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|   | CU/SOP/IAUD/26 | 25 <sup>th</sup> March, 2013 |
|   | Issue No.:     | Revision No.:                |
|   | 02             | 00                           |
| Document Title:<br>STANDARD OPERATING PROCEDURE FOR INTERNAL AUDITING             |                |                              |

# CHUKA UNIVERSITY

## Standard Operating Procedure


For

### Internal Auditing CU/SOP/IAUD/26

#### Document Review Sheet


The signatures below certify that this Standard Operating Procedure has been reviewed and accepted, and demonstrates that the signatories are aware of all the requirements contained herein and are committed to ensuring their provision.

|             | Name & Signature   | Position                       | Date      |
|-------------|--------------------|--------------------------------|-----------|
| Prepared by | Ms. M. K. Kangai   | Internal Auditor               | 25.6.2012 |
| Reviewed by | Prof. D. K. Isutsa | Deputy Vice-Chancellor (AA)/MR | 01.3.2013 |
| Approved by | Prof. E. N. Njoka  | Vice-Chancellor                | 25.3.2013 |

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## 1.0 AMENDMENT RECORD SHEET

This Standard Operating Procedure is reviewed regularly to ensure relevance to the systems and process that it defines. A record of contextual additions or omissions is given below.

| DATE    | ISSUE NO. | REVISION NO. | PAGE NO. | SUBJECT OF REVIEW /MODIFICATION  | REVISED BY HOD     | APPROVED BY MR |
|---------|-----------|--------------|----------|--|--------------------|----------------|
| 1.3. 13 | 02        | 00           | ALL      | Changed Quality Management Representative to Management Representative | Ms Mercy K. Kangai | Prof. Isutsa   |
| 1.3. 13 | 02        | 00           | ALL      | Changed Deputy Principal to Deputy Vice-Chancellor                     | SAME               | Prof. Isutsa   |
| 1.3. 13 | 02        | 00           | ALL      | Changed procedures to processes  | SAME               | Prof. Isutsa   |
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## 2.0 GENERAL

### 2.1 Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The audit procedures act as guidelines to achieving the above-mentioned objective in a timely and cost-effectiveness manner.

### 2.2 Scope


The procedure is applicable to but is not limited to all systems, audits, audit investigations and any other assignments as assigned by the Vice-Chancellor/CEO.

### 2.3 References

- (i) Codes of Conduct and Public Officers Ethics Act, 2003
- (ii) CU Charter, 2013
- (iii) CU Customer Service Charter
- (iv) CU Quality Manual
- (v) CU Statutes, 2013
- (vi) Egerton University Act, 1987
- (vii) Exchequer and Audit Act/Public Audit Act, 2003
- (viii) International Auditing Standards
- (ix) International Financial Reporting standards
- (x) ISO 9001:2008 Standard, Clauses 8.2.2, 8.3, 8.4, 8.5.2, 8.5.3
- (xi) Public Officer Ethics Act, 2003
- (xii) Public Procurement and Disposal Act, 2005
- (xiii) Public Procurement and Disposal Regulations, 2006
- (xiv) State Corporation Act Cap. 446

### 2.4. Abbreviations

|           |   |   |
|-----------|---|---|
| CEO       | = | Chief Executive Officer                                     |
| CU        | = | Chuka University  |
| DVC (AFP) | = | Deputy Vice-Chancellor (Administration, Finance & Planning) |
| HOD       | = | Head of Department  |
| IIA       | = | Institute of Internal Auditors                              |
| LPO       | = | Local Purchase Orders                                       |
| GRNs      | = | Goods Received Notes  |
| PCA       | = | Pay Change Advice   |
| RQs       | = | Requisition Notes   |

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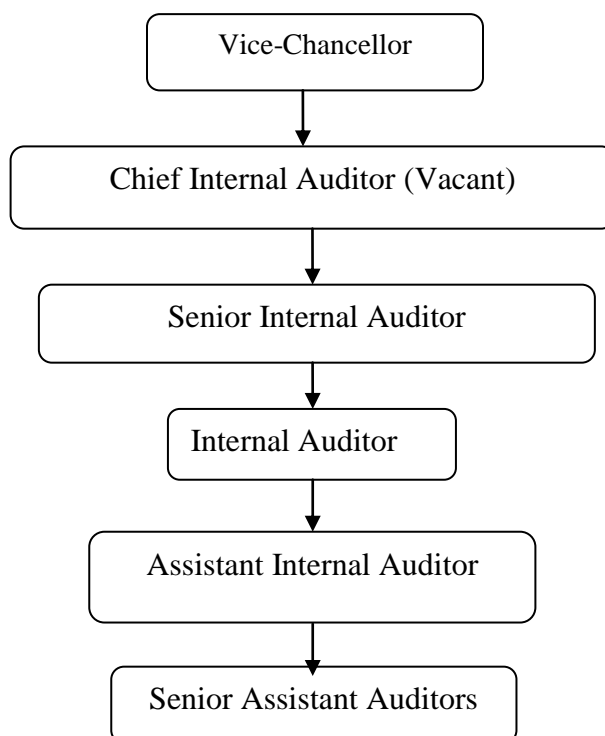
## 2.5. Definition of Terms


- (i) **An Audit Query:** This refers to an audit matter raised by the internal auditor requiring the account or the relevant official to provide an explanation or clarification relating to the matter raised. This may include provision of supporting documents needed to ascertain validity and fairness of a transaction.
- (ii) **Systems Audit:** This is an audit conducted to provide assurance whether, the objectives of the university unit are being achieved, and the system design and operations are efficient.
- (iii) **Accountable Document:** Validated official document that has a monetary value and must be accounted for e.g. LPO, Quotations, Payment Vouchers, Cheques, Imprest, Invoices, GRN's, RQs, Supplier Delivery Note

## 2.6 Responsibility

The Chief Internal Auditor has the primary responsibility of ensuring that this procedure is implemented and remains adequate for its intended purpose and providing information from which the documentation for their processes and activities can be compiled and for initiating action to keep them up to date. All departmental staff members are responsible for implementing and ensuring that this procedure is followed.

## 3.0 ADMINISTRATIVE STRUCTURE



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## 4.0 PROCESSES

### 4.1 Overview

The main activities of the Audit Department include:


- (i) Audit Investigation
- (ii) Systems Audit
- (iii) Post-auditing of payments, receipts & other accounting document.
- (iv) Procedure for Pre-Audit of Payments, Receipts & Other Accounting Documents.
- (v) Opening of Quotations
- (vi) Monthly payroll pre-audit process
- (vii) Tender box opening

### 4.2 Process for an Audit Investigation

- (i) The audit investigation procedure determines whether the information received on the fraudulent activities is correct, the extent and impact of the fraud and informs Management on the position and action to take.
- (ii) The procedure applies to an audit investigation from the time the fraudulent report is received to the time the audit report on the incident is submitted to the CEO.
- (iii) The Internal Auditor plans the investigation, determines the scope and the parties to be involved and the resources required e.g. transport, personnel, computers etc.
- (iv) The Internal Auditor reviews the relevant policy guidelines and procedures that govern the affected operations.
- (v) The Internal Auditor obtains all the relevant documents and other relevant information in physical or soft copy
- (vi) The Internal Auditor verifies and analyses the relevant documents.
- (vii) The Internal Auditor interviews persons concerned where necessary.
- (viii) The Internal Auditor gets written statements from persons mentioned or connected as considered necessary.
- (ix) The Internal Auditor forms an opinion on the irregularity, malpractice or fraud.
- (x) The Internal Auditor prepares and submits a report of the findings to the CEO.

### 4.3 Process for Systems Audit

- (i) The procedure provides guidelines on how to conduct systems audit that provides some assurance that the existing internal and other controls are well designed and effectively operational and if not, to advise the Management on their weaknesses and provide relevant recommendations where appropriate.
- (ii) The procedure applies to all system audits conducted by the Internal Audit Department.
- (iii) The Auditor plans work to ensure that all identifiable risks are covered during the audit and all systems of control are reviewed during the audit exercise.
- (iv) The Auditor notifies the Auditee of intended audit.

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- (v) During the Entrance conference the Auditor discusses and agrees the purpose, scope and the timing of the audit with the Auditee.
- (vi) The Auditor conducts the Audit review in accordance with the plan.
  - (a) Any unclear issues are discussed with the Auditee as the Audit progresses.
- (vii) At the end of the Audit exercise, the Auditor discusses his findings whether positive or negative with the Auditee in an exit conference.
- (viii) The Auditor then prepares a draft report discussed with the Auditee and any outstanding issues are clarified.
- (ix) After agreeing with the Auditee, the Auditor prepares the final report, comprising of practical recommendations to the Management and gives a copy to the Auditee.
- (x) All recommendations on the improvement of the systems is followed up by the Auditor to ensure implementation.

#### 4.4 **Process for Post-auditing of Payments, Receipts & Other Accounting Documents**

- (i) The Auditor audits documents to ascertain compliance with both external and internal statutory provisions and management guidelines as issued from time to time.
- (ii) The Auditor determines whether the documents presented to the internal audit section reflect the true and fair view of the actual operations and corporate guidelines.
- (iii) The Auditor performs analytical and other evaluations.
- (iv) The Auditor examines relevant documentation and other material.
- (v) The Auditor inspections, test checks and uses other verification as necessary.
- (vi) The Auditor seeks or calls for support documentation from the relevant user.
- (vii) The Auditor compares with prevailing industry position, for example, in procurement of goods and services.
- (viii) The Auditor appraises existing internal control system and processes and level of compliance relating to submitted documents.

#### 4.5 **Process for Pre-Audit of Payments, Receipts & Other Accounting Documents**

- (i) The Auditor ascertains correctness of accounting documents before payment is made.
- (ii) The Auditor ascertains compliance with both external and internal statutory provisions and management guidelines as issued from time to time.
- (iii) The Auditor determines whether documents presented to auditors are correct and present true and fair view of the actual operations and corporate guidelines.
- (iv) The Auditor uses analytical and other evaluations.
- (v) The Auditor examines relevant documentation and other material.
- (vi) The Auditor uses inspections, test checks and other verification as necessary.
- (vii) The Auditor seeks or calls for support documentation from the respective user.
- (viii) The Auditor compares with prevailing industry position.
- (ix) The Auditor appraises existing internal control systems and processes and level of compliance relating to submitted documents.

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#### 4.6 Process for Opening of Quotations

- (i) Auditor gets alerted by the Procurement Department of the need to open quotations.
- (ii) The quotation box is opened in the presence representatives from the user department, Internal Audit Department and Procurement Department.
- (iii) Quotation box has two keys which are kept by Audit and Procurement Departments.
- (iv) The Auditor checks for responsiveness in terms of number of people who have responded (minimum acceptable is three people).
- (v) The quotations are signed by all the three representatives.
- (vi) The quotations are handed over to the Procurement Department for evaluation.

#### 4.7 Process for Monthly Payroll Pre-Audit Process

- (i) Auditor gets the payroll for the month from Finance Department.
- (ii) Auditor checks for authorisation by Registrar (A& P).
- (iii) Auditor confirms that all changes are supported by properly authorised PCA's.
- (iv) Auditor confirms any new employees have a genuine copy of appointment letters.
- (v) Auditor checks calculations of relevant statutory deductions.
- (vi) Auditor checks for arithmetic accuracy of the entire payroll.
- (vii) Auditor confirms that the net amounts in the payroll are the amounts written in the payment cheques.
- (viii) Auditor confirms employees who have left are terminated in the payroll.


#### 4.8 Process for Tender Box Opening

- (i) The Vice-Chancellor keeps the tender box keys.
- (ii) At the stipulated closing time of tender submission, an internal audit staff checks to confirm that the receipt of the tenders has been closed.
- (iii) During opening an Internal Audit Staff attends to oversee the process.
- (iv) The tenders are opened in the presence of bidders and tender opening committee.
- (v) The representatives verify documents submitted and prepare minutes.
- (vi) The bids are handed to the Procurement Department to organise for evaluation.

### 5. RECORDS

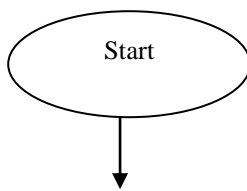


### 6.0 KEY PERFORMANCE INDICATORS/OBJECTIVES



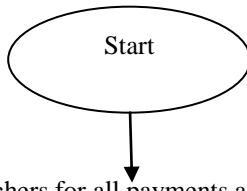


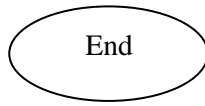
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## APPENDIX I: PROCESS MAPS

### i. Audit Investigation

| RESPONSIBILITY  | ACTION   |
|---|--|
| VICE-CHANCELLOR/DEPUTY<br>VICE-CHANCELLOR (A, F & P)/INTERNAL AUDITOR |  <p>To issue appointment letters once a situation warranting such arise</p>  |
| INTERNAL AUDIT  | Formulation of programme on investigation based on the terms of reference  |
| CLIENT/DEPARTMENT CONCERNED   | Provision of all records needed for the task by the Auditor  |
| INTERNAL AUDIT  | To write to appointing authority on whether they have received all records for task. If yes proceed with task. If no let appointing authority know the limiting factors. <b>NO/YES</b>  |
| INTERNAL AUDIT  | Analysis of findings and preparation of the report    |
| VICE-CHANCELLOR/DEPUTY<br>VICE-CHANCELLOR (A, F & P)                  | Receive the report of the investigation from Internal Audit  |

### ii. Post-Auditing of Payments, Receipts and Other Accounting Documents

| RESPONSIBILITY  | ACTION  |
|-----------------|---|
| FINANCE OFFICER |  <p>To avail payment vouchers for all payments and receipts arranged in box files in serial order of their payments and receipts</p>                    |
| INTERNAL AUDIT  | Checks all payments to verify financial regulations and corporate guidelines are observed in all payments. Test sample may be used  |
| INTERNAL AUDIT  | To check and ensure payment cheques follow serial order. In case of irregularity to check with Finance Officer and satisfy the omission <b>NO/YES</b>  |
| INTERNAL AUDIT  | Analysis of the findings and preparation of the report   |
| VICE-CHANCELLOR | Receive the report on Post-Audit for action as per recommendations in the report  |
|                 |  <p>End</p>   |

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### iii. Pre-Audit of Payments, Receipts and Other Accounting Documents

| RESPONSIBILITY                 | ACTION   |
|--------------------------------|--|
| FINANCE OFFICER                | <p style="text-align: center;">Start</p> <p style="text-align: center;">↓</p> <p>To ensure all payments vouchers are submitted to the Department for examination</p> |
| INTERNAL AUDIT                 | Receive all payment vouchers brought by a payment voucher register   |
| INTERNAL AUDIT                 | Ascertain correctness of accounting documents. Check on statutory provisions and management guidelines as issued from time to time                                   |
| INTERNAL AUDIT                 | Processes and examines all correct documents. Unsupported documents are queried. All vouchers are entered in a register for submission to Finance Office             |
| FINANCE OFFICER REPRESENTATIVE | Receive documents for second signature for cleared payment. Queried vouchers received for concerned to comply with query.  |
| VICE-CHANCELLOR                | <p>Receive a report from audit for areas in the process which requires his attention</p> <p style="text-align: center;">End</p>                                      |

### iv. System Audit

| RESPONSIBILITY          | ACTION  |
|-------------------------|---|
| VICE-CHANCELLOR AUDITOR | <p style="text-align: center;">Start</p> <p style="text-align: center;">↓</p> <p>He/she provides guidelines on how to conduct system audit based on riskiness of auditable area</p> |
| AUDIT STAFF             | Prepares audit programme of area he/she is allocated for approval by Vice-Chancellor Auditor  |
| AUDIT STAFF             | Familiarize with client department and arranges for familiarization day with client before starting actual system audit   |
| AUDIT STAFF             | Client to avail all documents necessary for compilation of report   |
| AUDIT STAFF             | Compilation and submission of report and filter it for submission onward  |
| VICE-CHANCELLOR AUDITOR | Receive report and filter it for submission onward  |
| VICE-CHANCELLOR         | <p>Receive report of system audit for action</p> <p style="text-align: center;">End</p>   |