

Terms of Reference and Policy for the Internal Audit at Sida

**Department for Evaluation
and Internal Audit**

Department for Evaluation
and Internal Audit (UTV)

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the Internal Audit at Sida**

Approved by Sida's Board of Directors on 17 December 1999

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Terms of reference and policy for the internal audit at Sida

1. Formal approval

The Board of Sida hereby approves the terms of reference and policy in accordance with the rules of procedure of the Board.

2. General

The activities of the internal audit are governed by:

- the ordinance on internal audit at government agencies etc. (1995:686);
- the regulations and guidelines for the application of the ordinance issued by the Swedish National Audit Office (RRV); and
- generally accepted standards for internal auditing and internal auditors.

Generally accepted auditing standards form the foundation of all work performed by Sida's internal audit. In this respect, the guidelines and recommendations in audit matters issued by the Swedish Institute of Internal Auditors (IRF), the Institute of Internal Auditors (IIA) and the Swedish Institute of Authorised Public Accountants (FAR) shall serve as guiding principles.

The internal audit at Sida shall regularly monitor the development of generally accepted standards in internal auditing and propose any amendments that may be required to the terms of reference and policy.

3. The “client”, task, scope of the audit and services

3.1 The “client”

Sida's Board is the *client* of the internal audit. The Board approves the internal audit policy and audit plan, and the plans of action arising from the work of the audit.

3.2 Task

The internal audit at Sida is independent and consultative, and ensures that, as far as possible, information is correct. It is organised in such a way that it shall improve and add value to Sida's operations. At the request of the Board, the internal audit shall assist Sida in achieving its objectives by providing a systematic, structured approach for the examination, evaluation and improvement of efficiency in *internal controls* and *risk management*.

Internal audit is a process that involves management and staff and has the aim of achieving, with reasonable certainty:

- efficiency in operations, in accordance with the objectives laid down by Parliament and the Government;
- observance of regulations and decisions of the Government applicable to operations;
- reliability in reports of results.

In an efficient operation, it should be possible to measure goal fulfilment, assure quality, use the agency's resources efficiently, protect assets and promote the interests of the agency.

3.3 Scope of the audit

The scope of the internal audit covers all activities pursued by Sida or for which Sida is responsible. The internal audit does not examine the work of the Board, the Director General and the Department for Evaluations and Internal Audit, for reasons of independence.

The internal audit is not responsible for investigating any possible improprieties at Sida. However, at the request of the Director General, the internal audit can contribute its expertise in investigations of this type.

3.4 The internal audit's services

The *services* provided by the internal audit are:

- audits (examinations)
- advisory and consultative services (preventive and supportive).

All members of staff at Sida can turn to the internal audit for advice and consultations. The internal audit provides advice and consultations as far as time permits. The internal audit can request that these assignments shall be in writing.

4. Management of the internal audit at Sida

The Head of the Department for Evaluations and Internal Audit is head of the internal audit and shall have experience of audit work. The head of internal audit is, for administrative purposes, directly subordinate to the Director General.

The head of the internal audit is responsible for ensuring that:

- objectives of audit activities are laid down and regularly followed up,
- resources are used efficiently,
- the internal audit is adapted to meet changes made at Sida and externally,
- audit staff are further developed and stimulated to follow developments in areas of importance to Sida,
- the audit work is performed professionally and thoroughly and in a positive spirit,
- the independence of the internal audit is upheld,
- internal and external audits are coordinated in a satisfactory manner.

5. Access of the internal audit to the Board

The internal audit has the right to participate in meetings of Sida's Board. Individual board members may have contact with the internal audit between board meetings.

6. Conditions for the internal audit

6.1 General requirements

Sida's internal audit is liable to maintain high professional standards vis-à-vis the internal audit's client, the audit profession and other interested parties. In this respect, the internal audit shall follow the basic ethical rules laid down by IRF/IIA.

The internal audit is entitled to be furnished with all information and all documents that are deemed necessary for the fulfilment of the duties of the audit.

6.2 Objectivity

The internal audit shall be characterised by objectivity. In this context, objectivity means that value judgements are kept separate from factual statements and are openly reported, and that factual statements are based on reliable methods for data collection and for drawing conclusions.

6.3 Manning and professional skills

The internal audit shall primarily be staffed by personnel that have qualifications and experience in the fields of auditing, operational and financial management, and accounting. In connection with recruitment, consideration should also be given to the needs of knowledge about Sida's operations and language skills. Recruitment shall be made of experienced staff who are very familiar with modern audit methods.

Internal auditors shall be highly conversant with activities at Sida and with developments in the audit field. Regular training shall take place, based on internally produced and individually adapted training programmes.

7. Implementation

Below a description is given of those components of the audit process in which other interested parties than the internal audit make important decisions. These components are the audit plan, reports, remedial work and the follow up of action plans.

7.1 Audit plans

The planned activities of the internal audit shall be presented each year in an audit plan. The audit plan shall include auditing activities, other activities, manning and an approximate time-schedule.

The audit plan shall be approved by Sida's Board for each financial year. The internal audit shall hold consultations with the RRV before the final proposal is presented to the Board for approval. Prior to reaching its decision, the Board shall be given the opportunity to be informed of the RRV's report on the consultations. A copy of the approved audit plan shall be submitted to all heads of department and counsellors at the embassies.

Any major revisions to the approved audit plan during the financial year shall be approved by the Board. In this context, major revisions refer to the removal and addition of audit projects. If the matter in question is of such urgency that there is no time to obtain the approval of the Board, the Director General may decide in the matter. All decisions of this type shall be reported at the

following meeting of the Board. Where proposals for major revisions to the audit plan are concerned, consultations shall be held with the RRV.

Minor revisions, for example a revision of priorities in the audit plan, shall be decided on by the head of internal audit. The Board shall be informed of these changes at the following meeting of the Board.

7.2 Reports

Reports to the Board

Reports to the Board consist of the following components:

- regular reports on completed audit projects
- yearly reports, and
- informal reports.

Regular reports on completed audits shall be submitted in writing. Reports shall be addressed to the Board and the Director General. The board shall be informed as soon as possible after an audit has been finalised.

The Board approves action plans that are drawn up as a consequence of the internal audit report. The Board receives the audit report prior to the board meeting at which it shall reach its decision on the action plan. The internal audit shall be given the opportunity to present the audit report at the board meeting.

The *yearly report* consists of the internal audit's annual report. The annual report summarises all audits undertaken during the year. The report should include, for example, completed audits, any deviations from the audit plan, general or specific experience gained and observations made during the audits, and a follow-up of the action plans previously approved by the board. The internal audit shall comment on measures taken as a consequence of its audits.

When the internal audit finds it necessary, an informal report can be submitted to the chairman of the board and to the head of the division concerned.

Reports on advisory services

Reports on advisory services are made in accordance with the agreement reached with the client.

7.3 Remedial work

Remedial work for audits

The Chief Controller is responsible for ensuring that proposed plans of action are drawn up in accordance with the formal decision of the Director General "Systematic standpoints and actions in respect of evaluations and audits in Sida's operations" (158/98). The Director General decides on the departments that shall participate in drawing up the plan of action.

The plan of action shall specify the measures that are deemed necessary to eliminate identified shortcomings. The plan of action shall contain information on:

- the measures that shall be taken,
- the latest date for the measures to be taken,
- the person responsible for ensuring that the measures are taken.

If the Chief Controller or the department concerned cannot reach agreement with the internal audit on the description of the problem and the recommendations in the report, the reasons for this shall be given in the plan of action.

The internal audit shall be given a reasonable amount of time to assess and comment on the final proposal for a plan of action before it is submitted to the Board for its decision. The internal audit shall assess whether the actions correspond to the intentions in the recommendations. In cases where the internal audit and the Chief Controller have significant differences of opinion on the content of the plan of action, it should be submitted to the Director General for consideration.

Revisions of approved plans of action

In cases where it is necessary to revise an approved plan of action, proposals for the revisions shall be drawn up by the Chief Controller. The internal audit shall be given the opportunity to assess and comment on the proposed revisions before they are finalised and submitted to the Director General for decision. The Board shall be informed of approved revisions, and of any objections made by the internal audit, at the following board meeting.

7.4 Follow-up of plans of action

Sida's follow-up responsibilities

The Chief Controller shall follow up the plan of action and report the result in writing to the Director General and the Board. The follow-up shall be performed in accordance with the above-mentioned decision of the Director General (see 7.3). The internal audit shall be informed of the result of the follow-up. Work on the measures that shall be taken shall be followed up until all the measures have been taken. The Head Controller and the division concerned shall also make a follow-up to ensure that the measures taken lead to the intended changes.

Internal audit's monitoring responsibility

The internal audit shall monitor observance at Sida that the stipulated measures have been taken and that Sida follows up and reports on the measures. The internal audit should also monitor that measures taken lead to the intended changes. Deviations from approved plans of action and from this policy shall be commented on in the internal audit's yearly report to the board.

8. Internal and external exchanges of experience

8.1 Internal

The internal audit should try to ensure that Sida staff receive regular feedback on experience gained and observations made during audits and other audit activities.

8.2 External

Membership in the Swedish Institute of Internal Auditors (IRF) should be taken out in order to receive news, further education and training, and for the regular exchange of knowledge and experience with colleagues, nationally and internationally.

Contacts should be established with other functions *at donor organisations and international organisations* that run activities related to development cooperation, particularly in respect of control, management and audit issues.

9. Follow-up of the quality of internal audit

The activities of the internal audit shall be organised in such a way that the audits shall be characterised by quality and efficiency. The quality of internal audits shall be followed up regularly.

10. Procurement of internal audit services

Audits can be made by external consultants on behalf of the internal audit. The procurement of external auditors shall be done in accordance with Sida's policy for the procurement of services and with consideration given to the need of a broad resource base and to situations in which disqualification could arise in relation to operations.

External consultants engaged on behalf of the internal audit shall follow the audit methods used by Sida's internal audit.

If the internal audit makes the assessment that reports produced by external consultants do not fulfil requisite quality criteria, the internal audit can choose not to publish the report. The internal audit is responsible for reports printed in the internal audit's reports series.



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