Internal Audit Department

Internal Audit Execution Manual

MBZUAI – IA – IAEM – MAN – V1.0

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1. Document Control Information

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Policy Review

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Director of Internal Audit	Initiate	01/9/2023
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2. Glossary of Terms

Term	Definition
Executive Management	Senior Leadership of the University
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
University	Mohamed bin Zayed University of Artificial Intelligence
MBZUAI	Mohamed bin Zayed University of Artificial Intelligence
IA	Internal Audit
IAF	Internal Audit Function
Manual	Internal Audit Execution Manual

3. Introduction

The Internal Audit Function (from herein referred to as "IAF") of Mohamed Bin Zayed University of Artificial Intelligence (from herein referred to as "MBZUAI" or "the University"); has developed and adopted this Internal Audit Execution Manual (from herein referred to as "the Manual") to define the processes and procedures related to the Internal Audit Execution phase of the overall Internal Audit Cycle.

The Execution phase consists of the following 3 stages:

1. Internal Audit Execution

2. Issue Resolution Tracking

3. Quality Assurance

The Manual applies professional international standards of internal audit, in line with the standards and International Professional Practices Framework (IPPF) set by the Institute of Internal Auditors (IIA). The Internal Audit Staff of the University should familiarize themselves and understand the elements of the Manual. Moreover, this Manual should be diligently adhered to by all Internal Auditors whether internally hired within the University or outsourced.

4. Objective

The objective of this Internal Audit Execution Manual is to provide a standardized framework for Internal Audit activity at MBZUAI, with the aim of assisting Internal Auditors in executing their work by adhering to best practices such as the IIA, the IPPF, and any relevant regulation.

5. Scope

Internal Audit scope coverage includes all aspects of MBZUAI activities in accordance with the Internal Audit Charter approved by the Audit Committee. The Internal Audit Execution Manual scope consists of the methodology of execution of Internal Audit Projects, the manner of reporting of Internal Audit Findings, the follow up strategy of the implementation status of the agreed upon action plans, and Quality Assurance.

6. Code of Ethics

The IAF will govern itself by adherence to The Institute of Internal Auditors' Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the IAF's performance. The IAF will also ensure compliance with the University's relevant policies & procedures, code of conduct, and any relevant laws and regulations relating to internal audit in the countries where the University has a presence.

7. Internal Audit Execution

Internal audit project execution, including development of the audit program, is performed after approval of the Internal Audit Plan. Internal audit execution formalizes the activities to be performed as a result of the understanding gained through strategic analysis, Risk Assessment, and internal audit planning.

Engagements will be performed by members of the IAF or service providers contracted for specific engagements. For each engagement, members will be assigned in the following roles:

1. **Engagement Supervisor:** The Engagement Supervisor will be responsible for quality assurance, and will approve the "Engagement Letter", "Audit Program", which risks and controls testing will proceed to effectiveness testing, observations to be reported and not reported, the "Draft Report", and the "Final Report".

2. **Engagement Manager:** The Engagement Manager will prepare the "Engagement Letter", "Initial List of Requirements", conduct the "Kick-Off Meeting", review the work products of the Engagement Team, support the Engagement Team in conducting the audit, and prepare the "Draft and Final Reports".

3. **Engagement Team:** The Engagement Team will conduct the day-to-day activities related to the audit, including the "Process Understanding", preparing the "Audit Program", preparing the "Kick-Off Meeting Presentation", "Process Walkthrough", request required documents, conduct "Design Testing" and "Operating Effectiveness Testing" and prepare their relevant test sheets, update the "Audit Program", and support with the preparation of the "Draft Report".

Figure 1.0: Internal Audit Execution

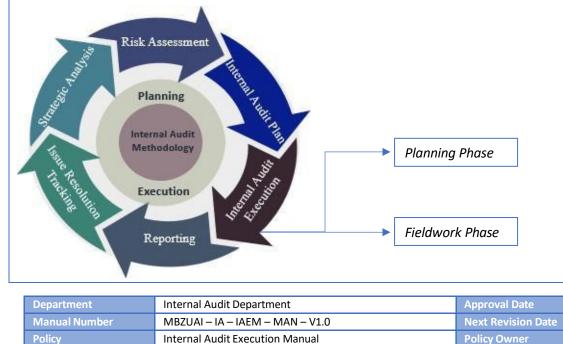| Department	Internal Audit Department	Approval Date	19/9/2023
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- **Planning Phase**

    1. The "Engagement Letter" & "Initial List of Requirements" are prepared by the "Engagement Manager".

    2. The "Engagement Letter" will include the objectives of the audit, the scope of the audit, the key risks that the engagement will cover, the audit team, the date of the Kick-Off meeting along with duration of the audit, and the period of coverage.

    3. The "Engagement Letter" is approved by the "Engagement Supervisor".

    4. The "Engagement Letter" is shared with the auditee by the Director of Internal Audit.

    5. The "Initial List of Requirements" is shared with the auditee by the "Engagement Manager". The e-mail communication includes the timeline by which the requests in the "Initial List of Requirements" are to be submitted.

    6. The "Engagement Team" is to review previous audit deliverables and status of previously highlighted control deficiencies in preparation for the audit.

    7. Once the requests in the "Initial List of Requirements" are received, the "Engagement Team" will analyze them to gain an understanding of the function and prepare for the "Process Understanding" meeting.

    8. After the completion of the analysis of the received items from the "Initial List of Requirements", the "Engagement Team" will arrange to conduct a "Process Understanding" meeting with the auditee.

    9. The "Engagement Team" will document the results of the "Process Understanding" meeting.

    10. The "Engagement Team" will use the process understanding gained from the "Initial List of Requirements" analysis and the "Process Understanding" meeting to draft the "Audit Program".

    11. The "Engagement Supervisor" will approve the draft of the "Audit Program".

    12. The "Kick-Off Meeting Presentation" is prepared by the "Engagement Team".

    13. The "Kick-Off Meeting Presentation" will include the audit team, the objectives of the audit, the scope of the audit, the audit approach, the audit timeline, the audit expectations, and feedback survey.

- **Fieldwork Phase**

    1. The "Audit Team" will hold the "Kick-Off Meeting" with the auditee.

    2. If needed, the "Engagement Team" will hold additional "Process Understanding" meetings and document the same.

    3. The "Engagement Team" will conduct and document a "Process Walkthrough" with the auditee.

    4. The "Engagement Team" will update the "Audit Program" according to the "Process Walkthrough".

    5. The "Engagement Team" will request any additionally required documents and/or conduct any additionally required meetings/testing to complete the "Design Testing" phase of the "Audit Program". All testing must be documented in a way to allow for the reviewer to re-perform the test and reach the same conclusion without having to request any additional data or information.

    6. The "Engagement Supervisor" will approve the audit program and determine which risk and controls will proceed to the "Operating Effectiveness Testing" phase.

    7. The "Engagement Team" will conduct "Operating Effectiveness Testing" and update the "Audit Program" accordingly. All testing must be documented in a way to allow for the reviewer to re-perform the test and reach the same conclusion without having to request any additional data or information.

    8. The "Engagement Team" will request any additionally required documents or conduct any additionally required meetings/testing to complete the "Operating Effectiveness Testing" phase of the "Audit Program".

    9. The "Engagement Supervisor" will approve the "Audit Program" and the list of noted observations to be reported.

Additional Notes:

- While conducting the internal audit tests and evaluating the results, the internal audit team must maintain professional objectivity. The team should not presume that the Management and the staff are lying, nor that they are completely honest. Instead, the audit team must rely on evidence and professional skepticism to arrive at conclusions.

- Each work sheet must have a reference linking it to the relevant part in the audit file to which it is to be connected. All work sheets must be clearly connected to the relevant audit steps in the audit work program. All observations should be documented in the results sheet/summary of observations. Moreover, all observations must be documented in the relevant work sheets wherein the details and recommendations shall be indicated.

- During the "Fieldwork Phase", the "Engagement Team" will endeavour to perform periodic "Status Updates" with the auditees, but that is not a mandatory requirement and may change from one audit engagement to the next.

- When the IAF co-sources the audit performance, roles will be assigned to service provider personnel such as "Engagement Team" and "Engagement Manager" and they will perform the tasks associated with the assigned roles.

- The following table illustrates the sampling guidelines to be followed when conducting operating effectiveness testing on large populations:

Control Frequency	Population Size	Sample Size
Annually	1	1
Bi-Annually	2	1
Quarterly	4	2
Monthly	12	4
Weekly	52	10
Daily	365	20
Transactional	>365	25

- For populations that fall between two categories, the required sample size is calculated using the linear interpolation method.

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8. Internal Audit Reporting

The primary objective of reporting is to effectively communicate the results of the internal audit work, thereby helping to drive changes that contribute to the achievement of organizational objectives. Reporting occurs through formal documentation and respective meetings with the senior management, middle management, process owners, and other stakeholders of the audit process.
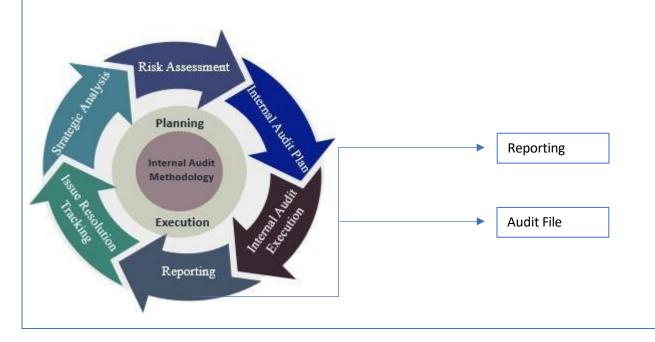
Figure 2.0: Internal Audit Reporting

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- **Reporting**

    1. The "Engagement Team" will prepare the "Draft Report" using the information recorded in the "Audit Program" from the observations approved by the "Engagement Supervisor".

    2. All "Draft Report" observations will be cross referenced with the "Audit Program".

    3. The "Engagement Supervisor" will approve the "Draft Report".

    4. A "Clearance Meeting" will be conducted with the auditee.

    5. The "Engagement Manager" will share the "Draft Report" with the auditee.

    6. The auditee will populate the "Management Action Plans" section which includes the action to be taken, the individual that will be responsible for it, and the due date for completion. The auditee will be given ten (10) working days to complete this action.

    7. If the "Management Action Plans" do not address the noted control deficiency, the "Engagement Team" will attempt to review with the auditee to obtain alignment. In case alignment is not obtained, the disagreement will be escalated one level above respectively. In case of no mutual agreement could be reached after all possible escalations; the matter is raised to the Audit Committee to decide.

    8. Upon completion of all sections of the report, a reference number is fixed on the report using the following convention: [YEAR Report is Issued]/[Type of Engagement]/[Report Number].

    9. Type of Engagement could be Assurance (AS) or Advisory (AD).

    10. Report Number is incremental with two digits (i.e. 01, 02, 03 etc…).

    11. The "Final Report" is reviewed by the "Engagement Supervisor" and submitted to the Director of Internal Audit for approval and distribution.

    12. The "Management Action Plans" will be uploaded into the "Audit Management Software" for tracking and follow up by the Audit Team and will be approved by the Director of Internal Audit.

    13. The approved "Internal Audit Effectiveness Survey" will be shared with the auditee and their feedback will be requested within ten (10) working days.

Additional Notes:

- As the outcome of the internal audit project shall be reported to the Audit Committee, it is important that the IAF has a robust review and approval process prior to reporting the internal audit observations.

- The audit report is divided into the following sections:

  ❖ Executive Summary: Including the audit background, objectives, scope, scope limitations (if any), key risks, summary of findings, management clearance meeting date and attendance, report rating/conclusion, report distribution, confidentiality statement, and report reference.

  ❖ Main Findings: Including all findings rated as "Main".

  ❖ Moderate & Low Findings: Including all findings rated as "Moderate" or "Low".

  ❖ Findings & Report Rating Guidelines.

  ❖ Appendix: Including any required reference information.

- Each "Finding" will include the following information:

  ❖ Noted "Control Deficiency"

  ❖ The "Risk" and "Impact" of the noted control deficiency.

  ❖ The "Evidence" noted during the engagement leading to the Control Deficiency.

  ❖ The "Root Cause" of the Control Deficiency.

  ❖ The "Recommendations" to resolve the noted control deficiency.

  ❖ The "Management Action Plans" to address the noted control deficiency.

- Each "Finding" will also be rated as follows:

  ❖ (**Main**) Testing plan revealed significant weaknesses in the control environment and/or instances of non-compliance with the entity's policies and procedures**.**

  ❖ (**Moderate**) Testing plan revealed isolated areas of control environment weaknesses and/or instances of non-compliance with the entity's policies and procedures.

  ❖ (**Low**) Testing plan revealed minor areas of control environment weaknesses and/or instances of non-compliance with the entity's policies and procedures.

- Possible "Report Rating" results are:

  ❖ **Well Controlled:** Controls evaluated are comparable to current best practice and are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives could be met.

  ❖ **Satisfactory:** Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives could be met.

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❖ **Requires Improvement:** A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives could be met.

❖ **Requires Major Improvement:** Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives could be met.

❖ **Unsatisfactory:** Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

- **Audit File**
  - The audit work paper file is the final depository for work sheets. All relevant work sheets and documents supporting the observations included in the internal audit report need to be included in the work paper file(s). The number of files required to maintain the documents of an internal audit project depends on the size of activity or area/unit to be audited and the use of electronic documentation by the team.
  - **The audit work paper file includes all the documents and work sheets related to the internal audit process. These documents include the planning and process understanding documents and all work sheets of the current process.**
  - The Audit File serves many purposes. It includes the historical data of the audited area/unit, which assists in the internal audit follow up process. It further enables new internal audit staff to obtain basic understanding of the audited area/unit and the risks encountered. The Audit File helps the subsequent internal audit team to plan any subsequent internal audit better.

9.   Issue Resolution Tracking

Figure 3.0: Issue Resolution Tracking

1.   During the "Reporting Phase" the "Management Action Plans" will be uploaded into the "Audit Management Software" for tracking and follow up.

2.   Auditees will have access to the "Audit Management Software" to track and address their "Management Action Plan".

3.   When an auditee updates a "Management Action Plan", the "Audit Team" will be notified of the same.

4.   The IAF will review the update and revert with one of the following conclusions:

   ▪   **Reviewed - Accepted:** If the implemented action plan adequately resolves the control deficiency based on the "Audit Team" assessment.

   ▪   **Reviewed - Rejected:** If the implemented action plan does not adequately resolve the control deficiency based on the auditor's assessment.

5.   The Director of Internal Audit will review "Management Action Plans" classified as "Reviewed – Accepted" and determine if the implemented action plan is adequate to close the Action Plan.

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10. Quality Assurance

- The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

- **Internal Quality Assurance Process**
    - Internal quality assurance is conducted through the "Engagement Supervisor's" review of the deliverables.
    - IAF recognizes that due to the size of the team, the ability to conduct peer reviews and internal quality assurance by independent party is limited, as a compensating control, the frequency of external quality assurance reviews is reduced from the recommended 5 years by the IIA to 3 years.
    - At the end of each engagement, the following appraisals and feedback initiatives will be undergone:
        - ❖ Assessment of each team member, including the Engagement Manager, by the Engagement Supervisor.
        - ❖ Engagement feedback survey sent to the auditee to obtain their perspective on the quality of the delivered engagement.

- **External Quality Assurance Process**
    - An external quality assurance review will be conducted every 3 years by an independent third party.

11. Related Documents

1. Internal Audit Charter
2. Internal Audit Planning Manual

12. Version History

Version number	Person responsible	Date of change	Comments
V1.0	Director of Internal Audit	01/9/2023	Initial version

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