OPHCD

ORGANIZATION FOR PROMOTION OF HEALTH AND COMMUNITY DVELOPMENT

Internal Audit Policy and Procedures 2021

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About OPHCD:

1. Introduction and legal status.

Organization for Promotion of Health & Community Development (OPHCD) is a non-government, non-profit, non-political, impartial and independent organization registered with:

- the NGOs Department of the Ministry of Economy of the Government of Islamic Republic of Afghanistan with license No 4160
- the Ministry of Public Health of the Government of Islamic Republic of Afghanistan with the registration No 1125

The organization established to serve the community and advocate for better coordinating and directing the available resources and activities for provision of quality services to the communities with an equitable manner. OPHCD, as a non-governmental organization committed for a joint mission with having dedicated and expert staff in public health, Water Sanitation and Hygiene, education, community development as well as volunteers who have been working in technical and managerial positions with national and international NGOs since more than one and half decade.

The members of the Board of Directors, senior Management Team (SMT) as well as the volunteers of the organization having appropriate experience, dedication and voluntarism which is a professional contribution to the health, education and development sector for achieving of more sustainable results. The core staff of OPHCD have more than one and half decade of successful experience of being directly involved in **developing** different policies and strategies as well as **designing** and **implementation** of projects in the areas of health, WASH, education and community development sectors such as; Primary Health care (PHC), Basic Package of Health Services (BPHS), Essential Package of Health Services (EPHS), Water & Sanitation and Hygiene, Primary education and Literacy programs, youth awareness and development, Public Nutrition, emergency preparedness and response and disaster risk reduction, trainings and coordination of different humanitarian Aids. Furthermore, the SMT and core Technical, Administration and Finance staff of the organization have up to date knowledge and rich experience of Grant Management, Project Management as well as conducting professional tasks of supportive Supervision, Monitoring, Evaluation, and Researches. Likewise, developing and on-time reporting (monthly, quarterly, annual, end of project and ad-hoc reports) to the donors and stakeholders, presenting the results of the aforementioned programs at the community, organizational, national and international levels are the expertise of the organization's technical and administrative staff.

1.1. Vision

An empowered society with sustainable and self-reliance health, social and economic stability at the community level.

1.2. Mission Statement

OPHCD, as a non-governmental organization is striving for well-being of the society with promotion of health and sustainable development of the communities through advocating for better coordinating and directing the national policies and strategies as well as available resources and activities for provision of quality health, educational, social safety, human right and social welfare, economic, environmental and development services to the communities with the focus on the women and children, drugs users, IDPs and other marginalized group of the society with an equitable manner.

2. Responsibility and Authority

The Internal Audit function was established at the direction of the Board of Trustees and derives its authority directly from the Audit, Finance and Investment Committee. The Internal Audit Department reports administratively to the General Director for Finance and Treasurer and

operationally to the President and to the Audit, Finance and Investment Committee. The scope of Internal Audit's responsibility is defined within this policy.

Internal Audit staff is authorized to conduct a comprehensive internal audit program within the OPHCD and is responsible for keeping the Office of the General Director informed of unusual transactions or other matters of significance.

3. Independence:

In order to maintain independence and objectivity, the Internal Audit function has no direct responsibility or any authority over the activities or operations that are subject to review, nor should Internal Audit develop or install procedures, prepare records or engage in activities that would normally be subject to review. However, Internal Audit may be consulted when new systems or procedures are designed to ensure they adequately address internal control

3.1. Objectivity:

Internal Audit is a service function organized and operated primarily for the purpose of conducting audits, in accordance with professional standards. The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to impacted members of senior management, the General Director and the Audit, Management team or the Board of Trustees.

Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures and/or their effectiveness and efficiency in achieving organizational objectives. The Internal Auditor may also recommend cost effective courses of action for management to consider in improving efficiencies that have been identified during an audit.

4. Confidentiality:

All information obtained during an internal audit is deemed confidential unless otherwise instructed. It is understood that certain items are confidential in nature and special arrangements may be required when examining and reporting on such items. Internal Audit will handle all information obtained during a review in the same prudent manner as the original custodian of the information. Internal Audit respects the value and ownership of information received and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Audit reports are considered highly confidential. They are distributed to the respective area Management team, as requested. Other individuals interested in the audit report may gain

access by contacting the General Director, Internal Audit; with the approval of the appropriate area Management Team

Internal Audit staff is expected to remain prudent with all information obtained during the course of an audit. When discussing matters pertaining to an audit or any other organizational matters, Internal Audit staff must always remain discreet and be certain to limit those conversations exclusively to appropriate OPHCD personnel. Internal Audit staff has an obligation to never indiscreetly discuss any information obtained during the course of audit assignments, whether within or outside the Organization.

4.1. Code of Ethics

The Internal Audit staff shall subscribe to the Code of Ethics established by the Institute of Internal Auditors, as well as adhere to the policies set forth by the management of OPHCD. In addition, the Internal Audit staff will uphold the following:

a) **Integrity.** Establish trust and thus provide the basis for reliance on the judgment of Internal Audit. Remain tactful, honest, objective and credible in all relationships as a representative of OPHCD.

b) **Objectivity.** Exhibit the highest level of professional objectivity in gathering, evaluating and communications information about the area under examination. Make balanced assessments of all the relevant circumstances and do not become unduly influenced by individual interests or by others in forming judgments.

c) **Confidentiality**. Respect the value and ownership of information received. Do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

d) **Competency**. Apply the knowledge, skills and experience required in the performance of internal auditing services and continually improve the proficiency, effectiveness and quality of the services proved.

5. Standards of Conduct

Internal Audit will adhere to the following standards of conduct:

a) **Service**. Preserve a commitment to carry out all responsibilities with an attitude of service toward OPHCD members while maintaining a sincere and dignified attitude.

b) **Excellence**. Uphold a high standard of service and a commitment to quality in performing all projects and assignments.

c) **Leadership**. Provide noteworthy examples which emphasize high ethical and moral standards.

d) **Professionalism**. Conduct business in a manner that reflects favorably on the OPHCD and the individual. Exercise skill, integrity, maturity and tact in all relations.

6. Scope of the Internal Audit Function

While carrying out their duties, the Internal Audit staff is responsible for utilizing a systematic, disciplined approach to evaluating and improving the effectiveness of internal controls and should include the following:

a) Developing and maintaining a comprehensive audit program necessary to ensure compliance with accounting standards, policies and procedures necessary to safeguard OPHCD resources.

b) Communicating the results of audits and reviews by preparing timely reports, including recommendations for modifications of management practices, fiscal policies and accounting procedures as warranted by audit findings.

c) Establishing and maintaining a quality assurance program to evaluate the Internal Audit operations. This program should include the following: uniformity of work paper preparation, audit sampling, work paper review, report preparation and review, report communication and issuance and record retention.

7. Responsibility for Detection of Errors or Irregularities:

The management of the OPHCD is responsible for establishing and maintaining controls to discourage perpetuation of fraud. Internal Audit is responsible for examining and evaluating the adequacy and effectiveness of those controls. Audit procedures alone are not designed to guarantee the detection of fraud.

An error is an unintentional mistake in financial statements which includes mathematical or clerical mistakes in the underlying records and accounting data from which the financial statements or other reports are prepared, mistakes in the application of accounting principles and oversight or misinterpretation of facts that existed at the time the reports were prepared.

An irregularity is an intentional distortion of financial statements or other reported data or the misappropriation of assets.

If the General Director, Internal Audit believes that a material error or an irregularity exists in an area under review or in any other area of the OPHCD, the implications of the error or irregularity and its disposition should be reviewed with the responsible person. As soon as it has been determined that an irregularity does exist, the Internal Controller will notify the General Director that an irregularity has been identified and the audit steps needed to determine the extent of the problem.

8. Services Provided by Internal Audit

Internal Audit's primary activity is the implementation of a program of regular audits of the Organization business operations, as outlined below. However, the complete range of services provided by Internal Audit may also include special projects and consultations as directed by the General Director.

a) **Operational Audits**. Operational audits consist of critical reviews of operating processes and procedures and internal controls that mitigate area specific risks. These audits examine the use of resources to determine if they are being used in the most effective and efficient manner to fulfill the OPHCD's mission and objectives.

b) **Compliance Audits**. These audits determine the degree to which areas within the OPHCD adhere to mandated Federal, State and OPHCD policies and practices. Other regulatory agencies are also included within compliance audits. Recommendations

usually require improvements in processes and controls used to ensure compliance with regulations.

c) **Financial Audits**. These audits review accounting and financial transactions to determine if commitments, authorizations and the receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that there are adequate process controls over the acquisition and use of resources. Unlike external financial audits, internal financial audits do not prepare or express professional opinions on the financial statements fairness.

d) **Investigative audits**. These audits are conducted to identify existing control weaknesses, assist in determining the amount of loss and recommending corrective measures to prevent additional losses. Internal Audit will also work with outside agencies to determine if misconduct occurred at OPHCD. These types of investigations can encompass misuse of OPHCD funds or assets, fraud or potential conflicts of interest.

e) **Technology Audits**: Technology audits are usually comprised of control reviews of disaster recovery plans, system back up procedures and the general security of data and of the physical plant. The purpose of these audits is to evaluate the accuracy, effectiveness and efficiency of the OPHCD's electronic and information processing systems.

9. Professional Proficiency

Professional proficiency is the responsibility of the individual auditor. The Internal Controller will assign each audit to the individual who possess the necessary knowledge, skills and disciplines to conduct the audit properly.

The Internal Audit staff has a professional obligation to schedule and attend on-going professional education forums to ensure they maintain academic proficiency and to advance professionally.

The IC, Internal Controller is responsible for providing appropriate audit supervision. Supervision is a continuing process, initiated with the planning process and concluding with the completion of the audit assignment. The Internal Controller will document evidence of supervision and review on all audits. This may be accomplished by signing off on all work papers and audit documents.

10. AUDIT PLANNING:

10.1. Develop the Audit Plan.

The Internal Controller is responsible for developing a risk-based Audit Plan that includes areas
subject to regulatory review, each fiscal year. The Audit Plan is a written document showing specific audits or projects to be performed by the Internal Audit Department. After review by the General Director, the Audit Plan is presented to the Audit, Finance and Investment Committee for approval.

The development of the Audit Plan includes a review of the OPHCD's risk assessment of the key processes. This is a process in which business process are identified and evaluated according to the goals of the OPHCD and the goals of the individual area. An assessment of the level of risk is conducted in cooperation with each member of the

Executive Council, or their designee, and is updated periodically. The assessment includes a broad range of risks and associated controls. In addition, the Internal Controller is responsible to identify and evaluate exposures to business risk and the controls designed by management to reduce those risks. When doing so, the following factors are considered:

(a) Ongoing factors
   a. Public image
   b. Process liquidity
   c. Budget deviations
   d. Regulatory guidelines.

(b) Environmental Risk factors
   a. Process stability
   b. Recent audit history
   c. Executive assessment
   d. Political environment
   e. Financial markets
   f. Technology initiatives.

The majority of audits are planned. However, that does not preclude Internal Audit from conducting unplanned audits. Prior to any audit, the Internal Controller will discuss the engagement with management. The discussion will include the scope, purpose and estimated timeframe of the audit. As unplanned projects are required, they are included in the overall plan for the year.

The annual Audit Plan will be submitted to the Management Team and the Audit, for approval. Any proposed changes to the approved Audit Plan will be presented to the General Director and to the Audit, at subsequent meetings.

11. AUDIT PROCESS:

11.1. Overview and Conduct of the Audit Process:

Although every audit project is unique, the audit process is similar for most engagements and usually consists of nine stages. Through these stages Internal Audit will determine ways to minimize risks and increase efficiencies within the area. An audit will result in a certain amount of time being diverted from area personnel's usual routine. One of the key objectives is to minimize this time and avoid disrupting on-going activities.

a) **Plan**. The Internal Audit Department will develop an audit plan based on a review of all pertinent information. Sources may include, but are not limited to: a risk assessment, internal and external evaluations and management guidance.
b) **Notify**. The Internal Audit Department will schedule a meeting with the unit manager and the senior managers of the process to be audited. Identify the scope and objectives of the audit, how long it is expected to last and what the responsibilities for all parties are in the audit process. Any factors that may impact the audit should be raised at this time. Factors include vacations, fiscal year end reporting requirements, etc.
c) **Test**. Testing will include interviews with the staff, review of procedures and manuals, compliance with the OPHCD policies and governmental laws and regulations and assessing the adequacy of internal controls.
d) **Communicate**. Keep the department that is undergoing the audit updated on the status of the audit on a regular basis especially if there are any findings. There may be instances where the findings can be addressed immediately.
e) **Draft**. The report draft will include the audit Scope and Objectives, Summary and Opinion, Findings and Audit Recommendations.
f) **Management Response**. Management will receive the audit draft to confirm the facts and respond to the Audit Recommendations. Their response should assign the responsibility and have a specific target date of completion for the corrective actions. The time window for the Management Response is normally 21 calendar days.
g) **Review**. The final version of the audit will be reviewed and all issues resolved by the Director, Internal Audit.

h) **Distribute**. The report is then released to the audited department, the divisional General Director and the Management Team.as part of the agenda at the periodic meetings as requested.

i) **Verify**. The Internal Audit Department will normally conduct a follow up on the Management Responses to the audit Findings and Recommendations within a reasonable time frame. This subsequent review will be discussed with the involved management and the comments published. The comments may also be released to the Audit, Finance and Investment Committee as part of the agenda at the periodic meetings.

12. AUDIT PROCEDURES:

12.1. Evidential Matter.

Evidential matter obtained during the course of fieldwork provides the documented basis for the auditor's opinions, observations and recommendations as expressed in the auditor's opinions, observations and recommendations as noted in the audit report. The Internal Audit Department is obligated by professional standards to act objectively, exercise due professional care and collect sufficient and relevant information to provide a sound basis for audit observations and recommendations.

Auditors must obtain all evidence necessary for the effective completion of the audit. The decision on how much evidence is enough and what type to seek requires the exercise of the auditor's judgment based on experience, education and intuition. A thorough knowledge of the concepts underlying audit evidence will help the auditor to improve the audit quality and efficiency of the process.

Standards for the Professional Practice of Internal Auditing require that work papers possess certain attributes to provide a sound basis for audit observations and opinions and to be considered as evidential matter. These attributes are:

a) Sufficient information is factual and adequate so that a prudent, informed person would reach the same conclusions as the auditor
b) Information is reliable and the best attainable through use of appropriate audit techniques
c) Relevant information supports audit findings and recommendations and is consistent with the audit objectives for the audit
d) Useful information helps the organization meet its goals. It also provides a reference for the preparer when called upon to answer questions.

12.1. Types of evidence.

If the evidence supports the basic test of sufficiency, competence and relevance, it may be used to support the auditor's findings. The following outlines the different types of evidence obtained during the course of an audit:

a) **Physical evidence**: Obtained through observation and inquiry
b) **Testimonial evidence**: Based on interviews and statements form involved persons
c) **Documentary evidence**: Consists of legislation, reports, minutes, memoranda, contracts, extracts from accounting records, formal charts and specifications of documentation flows, systems design, operational and organizational structure
d) **Analytical evidence**. Secured by analysis of information collected by the auditor.

13. Documentation of Evidential Matter:

Standards for the Professional Practice of Internal Auditing require that audit work papers reflect the details of the evidence upon which the auditor has relied. The Internal Auditor must maintain adequate documentation of the audit, including the basis and extent of planning, the work performed and the results and findings of the audit. This will allow the work papers to serve both as tools to aid the auditor in performing their work and as written evidence of the work done to support the auditor's report. Information included in work papers should be sufficient and relevant to provide a sound basis for audit findings and recommendations.

In the process of collecting evidential matter, the auditor is required to perform audit testing to support all observations and opinions. During the performance of such testing, the auditor is not required to test the population in its entirety. Audit sampling may be employed. Audit sampling is performing an audit test on less than 100% of a population. In "sampling", the auditor accepts the risk that some or all errors will not be found and the conclusions drawn (i.e. all transactions were proper and accurate) may be wrong. The type of sampling used and the number of items selected should be based on the auditors understanding of the relative risks and exposures of the areas audited.

13.1. Types of Samples.

a) **Statistical or probability sampling**: Allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.
b) **Attribute sampling**: Used when the auditor has identified the expected frequency or occurrence of an event.

c) **Variable sampling.** Used when the auditor samples for values in a population which vary from item to item.

d) **Judgment sampling.** Used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical or necessary to use statistical sampling.

14. Change control history:

Version No:	Approval date:	Approved by:	Change:
001	Jan,2021	Board of Trustee General Director	

Signature..... Date.....2021.....

APPROVED BY:

After the review of the policy, on behalf of the OPHCD Board of Trustees, the said manual is hereby approved and ready to be implemented henceforth.

Reviewed and Approved: Board of trusty.

OPHCD
Organization for Promotion of Health & Community Development