

# **INTERNAL AUDIT MANUAL**

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**Table of Contents**

**1.0 INTRODUCTION..... 4**

**1.0 MANAGING INTERNAL AUDIT ACTIVITY ..... 4**

**2.1. GENERAL ..... 4**

2.1.1. Purpose .....4

2.1.2. Authority .....5

2.1.3. Responsibility .....6

2.1.4. Standards for Internal Auditing .....6

2.1.5. Code of Ethics .....7

2.1.6. Independence and Objectivity .....8

2.1.7. Proficiency and Due Professional Care .....8

2.1.8. Continuing Professional Development.....9

2.1.9. Types of Audits Conducted.....9

**2.2. ANNUAL AUDIT PLAN ..... 10**

2.2.1. Development Process.....10

2.2.2. Approval Process .....10

2.2.3. Changes to the Audit Plan.....11

**2.3. AUDIT PROCESS ..... 11**

2.3.1. Audit Planning .....11

2.3.2. Risk Assessment.....11

2.3.3. Entrance Conference or Kick-off Meeting.....12

2.3.4. Audit Fieldwork .....12

2.3.5. Audit Findings .....13

2.3.6. Draft Report and Exit Conference.....14

2.3.7. Final Report.....14

2.3.8. Communicating Reports .....14

2.3.9. Follow-up Review and Monitoring.....15

2.3.10. Engagement Supervision.....15

2.3.11. Archiving of Working Papers .....15

2.3.12. Auditors Performance Evaluation .....21

2.3.13. Quality Assurance and Improvement Program .....21

**2.4 TIME RECORDS ..... 22**

## 1.0 INTRODUCTION

ATOK-BIG WEDGE CO., INC., herein referred to as "AB", recognized the internal audit as an aid to the management for monitoring the financial performance and effectiveness of various departments/units in the execution of processes and activities. AB employees are expected to comply with the policies and procedures outlined in this manual.

The purpose of this manual is to provide general guidelines to internal auditors on the basic principles for managing internal audit activity.

Outlined in this manual are the standardized policies for various internal audit activities. AB's subsidiaries and affiliates shall adopt the policies issued by AB. Such manual should first be approved by AB's senior management and Audit Committee to ensure that there are no stipulations and clauses that conflict with the policies issued by the former. Any policies issued by AB shall take precedence over this manual, provided that, the policies are stricter than that this manual. AB is prohibited from adopting a lenient approach in the performing internal audit activities.

Use of the forms issued along with this manual is mandatory. Additional fields may be added as needed by subsidiaries and affiliates to improve operational efficiencies; however, any other modification to the forms must first be approved by senior management.

## 2.0 MANAGING INTERNAL AUDIT ACTIVITY

Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (ISPPIA Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

### Individual Employee Responsibility

Employees involved in internal audit functions should understand the purpose of standard procedures, as well as the policies which support these procedures. It is an employee's responsibility to consult with his/her superior if the policies and procedures are not completely clear or if there may be difficulties in fulfilling the requirements of any policies and procedures. Any problems which arise should be brought to the attention of the Senior Management, including that of the President, if appropriate. Policies and procedures are not intended to restrict the efforts of employees, but to provide a foundation for complete and consistent consideration of all aspects of the operations cycle.

### 2.1. GENERAL

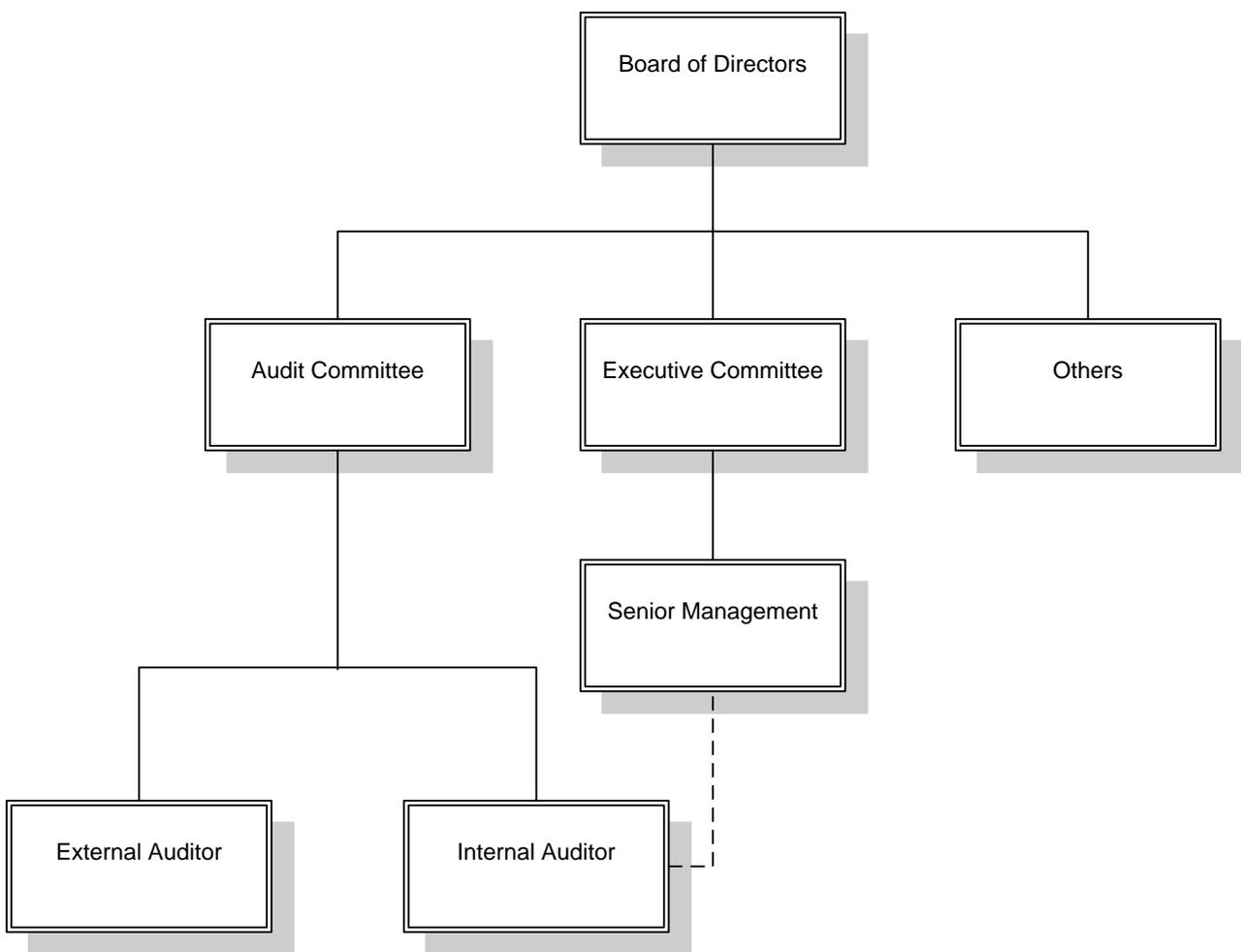
#### 2.1.1. Purpose

2.1.1.1. Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of AB, its subsidiaries and affiliates (collectively referred to as the "Group"). It assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control and governance processes.

**2.1.2. Authority**

2.1.2.1. The internal Audit Department, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Group's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit Department in fulfilling its roles and responsibilities. The internal Audit Department will also have free and unrestricted access to the Board.

2.1.2.2. The Chief Audit Executive will report functionally to the Board thru the Audit Committee, and administratively (i.e. day to day operations) to the President (Senior Management).



### **2.1.3. Responsibility**

2.1.3.1. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.□
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the Internal Audit Department's purpose, authority, responsibility and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

### **2.1.4. Standards for Internal Auditing**

2.1.4.1. The Internal Audit Department performs its functions in a manner consistent with the Group objectives and policies, the Code of Ethics and Standards of the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA).

## 2.1.5. Code of Ethics

The Internal Audit Department has adopted the IIA's Code of ethics. The articles of the Code set forth the standards of professional behavior:

### 2.1.5.1. Principles

Internal auditors are expected to apply and uphold the following principles:

2.1.5.1.1. **Integrity.** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2.1.5.1.2. **Objectivity.** Internal auditors exhibit the highest level of professional gathering, evaluating, and communicating information about or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

2.1.5.1.3. **Confidentiality.** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

2.1.5.1.4. **Competency.** Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

### 2.1.5.2. Rules of Conduct

2.1.5.2.1. **Integrity.** Internal auditors:

- a) Shall perform their work with honesty, diligence, and responsibility.
- b) Shall observe the law and make disclosures expected by the law and the profession.
- c) Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- d) Shall respect and contribute to the legitimate and ethical objectives of the organization.

2.1.5.2.2. **Objectivity.** Internal auditors:

- a) Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- b) Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- c) Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation

includes those activities or relationships that may be in conflict with the interests of the organization.

- d) Shall not accept anything that may impair or be presumed to impair their professional judgment.
- e) Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

2.1.5.2.3. **Confidentiality.** Internal auditors:

- a) Shall be prudent in the use and protection of information acquired in the course of their duties.
- b) Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

2.1.5.2.4. **Competency.** Internal auditors:

- a) Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- b) Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- c) Shall continually improve their proficiency and the effectiveness and quality of their services.

**2.1.6. Independence and Objectivity**

Internal audit activity must be independent, and internal auditors must be objective in performing their work.

2.1.6.1. **Independence.** It is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

2.1.6.2. **Objectivity.** It is an unbiased mental attitude that allows internal auditors to perform engagement in such a manner that they believe in their work product and that no quality compromises are made.

**2.1.7. Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care

2.1.7.1. **Proficiency.** Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

2.1.7.2. **Due Professional Care.** Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

### 2.1.8. Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies by attending:

- a) Internal Training, and
- b) External Training.

### 2.1.9. Types of Audits Conducted

With the guidance of the Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors), the internal auditor uses a variety of audit techniques. These audit techniques are commonly referred to as:

- 2.1.9.1. **Operational Audits.** Examine the use of unit resources to evaluate whether those resources are being used in the most effective and efficient manner to fulfill the University's mission and objectives. An operational audit includes elements of the other audit types.
- 2.1.9.2. **Financial Audits.** Accounting and reporting of financial transactions. The purpose of this type of audit is to verify that there are sufficient controls over cash and cash-like assets, and 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 fairness of the presentation of financial statements.
- 2.1.9.3. **Fraud Audit.** Where fraudulent activity is present or suspected, specialized audit activities may be performed to assist management in detecting or confirming the presence and extent of the fraud and in providing necessary evidence for legal purposes. (Please refer to Fraud Manual)
- 2.1.9.4. **Information Systems (IS) Audit.** Internal control environment of automated information processing systems and how people use those systems. IS audits typically evaluate system input, output, and processing controls, backup and recovery plan, system security, and computer facility reviews. IS auditing projects can focus on existing systems, as well as systems in the development stage.
- 2.1.9.5. **Project Management/ Construction Audit.** Project Management/Construction auditing can be defined as the process of detailed inspection of the management of a project, its methodology, technology, techniques, procedures, documents, properties, expenses and level of completion. This audit involves the determination of deficiencies that prevents the

Company from completing its projects based on the timeline provided for and approved by senior management and the Board.

- 2.1.9.6. **Management Requested Attestation Engagement.** From time to time, senior management requests that IAD perform an independent and objective examination of processes and reports provided by middle, operational and tactical management. Attestation involves an engagement resulting in the issuance of a report on subject matter or an assertion about the subject matter that is the responsibility of another party.
- 2.1.9.7. **Consulting Engagements/ Agreed-Upon Procedures.** Consulting services are advisory in nature, and are generally performed at the specific request of a client. Procedures, findings and recommendation on improvements in the process are provided for to management, however, no conclusion or opinion is provided.

## 2.2. ANNUAL AUDIT PLAN

The Internal Audit Department created an “Audit Universe” to identify all university areas subject to an audit. On an annual basis, the audit universe is updated for the audits completed in that fiscal year.

### 2.2.1. Development Process

- 2.2.1.1. The Chief Audit Executive will develop a comprehensive audit plan for the given fiscal year. This plan is based on a systematic approach to complete the audit universe. Audit frequency is determined by the risk associated with the audit area. A formal risk assessment is maintained for each audit area. The annual plan will include the following:
- Annual Audits;
  - Audits completed in the previous fiscal year; and
  - Audits currently in process.
- 2.2.1.2. The audit plan must also include the estimated start and end dates for each audit. The requirement is based on Board request. The cyclical audits should be selected based on “risk” and “time lapse” from the last audit. The goal is to complete the entire audit universe. Also, Internal Audit’s participation in special projects should be incorporated, to the extent practicable, in the annual audit plan.

### 2.2.2. Approval Process

- 2.2.2.1. The Chief Audit Executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The Chief Audit Executive must also communicate the impact of resource limitations.

### 2.2.3. Changes to the Audit Plan

All changes that should be made in the audit plan should be communicated by the Chief Audit Executive to senior management and the board for review and approval.

## 2.3. AUDIT PROCESS

The most successful audit projects are those that the audit team and auditee consider themselves as consultant and client. Understanding and applying this concept tends to foster a more constructive working relationship and can result in improved operations for the department under review. Although every audit is unique, similarities can be found in each one. The typical audit process consists of the following areas:

### 2.3.1. Audit Planning

Internal auditors must develop and document a plan for each engagement, including the knowledge of the business, audit plan memorandum, client assistance package and engagement work program.

2.3.1.1. **Knowledge of the Business.** Internal auditors should understand the nature of the business under audit to identify possible risk areas.

2.3.1.2. **Audit Plan Memorandum.** This document discusses the Nature, Timing and Extent of the audit and serves as the formal Audit Engagement Letter.

2.3.1.3. **Client Assistance Package.** This document shows the list of documents and schedules needed to give the process owner an ample time to prepare it before the start of the engagement.

2.3.1.4. **Audit Work Program.** Internal auditors must develop and document work programs that achieve the engagement objectives.

Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved before its implementation, and any adjustments approved promptly.

### 2.3.2. Risk Assessment

Internal auditors must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

### 2.3.3. Entrance Conference or Kick-off Meeting

- 2.3.3.1. The entrance conference, which is held at the client's location, provides the opportunity for the audit team to meet with department management to outline the audit objectives, approximate time schedule, types of auditing tests, and the reporting process. Any areas of concern the client would like to have reviewed by the audit team should be brought up at this stage. The audit team will make an effort to minimize any disruption of regular departmental routines and avoid seasonal busy periods. The client may designate a member of the department staff as the primary contact person for audit team questions and assistance.
- 2.3.3.2. The internal auditor should prepare a kick-off presentation that provides an overview of the audit methodology, assistance required and other pertinent information regarding the audit.

### 2.3.4. Audit Fieldwork

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

Usually there are three (3) information-gathering procedures:

- 2.3.4.1. **Observing Conditions.** This consists of looking at a process or procedure being performed by others.
- 2.3.4.2. **Interviewing People.** This involves seeking information of knowledgeable persons, both financial and non-financial within the entity or outside the entity.
- 2.3.4.3. **Examining Records.** This usually involves the following audit procedures:
- a) **Inspection.** This involves examining records or documents, whether internal or external, in paper form.
  - b) **External Confirmation.** This represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. (Test of existence)
  - c) **Recalculation.** This consists of checking the mathematical accuracy of documents or records.
  - d) **Re-performance.** This involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.
  - e) **Analytical Procedures.** This consists of evaluations of financial information made by a study of plausible relationship among both financial and non-financial data. This also encompasses the investigation of identified fluctuations and relations that are inconsistent with other relevant information or deviate significantly from predicted amounts.
  - f) **Tracing.** This is the process of following a transaction forward from the triggering event to a resulting event, ensuring that the transaction was accounted for properly (Completeness)

g) **Vouching.** This is the process of tracking a result backwards to the triggering event, ensuring that a recorded amount is properly (Existence).

2.3.4.4. Internal auditors document the information obtained, the analysis made, and the support for the conclusions and engagement results. This typically involves preparation of narrative, flowchart and/or walkthrough documentation, risk-control mapping, and working papers.

2.3.4.4.1. **Narrative, Flowchart and/or Walkthrough Documentation.** This document shows the current practice to identify possible red flags.

2.3.4.4.2. **Risk Control Mapping.** This document indicates the gap analysis made by the auditor by assessing the current controls or practice of the Company against the universal control activity or best practice.

2.3.4.4.3. **Working Papers.** This document shows the information obtained, the analyses made, and the support for the conclusions and engagement results. Internal auditor must consider the following factors in working paper preparation:

2.3.4.4.3.1. Each working paper must, at a minimum, identify the engagement and describe the contents of or purpose of the working paper, i.e. Heading. This should be signed (initialed) and dated by the internal auditor and contain an index or reference number.

2.3.4.4.3.2. Working papers should be consistently and efficiently prepared to facilitate review.

- a. They should be neat, not crowded and written on only one side (if written at all),
- b. Uniform in size and appearance,
- c. Economical, avoiding unnecessary copying, listing, or scheduling,
- d. Arranged in a logical and uniform style, and
- e. Clear, concise and complete.

## 2.3.5. **Audit Findings**

Once the audit team encounters potential audit findings they will bring them to the client's attention as they are identified in an attempt to resolve them, if possible, before fieldwork completion. At the end of the fieldwork stage, the audit team will meet with department management and informally review all findings, including minor findings that will be excluded from the report. During this closing meeting the audit team will re-inform the auditee of the audit process and the draft audit report.

**2.3.6. Draft Report and Exit Conference**

The audit team will prepare a draft audit report based on the finding documented in the audit workpapers. The report, basically, should include the

- 2.3.6. **Criteria.** The standards, measure, or expectations used in making an evaluation and/or verification (what should exist).
- 2.3.7. **Condition.** The factual evidence that the internal auditor found in the course of examination (what does exist).
- 2.3.8. **Cause.** The reason for the difference between the expected and actual conditions (why the difference exist).
- 2.3.9. **Risk and Effect.** The adverse affect of the current condition to the Company, e.g., financial, reputation and/or regulatory risk. (so what?)
- 2.3.10. **Recommendation.** Describe the course of action management might consider to rectify the conditions that have gone awry, and to strengthen weaknesses in systems of control.
- 2.3.11. Upon completion of the draft, the audit team will submit to the Chief Audit Executive for review. The Chief Audit Executive will make changes as needed and will discuss with audit team to ensure the recommendation still meets the control purpose. The draft report will be stamped "DRAFT" and sent to the audited department head.
- 2.3.12. At the exit conference, the draft report is discussed with audited department management. This discussion focus on findings and recommendations noted. The auditee may request changes to the wording, in which the Internal Audit will try to accommodate the request as long as the finding and recommendation's objective is not altered. The goal of the meeting is for both parties to agree on the accuracy of the audit finding and the report content. The audit team will document the management response on each issues presented in the draft audit report.

**2.3.7. Final Report**

Upon receiving the auditee's corrective action plan; the Internal Audit staff will incorporate the response into the report. The responses may, in some instances, be different than the recommendation or may indicate a disagreement with the finding. The Chief Audit Executive will then issue the report in "final" and will be stamped "CONFIDENTIAL" and sent to the audited department head.

**2.3.8. Communicating Reports**

- 2.3.8.1 The Chief Audit Executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.
- 2.3.8.2 If during the course of review, the auditor encounter areas that might be a possible source of fraud or encounter indication of fraud, auditor should immediately inform management that such condition exist. Should management wish that auditor take additional

investigative activities to confirm the existence of fraud, auditor will agree with management on the appropriate actions that should be taken before the auditor proceeds.

2.3.8.3 At the end of the year, annual audit report should be submitted to the Audit Committee.

### **2.3.9. Follow-up Review and Monitoring**

2.3.9.1. The Chief Audit Executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2.3.9.2. The timing of the follow up audit will be conducted at least annually. A progress report will be issued quarterly to update executive management and the Board.

2.3.9.3. Quarterly monitoring report is being maintained in the Google drive that can be accessed by internal auditors.

2.3.9.4. Regularly meetings should be conducted to update engagements undertaken by the audit team:

- Internal Audit Department Meeting – Weekly;
- Internal Audit Meeting with Department Head – Monthly; and
- Internal Audit Meeting with the Audit Committee – Quarterly.

### **2.3.10. Engagement Supervision**

2.3.10.1. Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

2.3.10.2. The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The Chief Audit Executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

### **2.3.11. Archiving of Working Papers**

#### **2.3.11.1. Objectives**

- To facilitate ease of archiving of working papers.
- To formalize and to promote uniformity for all AB audit engagements.
- To ensure that all working papers are properly prepared and reviewed by the concerned audit team members.
- To ensure that all engagement files and documents, hard and soft copy, are properly secured and maintained.

2.3.11.2. **Scope**

- The archiving policy and procedure shall be implemented and observed starting January 1, 2013 onwards.
- All approved auditable units and ad hoc engagements shall be covered.
- In any case the engagement does not fall under the archiving policy and procedure; same shall apply using the general format and template of the said policy. Further, the archiving policy and procedure shall be updated as the need requires.
- All soft copy of audit working papers shall be collated (zipped file) and be submitted for centralized archiving. If applicable, raw data shall be preserved from the tested ones.

2.3.11.3. **Guidelines**

- The Engagement In-Charge (Preparer) shall be responsible to file all the relevant engagement files and documents.
- All engagement shall be subject for review of the Internal Audit Manager (Reviewer).
- After the final report has been issued, Working papers are to be archived within 10 working days while the Quality Client Survey shall be issued after 15 working days.
- The Preparer shall follow the given template for purposes of archiving.

2.3.11.4. **FORMATS AND TEMPLATES**

2.3.11.4.1 **Part 1: On the Face of the Binder**

- File Tag example. Please see below.

FILE TAG SAMPLE		
Example	<b>2013-ABIRC-001-OPA</b>	
Details		
2013	“Year of Engagement”	As per year of release of audit report to management.
ABIRC	Abbv for “Company/Auditee”	Please see succeeding slides.
001	Series of Engagement per Company/Auditee	As per assignment attributed to the Company/Auditee.
OPA	Abbv for “Operational Audit”	Please see succeeding slides.

- The Preparer shall USE the following Tagging Code/s for the Company/Auditee:

Codes	Meaning
AB	Atok-Big Wedge Co., Inc. (Parent)
ABSTC	AB Stock Transfers Corporation
Tidemark	Tidemark Holdings Limited



- Final Report
  - Performance Evaluation Report
- Table of Contents – this will serve as the overview of engagement binder content. This document should be properly accomplished using the identification as per line of classification.
    - Main Heading, Roman numerals shall be used (I);
    - Sub-Heading, Alphabets in CAPs shall be used (A);
    - Sub-Section, Numbers (1); and
    - Sub-item of the Sub-Section, Alphabets in small letters shall be used (a);
- b) The engagement binder content shall be sequenced using “times new roman” font style by “11” font size.
- c) In general, the Preparer shall file each corresponding documents in the engagement binder using designated indexing document:
- d) Indexing document is composed of five (5) portions to be filled-out:
- Company Name
  - Process
  - Document Title
  - Audit Period
  - Reference Number (to be reflected in the Table of Contents)
- e) Each category (reports, communication) shall have a cover sheet corresponding to each designated category.
- f) The Preparer shall comply with the engagement filing sequence in consideration with the following GENERAL FORMAT:
- Reports
  - Communication
  - Planning working papers
  - Testing working papers
  - Permanent Files
  - Others (if it does not fall under the above criteria)
- g) The Report is the output or the final product of the engagement undertaken.
- h) Under the “**Reports**” category, below are included but not limited to the following:
- Final audit report (released)
    - Executive Summary
    - Detailed Report
  - Draft audit report (latest with date)
  - Previous audit report (observation)

- i) Reports guidelines
  - The report shall be composed using the latest format.
    - Executive Summary
    - Detailed Report
  - Standard font style and size is “Helvetica narrow” and “11”, respectively.
  - Final report shall not be punched when filing, it shall be stapled with the indexing document.
  - The report database shall be updated prior to issuance of engagement code number and the report itself.
- j) Interaction with our valued clients shall be documented using different tools to convey communication with them to facilitate clear and smooth flow of engagement process.
- k) Under the “**Communication**” category, below are included but not limited to the following:
  - Audit Planning Memorandum
  - Kick-off presentation
  - Minutes of Meeting
  - Meeting invitation and attendance
  - E-mails
  - Updates or follow-ups, if any
- l) Planning is the initial step in order to perform various testing to attain a set of objectives in a given engagement.
- m) Under the “**Planning working papers**” category, below are included but not limited to the following:
  - Walkthrough procedures or flowcharts
  - Table of Organization
  - Industry benchmarking
  - Job descriptions
  - Key Performance Indicators (KPI)
- n) Testing entails different and/or maybe series of examinations to perform to arrive at a conclusion based on your planning.
- o) Under the “**Testing working papers**” category, below are included but not limited to the following:
  - Test of Controls
  - Test of Totals
  - Substantive testing
  - Gap analysis
  - Documentation of interviews
  - Documentation of observations (narrative and/or pictures)

Note: all audit engagements shall use a **Risk Control Matrix**.

- p) Testing working papers guidelines
- The testing working papers for Financial Statement (FSA) Engagement shall be filed according to accounts as reflected in the F/S. (e.g. current to non-current).
  - On the other hand, other engagements, testing working papers shall be filed in sequence in terms of relevance.
- q) These documents derived from the client and/or other sources shall be preserved for future uses.
- r) These documents are also used in planning and testing.
- s) Under the “**Permanent files**” category, below are included but not limited to the following:
- Policies and procedures
  - House rules and regulations
  - Contracts
  - Company Mission and Vision statement
  - Agreements
  - Memorandums
  - Requirements of Law or Government (e.g. Articles of Incorporation, SEC certificate, and others)
- t) Under the “**Others**” category, files and documents which do not fall under the categories of mentioned earlier shall be categorized as Others. Below are examples but not limited to the following:
- List of products and services
  - Brochures and leaflets
  - Number of branches and locations

#### 2.3.11.4.3. **Back-up Procedure**

##### 2.3.11.4.3.1. **Part 3: Working Paper Maintenance**

###### **a.) Hard Copy Working Papers**

- All files, documents and information in connection with the engagement in soft copy format shall be filed accordingly and maintained.
- Filing shall be the same with the GENERAL FORMAT of the engagement binder.
- Copies shall be collated in their respective folders and labelled accordingly.

Example:

Folder A – Cash and cash equivalents  
 Folder B – Trade and other receivables

**b.) Soft Copy Working Papers**

- **The Group Internal Audit Server.** After all files, documents and information have been collated it shall be consolidated in a zipped folder for filing in the server.
- **Google Drive.** All final audit reports are maintained and uploaded to the Google drive that can be accessed by auditors.

**c.) Engagement Related Documents**

Description
Checklist (Clean-up documentation and Approval to Archive)
Quality Client Survey
Report Travel Log
Table of Contents
Indexing document
Audit Planning Memo
Kick-off Presentation
Executive Summary
Detailed Report
Category Cover Sheet
Performance Evaluation Report
Risk Control Matrix

Working papers should be maintained and kept for at least five (5) years.

**2.3.12. Auditors Performance Evaluation**

2.3.12.1. The evaluation of internal auditor performance is essential to assess if the auditor is an effective and efficient employee. This performance evaluation provides also feedbacks for many purposes such as:

- Directing employees toward desired job behaviors,
- Motivating employees, and
- Important input for salary increase and promotions.

2.3.12.2. Performance evaluation can be conducted by assessing the quality of work of the auditor, number of hours spent for each audit engagement (giving consideration on the complexity of the audit engagement) and asking feedback from the auditee through Quality Client Survey.

**2.3.13. Quality Assurance and Improvement Program**

A quality assurance and improvement program is designed to enable 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.

The quality assurance and improvement program must include both internal and external assessments.

2.3.13.1. **Internal Assessments.** Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

2.3.13.2. **External Assessments.** External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The Chief Audit Executive must discuss with the board:

- The need for more frequent external assessments; and
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

## 2.4. TIME RECORDS

At the end of the engagement, the actual time spent in conducting the audit is being compared against the budgeted number of hours that was determined during the annual audit plan. It is one tool to assess the auditors' performance efficiency.