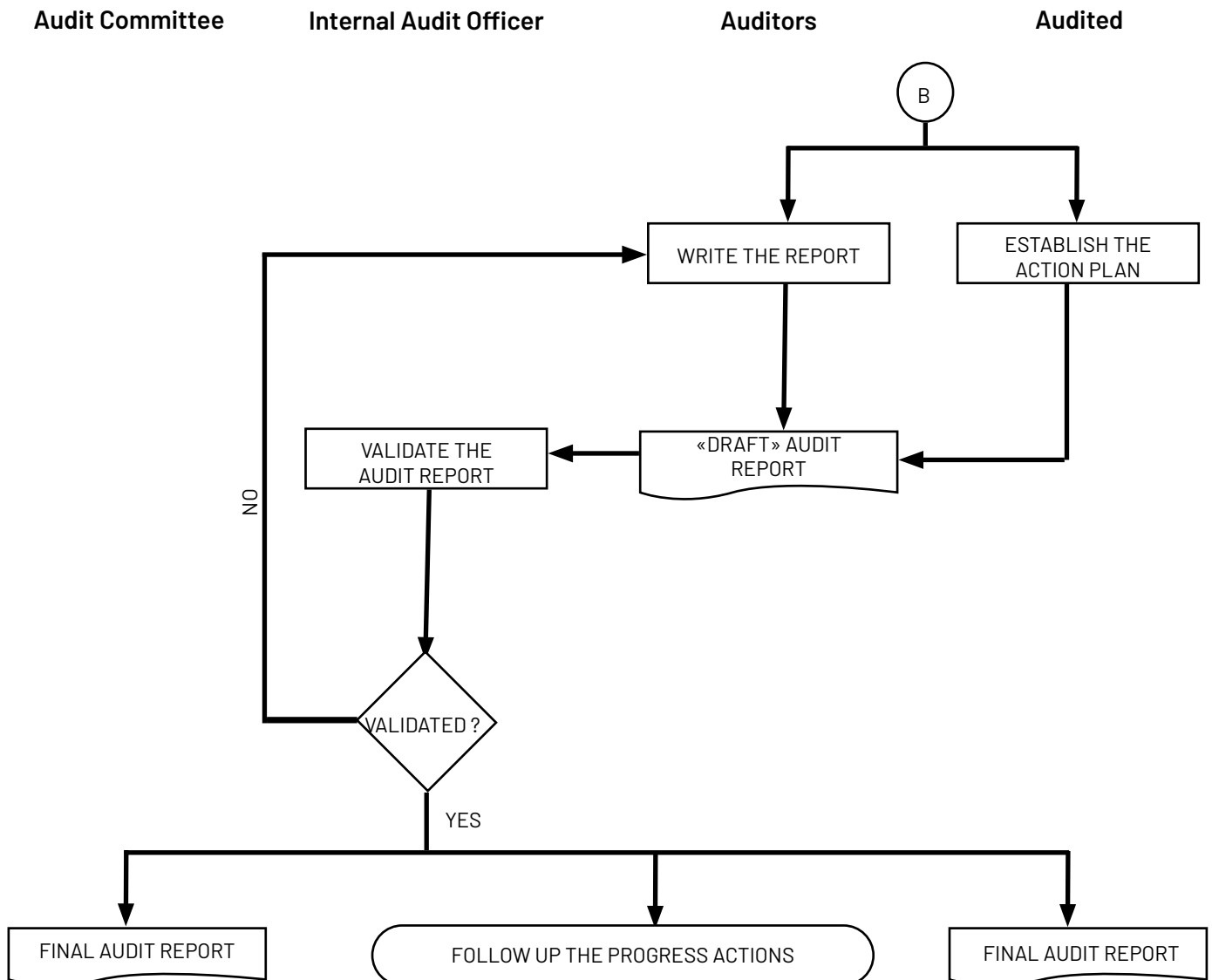
Internal Audit Officer

Auditors

Audited



### 3. Communication phase:



### 4. Follow-up phase of the progress actions

The purpose of the follow-up is to assess the progress of the action plans agreed upon in the final audit reports. The follow-up schedule is determined by taking into account the priority level of each recommendation issued and accepted:

1. HIGH priority recommendations must be completed within six (6) months of the release of the audit report;
2. MODERATE priority recommendations must be completed within twelve (12) months;
3. LOW priority recommendations within twenty-four (24) months

## V. Operating procedures

### 1. Valuate the level of risk (risk mapping)

SUB-STEPS	TOOLS
<b>1- Understand the objectives of the field</b> Know the translation of FAPBM objectives in the field	<ul style="list-style-type: none"> <li>• Activity report,</li> <li>• Policies and procedures,</li> <li>• Organizational chart,</li> <li>• Delegation of authority,</li> <li>• Job description,</li> <li>• Contracts,</li> <li>• Internal and external regulations,</li> <li>• Previous audit reports, ...</li> <li>• Interviews,</li> </ul>
<b>2- Identify the process and their objectives</b> How the entity intends to achieve its objectives	
<b>3- Collect information on the processes</b>	
<b>4- Identify the KPIs (performance indicators)</b> Relevant, measurable, available, achievable	
<b>5- Identify the risks</b> Accidents, errors, malice, fraud, human failures, technical failures, economic, social or political phenomena, natural phenomena, etc.	
<b>6- Understand the risk tolerance of the domain</b>	
<b>7- Assess the level of inherent risks (IR)</b> Measure their probability of occurrence, their impact, their importance and their control	
<b>8- Assess the level of internal control risks (ICR)</b> Answer the internal control questionnaire	<ul style="list-style-type: none"> <li>• Risk Mapping,</li> <li>• Interview</li> </ul>

## 2. Develop the work program

SUB-STEPS	TOOLS
<b>1- Select the key controls to be tested</b> Ensure that the controls mentioned in the system are applied (compliance audit), effective (effectiveness audit), consistent with the Foundation's objective (management audit), and consistent with other systems (strategy audit).	<ul style="list-style-type: none"> <li>• Policies and procedures,</li> <li>• Organization chart,</li> <li>• Delegation of authority,</li> <li>• Information system,</li> <li>• Job descriptions,...</li> </ul>
<b>2- Determine the appropriate audit techniques</b> Determine the nature of the tests so that sufficient, relevant and reliable evidence is obtained with regard to the audit objectives (compliance, efficiency, consistency, etc.)	<ul style="list-style-type: none"> <li>• Documentary review,</li> <li>• Interviews,</li> <li>• Sampling,</li> <li>• Analytical review,</li> <li>• Reconciliation,</li> <li>• Comparison,</li> <li>• Inventory,</li> <li>• Physical verification,</li> <li>• Tests,...</li> </ul>
<b>3- Estimate the necessary resources</b> Number of auditors, auditor skills, time, external consultants, technical and logistical means...	
<b>4- Organize the mission according to the objectives and the means available</b> Develop the work program	<ul style="list-style-type: none"> <li>• Work program</li> </ul>

## 3. Conduct the opening meeting

SUB-STEPS	TOOLS
<b>1- Present the internal audit charter and the auditors</b> The purpose of this presentation will be to situate the mission in relation to the role of the auditor	<ul style="list-style-type: none"> <li>• Internal Audit Charter</li> <li>• Visual presentation</li> </ul>
<b>2- Present the objectives and scope of the mission</b> Oral commentary on the letter of mission	<ul style="list-style-type: none"> <li>• Letter of mission</li> <li>• Visual presentation</li> </ul>

**3- Present the methodology and the work program**

Present the actions already undertaken before the field visit (analysis of processes and their objectives, risk assessment, ...)  
 Allow the auditees to know their role in the audit process  
 Encourage exchanges between auditors and auditees in the validation of audit observations and recommendations

- Work program
- Risk mapping
- Visual presentation

**4. Build up the audit evidence**

SUB-STEPS	TOOLS
<p><b>1- Carry out the audit tests</b>            Implement the actions defined in the work program            The objective is to get evidence on the ability of the control system to control risks or not</p>	<ul style="list-style-type: none"> <li>• Questionnaires,</li> <li>• Interviews,</li> <li>• Documentary examinations,</li> <li>• Physical inventories,</li> <li>• Analytical procedures,</li> <li>• Audit trails,</li> <li>• Confirmations / Circularizations,</li> <li>• Samplings,</li> <li>• Computer tools,...</li> </ul>
<p><b>2- Document the audit tests</b>            Write working documents to ensure the traceability of the audit tests performed. A reference to the working document will be indicated on each observation sheet.</p>	<ul style="list-style-type: none"> <li>• Document and work file</li> </ul>
<p><b>3- Evaluate the results of the audit tests</b>            - Does the control exist?            - Is it working properly?            - Does it allow the risks to be controlled at an acceptable level?            - Does it allow the process to achieve its objectives? as well as the Foundation's overall objective? while optimizing the use of resources?</p>	<ul style="list-style-type: none"> <li>• Document and work file</li> </ul>
<p><b>4- Validate the audit evidence</b>            Gather comments from the auditee and ensure the reliability, relevance and sufficiency of the audit evidence</p>	<ul style="list-style-type: none"> <li>• Document and work file</li> </ul>

**5. Develop recommendations:**

SUB-STEPS	TOOLS
<p><b>1- Analyze the causes of the malfunctions</b>            Identify the reasons why the controls are not satisfactory</p>	<ul style="list-style-type: none"> <li>• Cause and effect diagram</li> </ul>

**2- Develop recommendations**

Remedy the malfunction in a sustainable way and reinforce the effectiveness of the control

The audit recommendations are classified in 3 levels :

- HIGH Priority :  
Addressing major risks, particularly those related to judicial, administrative or disciplinary sanctions, damage to the Foundation's reputation, significant financial impact, ...
- MODERATE Priority :  
Relating to significant dysfunctions that may impact financial and operational reporting as well as decision making.  
Recommendations of MODERATE priority but have become repetitive.
- LOW Priority :  
Relating to actions necessary for the quality of the internal control system quality and which do not fall within the ALERT and HIGH priorities.

- Observation sheets

**6. Conducting the closing meeting:**

SUB-STEPS	TOOLS
<p><b>1- Remind the objectives of the mission</b></p>	<ul style="list-style-type: none"> <li>• Verbal presentation</li> </ul>
<p><b>2- Validate audit observations and recommendations</b> The auditors may be asked to present audit evidence for the auditees to validate the observations. Discuss with the auditees about the recommendations and the draft of the action plan</p>	<ul style="list-style-type: none"> <li>• Observation sheets</li> <li>• Working documents</li> </ul>
<p><b>3- Present the mission follow-up procedures</b> Define a deadline for the action plan Recall the procedures for preparing and distributing the audit report Present the follow-up procedures for the implementation of the recommendations (by level of priority)</p>	<ul style="list-style-type: none"> <li>• Verbal presentation</li> <li>• Action Plan</li> <li>• Follow-up sheet</li> </ul>

## VI. Documentation:

### 1. Letter of mission :

Antananarivo, [date]

to the attention of

Responsible of the area to be audited,

Ref: [reference of the letter]

Subject: Letter of mission of the Audit [area to be audited].

In accordance with the audit plan approved by the Audit Committee, I hereby inform you that Internal Audit is mandated to carry out an audit mission of [area to be audited].

This mission will be conducted by [names of auditors and their titles].

At the end of this mission, the internal Auditor will write an audit report in which will be presented his/her observations and his/her recommendations as well as the action plan that the Executive Management and the head of the audited entity will have developed to correct the observed dysfunctions .

You and all your staff have a major role to play in the continuous improvement of your activities. I am therefore counting on your availability and professionalism to offer your full cooperation to the internal audit team during their fieldwork, which will take place from [start date] to [end date].

The opening meeting will be held at the beginning of our intervention during which the work program will be discussed.

Please accept, Madam, [the person in charge of the area to be audited], our respectful greetings.

The Head of the Internal Audit,

Copy to the Executive Director

## 2. Work program

AUDIT OBJECTIVE	AUDIT TEST/ PROCEDURES	AUDITOR	TOOLS

## 3. Working document

AUDIT OBJECTIVE	
AUDITOR	DATE
SOURCES OF INFORMATION	
AUDIT TESTS	FILES/DOCUMENTS
AUDIT TESTS RESULTS	

## 4. Observation sheet

AREA	
SECTION	
OBSERVATIONS	
LEVEL OF RISK	
RISKS	
RECOMMENDATIONS	
MANAGER/SPONSOR RESPONSE	
ADJUSTMENT TIME	

## 5. Audit Report:

The audit report contains:

- An introduction:
  - o Context and objective of the mission
  - o Scope of the mission
  - o Audit team
- A summary :
  - o Methodology
  - o Highlights of the current year
  - o Limitations of the study and possibilities of investigation
  - o Risk classification
  - o Presentation of the strong points

