KINGDOM OF CAMBODIA

Nation Religion King

Non-bank Financial Services Authority

Internal Audit Unit

No: 031/23 IAU/Circular

CIRCULAR

On

MECHANISM AND PROCEDURE OF PERFORMANCE AUDIT REPORT OF INTERNAL AUDIT UNIT OF NON-BANK FINANCIAL SERVICES AUTHORITY

To ensure the effectiveness and efficiency of performance audit of Internal Audit Unit of Non-bank Financial Services Authority (FSA). FSA set out mechanism and procedure of the performance audit report as following:

1. Executive Summary

The executive summary is an important part of the audit report that is most read by the users of this report and various stakeholders. Therefore, to allow the users of this report to easily and thoroughly understand the content of the audit report, the executive summary shall be prepared by dividing it into 7 points, as described below:

A) Point 1: Describe the establishment of the Internal Audit Unit of **FSA**, as well as various work standards that the unit under **FSA** has prepared to respond to its functions and roles. The auditor in charge can describe this point by dividing it into 2 paragraphs as following below:

Regarding to the integration of management and supervision mechanisms for the Non-Bank Financial Sector, including the insurance and private pension sectors, the securities sector, the social security sector, the trust sector, the accounting and auditing sector, and the real estate and pawnshop sector, the Non-Bank Financial Services Authority (FSA) was established by the Law on the Conduct of the Non-Bank Financial Services Authority with the aim of strengthening and ensuring the effectiveness of management, supervision, and development of the Non-Bank

Financial Services sector, along with promoting the development of financial technology in the Non-Bank Financial Services Sector in Cambodia.

Pursuant to Sub-Decree No......., dated July 14, 2021, on the Conducting of the Non-Bank Financial Services Authority, the Internal Audit Unit of **FSA**, serve the board and the chair of **FSA** on audit work. To ensure the effectiveness of its functions, the Internal Audit Unit of **FSA** has prepared the Internal Audit Unit Development Plan for a period of ... years [... Rolling Three-Year Action Plan ...] and the Audit Strategy Plan .... as a guideline for implementing its work. According to this plan, the Unit shall conduct performance audits on the subordinate regulators of **FSA** for the year ....

Pursuant to the Prakas No……., dated October 1, 2021, on the Conducting of the Departments under the Internal Audit Unit of **FSA**, Audit Department 1 and Audit Department 2 serve as the Secretariat for the Internal Audit Unit on audit work as stipulated in the Sub-Decree on the Conducting of the Subordinate Regulators of the Non-Bank Financial Services Authority. Through the above announcement, Audit Department 1 is responsible for audit work for 4 regulators: the Social Security Regulator, the Accounting and Auditing Regulator, the Real Estate and Pawnshop g Regulator, and the Insurance Regulator of Cambodia. Meanwhile, Audit Department 2 is responsible for audit work for 3 regulators: the General Secretariat of **FSA**, the Securities and Exchange Regulator of Cambodia, and the Trust Regulator. In accordance with this issuance, the [Audit Division....] shall conduct a performance audit at [the unit under **FSA**].

B) Point 2: Describe the process of identifying key performance risks, audit topics, and audit criteria that the auditor in charge covers during the audit process. The auditor in charge can describe this point by dividing it into 3 paragraphs as following below:

Performance audit is conducted on regulators of the **FSA** through an independent examination covering 3 aspects: economy, efficiency, and effectiveness. The objective of the performance audit does not require an absolute examination of all 3 aspects. The performance audit conducted by the Internal Audit Unit of **FSA** for [Year...] aims to monitor and review the [economy, and/or efficiency, and/or effectiveness] of the operations of the unit under **FSA**.

To achieve the audit's goal and to work effectively, on [Date ....], the audit delegate and auditor in charge visited [the unit under FSA]. They learned about its controls and gathered information to help create the audit plan for the Internal Audit Unit of **FSA**.

The auditor in charge examined the collected data and information and also carefully evaluated the performance of [the unit under **FSA**] based on specific and adequate audit criteria. As a result, the auditor in charge identified a number of key performance risks, including: 1) [Key Performance Risk 1], 2) [Key Performance Risk 2], 3) ... Performance risk refers to the risk that impacts the capacity, process, principle, or any system of the institution's operations.

After identifying the key audit risks, the auditor in charge continued the audit procedures to determine the audit topics, using specific and adequate audit criteria as a basis for comparing and evaluating the performance of [the unit under **FSA**]. The auditor in charge determined the audit topics .... for the performance audit at [the unit under **FSA**], which include: 1) [Audit Topic 1], 2) [Audit Topic 2], 3) ... All these audit topics are crucial inputs in preparing the annual audit plan of the Internal Audit Unit of **FSA**.

C) Point 3: Describe the process of the audit implementation carried out by the audit delegate and the auditor in charge. The auditor in charge can describe this point by dividing it into 3 paragraphs as following below:

After approval from the Chair of the **FSA board**, the auditor in charge sent the Audit Plan [for Year....] to [the unit under **FSA**]. Furthermore, the auditor in charge also prepared and submitted the mission order, list of composition of the audit delegate and auditor in charge, as well as the checklist for [the unit under **FSA**] to be completed before submitting back to the Internal Audit Unit of **FSA**. It should also be noted that the performance audit [for Year....] at [the unit under **FSA**] lasted for ... days, starting from Date ... Month ... Year ... to Date ... Month ... Year ...

As the first step of the audit, the audit delegate and the auditor in charge commenced an opening meeting with the management of [the unit under **FSA**] at [.........] to discuss the purpose of the audit for [Year....], as well as to obtain permission from the management of [the unit under **FSA**] for the audit delegate and auditor in charge to proceed with their audit work. After receiving the data and information as specified in the checklist from [the unit under **FSA**], the audit delegate and the auditor in charge continued their audit procedures in analyzing and evaluating the data and information collected from [the unit under **FSA**], by comparing the achieved results with the set objectives to determine the variance between the achieved results and the planned objectives. The audit delegate and the auditor in charge studied various issues causing variances in the work performance, including: 1) Workflow, 2) Term of References, 3) Mechanisms and procedures of work implementation, 4) Mechanisms and procedures for monitoring work performance, 5) Mechanisms and procedures for reporting on work performance, and 6) Capacity and skills of the officials, as a basis to prepare for discussions with relevant individuals to collect additional information, data, and relevant clarifications related to the variances in the work performance associated with each audit topic.

D) Point 4: the process of meetings/discussions to request additional confirmation and/or clarification from the management and technical division of the unit under **FSA**. The auditor in charge can describe this point by dividing it into 3 paragraphs, following the model below:

After reviewing the collected documents, the auditor in charge prepared a report on the document review and submitted to the Deputy Audit Delegate for review and decision, as well as to request permission to hold discussions with relevant individuals of [the unit under **FSA**]. After receiving approval from the Deputy Audit Delegate, the auditor in charge continued the procedures to collect data and information on-site to request additional confirmation and/or various clarifications, by setting the time, type of documents, and reports that the person in charge of [the unit under **FSA**] shall provide to the audit delegate and auditor in charge, and the relevant individuals that the audit delegate and auditor in charge need to meet and discuss with to collect crucial data and information that serve the assessment of the identified issues related to the determined topics. After completing the on-site data and information collection, the auditor in charge analyzed and evaluated the received data and information to identify specific issues that are the causes leading to variances in the implementation.

E) Point 5: Briefly describe the preparation of the draft report on findings and the discussion with the unit under **FSA** to explain the findings and the recommendations proposed by the auditor. The auditor in charge can describe this point by dividing it into 3 paragraphs as following below:

After completing the analysis and evaluation of the identified issues, the auditor in charge continued the procedures to prepare the draft findings report for [the unit under **FSA**] based on the received data and information, and submitted it for review and decision by the management of the Internal Audit Unit of **FSA** before submitting it for a discussion meeting with the management and technical division of the unit under **FSA** on those findings. After receiving the [approval, the auditor in charge held a discussion meeting with the person in charge or representative of [the unit under **FSA**] to explain the findings, as well as the various recommendations that the auditor in charge proposed for each unit under **FSA**.

F) Point 6: the process of preparing the draft performance audit report and submitting it for a discussion meeting with the relevant committee. The auditor in charge can describe this point by dividing it into 3 paragraphs as following below:

The auditor in charge [of the unit under **FSA**] continued the procedures to prepare their draft performance audit report after receiving approval from the person in charge or representative of [the unit under **FSA**] on the findings and the proposed recommendations. After completing the report preparation procedures, the auditor in charge submitted it for review and decision through the hierarchy to His Excellency, the head of the Internal Audit Unit, to request permission to provide the draft performance audit report to the unit under **FSA** for review and to provide comments and requests. After receiving approval from the management, the auditor in charge provided their draft performance audit report to the person in charge of the unit under **FSA**, allowing a period of 20 working days after receiving the draft performance audit report to respond in writing to the Internal Audit Unit of **FSA**. Through this, on [Date .... Year 20...], the Internal Audit Unit of **FSA** received a response letter providing comments on the draft performance audit report from [the unit under **FSA**].

F.1. In case of approval from the unit under **FSA**, the auditor in charge can proceed to describe the content of the next point.

F.2. In case of disapproval from the unit under **FSA**, the auditor in charge can describe as follows:

Due to disapproval from [the unit under **FSA**], the auditor in charge scheduled a time to discuss with the management of [the unit under **FSA**] on the draft operational audit report, which required [the unit under **FSA**] to provide supporting documents and additional explanations. After discussing with [the unit under **FSA**], the auditor in charge prepared minutes of the discussion, attached with the supporting documents and additional explanations from [the unit under **FSA**] and the auditor's conclusion, and submitted it for review and decision through the hierarchy to His Excellency, the Chair of **IAU**, to assess the evidence and the auditor's conclusion related to those findings.

G) Point 7: The auditor in charge shall describe the preparation of the final performance audit report by summarizing the findings, as well as the audit recommendations. The auditor in charge can describe this point as below:

After receiving approval from His Excellency, the head of the Internal Audit Unit, the auditor in charge continued their procedures in preparing the final operational audit report, having incorporated the content of the comments and requests from the unit under **FSA** into the report, to prepare to submit the final performance audit report at the meeting of the relevant committee. After submitting it for a discussion meeting with the relevant committee, as a result, the relevant committee agreed on the performance audit report of [the unit under **FSA**] by the auditor in charge.

In summary, after conducting a final analysis and evaluation of the findings, the auditor in charge reviewed and found that [the unit under **FSA**] has performed its work with a high sense of responsibility and achieved commendable work results in accordance with the established plans and work regulations, except for: 1) Finding 1, 2) Finding 2, 3) Finding3 ... which have not yet been able to achieve the [economy, and/or efficiency, and/or effectiveness] according to the established plan.

With the goal of improving the internal control system of [the unit under **FSA**], the auditor in charge has included the audit recommendations in Point 14 of this audit report. In the future, the Internal Audit Unit of **FSA** will monitor the progress of the implementation of the provided recommendations as part of the follow-up audit recommendation procedures.

2. Introduction

The introduction is a part that provides an opportunity for the Internal Audit Unit of **FSA** to inform the users of this audit report of the authority and the audit process. Therefore, the introduction shall be prepared by dividing it into 3 main points, as described below:

A) Point 1: Describe the establishment of the Internal Audit Unit of **FSA** and the work responsibilities of the subordinate divisions of the Internal Audit Unit of **FSA**. The auditor in charge can describe this point using the model below:

Pursuant to Sub-Decree No. 113, dated July 14, 2021, on the Conducting of the Non-Bank Financial Services Authority, the Internal Audit Unit was established to perform the function of

Secretariat for the **FSA** board and the Chair of the Council of **FSA** on audit work. To ensure the effective, legitimate, and lawful performance of its functions, the Internal Audit Unit of **FSA** has prepared the Internal Audit Unit Development Plan for a period of ... years [.......................], the rolling three-year plan [.........], and the Audit Strategy Plan [.......] as a guideline for implementing its work. By implementing this plan, the Unit shall conduct performance audits on the subordinate regulators ... of **FSA** for the period ......

Pursuant to Announcement No……, dated October 1, 2021, on the Conducting of the Departments under the Internal Audit Unit of **FSA**, Audit Department 1 and Audit Department 2 serve as the Secretariat for the Internal Audit Unit on audit work as stipulated in the Sub-Decree on the Conducting of the Regulators of the Non-Bank Financial Services Authority. Through the above announcement, Audit Department 1 is responsible for audit work for 4 regulators: the Social Security Regulator, the Accounting and Auditing Regulator, the Real Estate Business and Pawnbroking Regulator, and the Insurance Regulator of Cambodia. Meanwhile, Audit Department 2 is responsible for audit work for 3 regulators: the General Secretariat of **FSA**, the Securities and Exchange Regulator of Cambodia, and the Trust Regulator. In accordance with this issuance, [Audit Division No...] shall conduct the performance audit at [the unit under **FSA**].

B) Point 2: Describe the purpose and objectives of the audit and the factors leading to the achievement of the audit purpose and objectives. The auditor in charge can describe this point using the model below:

In accordance with the Action Plan [Year...], which outlined the activity of conducting performance audits at various subordinate regulators of **FSA** in [Quarter ... Year...]. Performance audit is a type of audit conducted on subordinate regulators of **FSA** through an independent examination, which has a scope covering 3 (three aspects: economy, efficiency, and effectiveness. The objective of the performance audit does not require an absolute examination of all 3 aspects. The performance audit conducted by the Internal Audit Unit of **FSA** aims to ensure that the operations of the unit under **FSA** are effective and efficient.

In order to achieve the objectives of performance auditing, the auditor in charge shall first determine **audit topics** to serve as the basis for reviewing and evaluating the implementation of activities within the unit under **FSA**. In this context, the audit subject refers to the specific area identified by the auditor as a focus for the audit, after recognizing that certain aspects of the unit's operations contain gaps or deficiencies that may lead to operational discrepancies. Through this process, the audit delegates and the auditor in charge of the Internal Audit Unit shall study and understand the internal control environment of the unit under **FSA** in order to identify gaps and develop a clear audit plan, thereby determining the appropriate audit subject. The Internal Audit Unit) has conducted audits of the units that are under (**FSA**) on day…month…year… Simultaneously, in order to ensure the implementation of work in accordance with the law, the Internal Audit Unit of **FSA** has prepared a report on its understanding of the unit under **FSA** to His Excellency the Deputy Prime Minister, Minister of Economy and Finance, and Chair of **FSA**'s board. The Internal Audit Unit (**IAU**) has also prepared the annual audit plan for the unit under **FSA** and conduct the audit work in accordance with the timeline attached to this plan.

Point 3: The audit work of the Internal Audit Unit of **FSA**. The auditor in charge can describe this point as follows:

After receiving the high-level approval of His Excellency, the Deputy Prime Minister, Minister of Economy and Finance, and Chair of **FSA** board, as stated in the letter dated .... on the request for cooperation to the Internal Audit Unit (**IAU**) of **FSA** in relation to the audit process......... His Excellency, Head of the Internal Audit Unit (**IAU),** led the audit delegates and the auditor in charge of the Internal Audit Unit (**IAU**) of **FSA** to hold a kick-off meeting for the Operational audit on ... month .... Following the meeting, the auditor in charge carried out their audit duties at **FSA** units under **FSA** for ...... days for the year...., implemented from [date .... year .... to ....year ....] The audit delegates and the auditor in charge used objective audit procedures that do not require the exhaustive examination of all three dimensions. The audit of the Internal Audit Unit (**IAU**) of **FSA** aims to ensure that the operations of the unit under **FSA** are effective, efficient, transparent, accountable, and contribute to improvement.

Point 4: Describe the audit of the Internal Audit Unit of **FSA**. The auditor in charge can describe this point as in the example below:

After receiving the high approval of His Excellency, the Deputy Prime Minister, Minister of Economy and Finance, and Chair of **FSA,** as stated in the letter dated .... on the request for cooperation with the Internal Audit Unit of **FSA** in the audit process.........His Excellency, Head of the Internal Audit Unit, led the audit delegates and the auditor in charge to hold a meeting to launch the Operational audit on ... month .... After the meeting to launch the audit, the auditor in charge carried out the audit duties at [The unit under **FSA**] for ...... days for the year ...., implemented from [date .... year .... to ....year ....]. The audit delegates and the auditor in charge applied audit procedures to review the documents received and, through direct inquiries from the persons in charge in each department, identified a number of issues that could lead to gaps in the work performance of the units under **FSA** and lead to potential future risks. All findings identified by the audit delegates and the auditor in charge were professionally and carefully reviewed and evaluated by comparing the actual performance of the unit under **FSA** against specific and adequate audit criteria. In addition, the findings and recommendations of the auditor in charge will serve as important inputs in preparing the annual audit report and for monitoring the implementation of audit recommendations in the future.

3. Information on the Auditees

Information on the unit under **FSA** is a section that provides users of the audit report with the background, functions, roles, responsibilities, structure, human resources, and persons in charge of the unit under **FSA**. Therefore, information about the unit under **FSA** shall be organized by dividing it into 4 main points as described below.

A- Point 1: Describe the background of the establishment, functions, roles, and responsibilities of the units under **FSA**. The auditor in charge can describe this point as follows:

In accordance with the Law on the Conduct of the Non-Bank Financial Services Authority, the unit under **FSA** shall implement the mandate of the Ministry of Economy and Finance, and in accordance with the Sub-Decree on the Conduct of the unit under **FSA** was established to perform the functions of the secretariat for **FSA**. In accordance with the above laws and sub-decrees, [the units under **FSA**] has the roles and responsibilities to:

B- Point 2: Describe the structure and human resources of the unit under **FSA**. The auditor in charge can describe this point as follows:

Pursuant to Prakas No. dated month year] on the organization and functioning of the departments under [the unit under **FSA**] has the management structure as follows:

- [Name] as Director General/Secretary General
- Deputy Director General/Deputy Secretary General number ..., [Name] and [Name]

1. The Department of .... headed by [Name]....... comprises (a number of) Divisions, namely................, ..., and ....

2. The Department of .... headed by [Name]....... comprises (a number of) Divisions, namely................, ..., and ....

3. The Department of .... headed by [Name]....... comprises (a number of) Divisions, namely................, ..., and ....

Currently, the officials working at [the unit under **FSA**] include a total of ... persons (female ... people), of which .... persons are public servants, ... persons are statutory official, and .... persons are contractual official.

Heads of Departments/ Training Centers .... persons, Heads of Division .... persons, and Vice-Division .... persons

C- Point 3: Describe the person in charge of coordinating the audit work of the unit under **FSA**. The auditor in charge can describe this third point as shown in the following example:

During the opening meeting of the audit program with the audit delegates, Mr./Ms. ...., who is the Head/Deputy Head ...., was appointed as the person in charge of coordinating the audit work, referred to as the “person in charge” of [the unit under **FSA**].

D- Point 4: Describe the current address of the unit under **FSA**. The auditor in charge can describe this point as shown in the following example:

Currently, [the unit under **FSA**] is located at [Non-Bank Financial Services Authority Building] or [Ministry of Economy and Finance Building, Building No...., located on the floor of..., Street...., Sangkat………, Khan..........., Phnom Penh.

4. Information on the audit delegates and the auditor in charge

Information on the audit delegates and the auditor in charge is a section that provides users of the audit report with details regarding the decision on appointment, hierarchy, functions, roles, and qualifications of the audit delegates and the auditor in charge. Therefore, it shall be presented as follows:

pursuant to the high-level approval of His Excellency the Deputy Prime Minister and Chair of **FSA**, as stated in letter No……. dated……. month…… of the year……., the Internal Audit Unit (**IAU**) of **FSA** commenced its audit activities on…. month…. of the year…., with the composition of the audit delegates consisting of .... members, as specified in the letter No..... on the list of audit delegates s and auditors in charge of [The unit under **FSA**]. The qualifications and information of the audit delegates are as follows:

1. Mr./Ms. …………… is the Head of the audit delegates.
2. Pursuant to Prakas No. ……… on the Appointment of the Head and Deputy Head of Department of the Internal Audit Unit of **FSA**, he/she is appointed as the Head/Deputy Head of Audit Department No. …….
3. He/She graduated from …………… at the University of …………….
4. Mr./Ms. …………… is the Deputy Head of the audit delegates.
5. Pursuant to Prakas No…… on the Appointment of the Head and Deputy Head of Department of the Internal Audit Unit (**IAU**) of **FSA**, he/she is appointed as the Head/Deputy Head of Audit Department No. …….
6. He/She graduated from …………… at the University of …………….

5. Audit Topics

The audit topic is a section that enables users of the audit report to understand the process by which the auditor in charge determines the specific topic. Therefore, the audit topic should be organized into two points as described below:

1. **Point 1:** Describe the process of selecting the audit topic based on the understanding of the unit under **FSA** and interviews with the leaders of the unit under **FSA**. The auditor in charge can describe this point as follows:

In accordance with its annual action plan for the year......, the Internal Audit Unit Internal Audit Unit of **FSA** conducted an operational audit on the unit under **FSA**. To ensure the effectiveness and efficiency of the audit, the Internal Audit Unit of **FSA** shall first review and assess the internal control environment of the unit under **FSA**. Pursuant to letter No. [................... dated… month… year…] regarding the request to conduct a site visit to study the control environment of [the unit under **FSA**] in order to prepare the audit plan for the year......, the audit delegates of the Internal Audit Unit of **FSA** visited the site to study the internal control system of [the unit under **FSA**] [on date… month… year…] to examine the internal control system, focusing on the control environment, risk management, information and communication, control activity monitoring and monitoring of the control processes. In the course of understanding the control environment of [the unit under **FSA**], the audit delegates conducted interviews with the management and technical official of [The unit under **FSA**], directly with the participation of: 1) [Participant 1 and role] 2). [Participant 2 and role] 3) ....

1. **Point 2:** Describe the identified risks and conduct a risk assessment to decide on the audit topic. The auditor in charge can describe this point as follows:

Following consultations with [The unit under **FSA**], the audit delegates conducted a risk assessment. The assessment process included identifying potential risks, collecting relevant documentation, analyzing risks and existing control measures, prioritizing risks based on their significance, and documenting the identified risks. Through this process, the audit delegates identified key audit risks related to the performance of [The unit under **FSA**]'s work performance. After the audit delegates identified the material risks that were the subject of the audit topic for measurement, the audit delegates prepared the topics and criteria for internal discussions. After reviewing and discussing, the audit delegates submitted the identified topics and criteria to several departmental and interdepartmental meetings for review, evaluation, and discussion in order to obtain additional input. Then, the audit delegates prepared the topics and criteria and submitted them to His Excellency, Head of the Internal Audit Unit of **FSA**, for review and evaluation, and discussed with the audit delegates until the topic was decided. Upon receiving approval, Audit Department No. … proceeded to include the following topics in the Operational audit:

For example:

A. Topic 1: Management Structure

- Risk: Certain aspects of the management structure do not fully comply with applicable regulations.

B. Topic 2: Managerial Incentive System

- Risk: The implementation of the incentive system is inconsistent across the unit under **FSA**.

6. Criteria

The criteria section provides users of the audit report with an understanding of the process for determining audit criteria by the auditor in charge, as well as the criteria applied to each audit topic. Therefore, this section should be organized into two points as follows:

A. Point 1: The procedure for determining audit criteria should be described from the stage following the identification of audit topics through discussions and reviews of relevant documents at the division level, up to obtaining instructions and approval from His Excellency, Head of the Internal Audit Unit of **FSA**. The auditor in charge may describe this point as follows:

To ensure an accurate and clear evaluation, the Internal Audit Unit of **FSA** conducted detailed discussions and comprehensive reviews to establish audit criteria in accordance with applicable auditing standards and relevant regulations. For this performance audit, the auditor in charge developed audit criteria to be used in assessing operations and identifying gaps. Following the determination of audit topics, the auditor in charge prepared a checklist specifying the criteria and supporting documents to be reviewed, including applicable laws, regulations, and other relevant documents for each audit topic. This checklist was submitted for review at division-level, departmental, and interdepartmental meetings, where it underwent thorough discussions and revisions to incorporate feedback. Subsequently, the checklist was submitted to His Excellency, Head of the Internal Audit Unit of **FSA**, for review and approval. Upon receiving approval, the auditor in charge transmitted the checklist to the person in charge of the unit under **FSA** to facilitate cooperation and responses.

B. Point 2: The auditor in charge has to describe the audit criteria for each identified audit topic, as illustrated in the example below:

As a result, the Internal Audit Unit of **FSA** has established a set of audit criteria with a total number of …, which are organized according to each audit topic, as follows: Topic 1: [Insert Topic Title] Criteria: [Insert audit criteria] + Description: [Provide a brief explanation of the audit criteria and its relevance to the topic]

7. Audit Scope

The audit scope is a section that informs users of the audit report about the boundaries and coverage of the audit. The auditor in charge may describe it as follows:

The scope of the Operational audit at [the unit under **FSA**] is conducted in accordance with Instruction No……. dated… Month… Year… on the Operational audit mechanism and procedures, which specifically define the framework and processes for Operational audits. The audit delegate and the auditor in charge shall utilize the designated checklist to request cooperation in the provision of data and information within the prescribed timeframe. In addition, the audit delegates and the auditor in charge may, as necessary, request additional relevant documents in specific cases to support the audit process.

8. Audit Procedures

The audit procedures section informs users of the audit report about the mechanisms and procedures implemented by the auditor in charge during the audit process. This section should be organized into four points as described below:

A- Point 1: Describe the regulatory framework that authorizes the Internal Audit Unit of **FSA** to conduct Operational audits. The auditor in charge may present this point as follows:

In accordance with Sub-Decree No. 113 dated 14 July 2021, the Five-Year Plan (2021–2025) and the Three-Year Rolling Action Plan (2023–2025) of the Internal Audit Unit (**IAU**) clearly stipulate that the Internal Audit Unit of **FSA** shall conduct operational audits within the unit under **FSA** in the year of … This framework also provides for the development of guidelines and instructions on mechanisms and procedures to support auditors and [the unit under **FSA**] in carrying out operational audits effectively, efficiently, and economically.

B. Point 2: Describe the main working standards applied in the performance of audit activities. The auditor in charge may present this point as follows:

In accordance with Prakas No, dated Month Year] on the implementation of the guidelines for operational audits of the Internal Audit Unit (**IAU**) of **FSA**, a clear framework for conducting operational audits has been established. This framework requires the auditor in charge to organize and perform audit work through key stages, including audit planning, audit execution, preparation of audit reports, and follow-up on the implementation of audit recommendations.

In addition to complying with the above-mentioned guidelines, the auditor in charge shall also adhere to Instruction No……. dated Month Year] on the mechanisms and procedures for operational audits of the Internal Audit Unit of **FSA**. This instruction specifically outlines the mechanisms and procedures for conducting Operational audits, beginning with an understanding of the control environment of the unit under **FSA**, in order to identify risks, challenges, and key concerns, which serve as a basis for the preparation of the annual audit plan.

C- Point 3: Describe the main processes in operational audit activities, including audit planning, on-site data and information collection, and meetings with the unit under the supervision of the Non-Bank Financial Services Authority (**FSA**) regarding audit findings. The auditor in charge may present this point as follows:

The Internal Audit Unit of **FSA** has prepared an annual audit plan, which defines the audit topic, audit criteria, objectives, scope, and limitations of the audit, as well as preparing an audit program. Before doing the data and information collection stage, the auditor in charge prepared a checklist based on criteria that were appropriate and relevant to the assigned topic, and prepared a list of audit delegates and auditors in charge of conducting performance audits. After receiving the highest approval from His Excellency, the Deputy Prime Minister and chair of **FSA**'s board**,** the Internal Audit Unit of **FSA** has provided the audit plan for the fiscal year [….] and the checklist to the auditees and organized an open meeting with each auditee before performing the audit work. In addition, the auditor in charge shall provide the checklist to the person in charge of the unit under **FSA** to prepare and cooperate in providing the data and information as specified in the checklist to the audit delegator and the auditor in charge.

After receiving data and information from the unit under **FSA,** the audit delegator and the auditor in charge shall analyze and evaluate the data and information collected from the unit under **FSA,** comparing the achieved results with the objective in order to determine the gaps between the achieved results and the objective. The audit delegator and the audit in charge shall use the basis, including: 1. workflow, 2. Terms of reference, 3. Mechanisms and procedures for implementing work, 4. Mechanisms and procedures for monitoring work performance, 5. Mechanisms and procedures for reporting work performance, and 6. Capabilities and skills of the work performance to collect information, data, and explanations related to the audit topic. The audit delegates and the auditor in charge shall determine the time, type of document and reports that the person in charge of the unit under **FSA** shall provide to the audit delegates and the audit in charge and the relevant persons with whom the Audit delegates and the auditor in charge shall meet to discuss for collect important data and information that will serve to assess the audit finding that related to audit topic. After completing the data and information collection on site, the auditor in charge analyzed and evaluated the data and information obtained to identify specific issues that led to gaps in implementation. After completing the analysis and evaluation of the issues, the auditor in charge continued the procedure to prepare a draft report on the findings of the unit under **FSA** based on the data and information obtained and submitted for review and decision by the management of the Internal Audit Unit of **FSA** before submitting it to discussion with the management of the unit under **FSA** on the findings. After receiving permission from the management of the Internal Audit Unit of **FSA,** the auditor in charge met with the person in charge of the unit under **FSA** to explain the findings and recommendations that the auditor in charge has proposed.

D-Point 4: Shall describe the preparation of the preliminary draft of the operational audit report. The auditor in charge can describe this point as follows.

After receiving the agreement of the unit under **FSA** on the findings and proposed audit recommendation, the auditor in charge shall prepare the performance audit report after completing the collection of data and information at the unit under **FSA**, and comply with the content as defined in CIRCULAR No…...date […….] on the format of the operational audit report. The auditor in charge shall submit the draft performance audit report to the hierarchical management of the Internal Audit Unit of **FSA** for review and evaluation of the auditor in charge's conclusions related to the audit topic, and shall request permission from the management of the Internal Audit Unit of **FSA** to submit the draft audit report to the unit under **FSA.** The unit under **FSA** shall provide a written response to the Internal Audit Unit of **FSA** within 20 working days of receiving the draft audit report.

D1. In the case of obtaining approval from the unit under **FSA,** the auditor in charge continues to describe the content of the next point.

D2. In case of disagreement from the unit under FSA, the auditor in charge may state the following:

In the case of obtaining disapproval from the unit under **FSA,** the auditor in charge shall schedule a meeting for discussion with the unit under **FSA** regarding the draft operational audit report, during which the unit under **FSA** shall provide supporting documents and clarifications on the points of disagreement. After the discussion, the auditor in charge shall prepare the report with their own conclusions attached and submit it through the hierarchical management for review and decision.

E-Point 5: Shall describe the preparation of the final performance audit report and reporting to the Chair of **FSA**'s board**.** The auditor in charge may state the following:

After receiving agreement, the auditor in charge shall incorporate the comments and requests of the unit under **FSA** into their performance audit report in preparation for submission to the Task Force Committee meeting. After receiving approval from the Task Force Committee, the auditor in charge shall continue the procedures for finalizing the performance audit report in accordance with the operational audit guidelines and Circular Preparation of Performance audit report of the Internal Audit Unit of **FSA.** The auditor in charge shall arrange to send their performance audit report to the Planning and Training division of the General Affairs Department of the Internal Audit Unit of **FSA** for consolidation. The Planning and Training division of the General Affairs Department of the Internal Audit Unit of **FSA** shall consolidate the performance audit report according to the prescribed format. The Internal Audit Unit of **FSA** shall submit the performance audit report to the Chair of **FSA**'s board for review and decision. The Internal Audit Unit of **FSA** shall then forward the reviewed and approved performance audit report to the unit under **FSA.**

9.Observation

Observation is a section that presents to the users of the audit report the auditor's observation related to the audit process at the auditee. Therefore, observations shall be organized into five points as described below:

A-Point1: Shall describe the pre-audit procedures before conducting the performance audit. The auditor in charge may describe this point as follows:

Before collecting data and information at the under unit of **FSA,** the audit delegates and the audit in charge prepared and submitted to the under unit of **FSA**, including the audit program, checklist, and composition of the audit delegates, mission letter, and so on. After the unit under **FSA** received these documents from the audit delegates, the audit in charge agreed upon the time of requesting an audit by the audit delegates.

B-Point2: Shall describes the observation of the unit under **FSA** during the audit. The audit in charge may describe this point as follows:

During the audit work on the subject of……, the unit under **FSA** prepared documents in an organized manner that made it easy for the audit delegates and the audit in charge to review and spend less time to complete information collection.

The audit delegates and the audit in charge inquired at the auditee about the audit topic. It was observed that the auditee provided thorough clarification without displaying any behavior intended to conceal information from the audit delegates and the audit in charge.

C-Point 3: Shall describe the review of the document received from the under unit of **FSA.** The audit in charge may describe this point using either of the two templates below:

- **In Case of Full Cooperation:**

Before collecting data and information at the under unit of **FSA**, the audit delegates and audit in charge prepared and submitted to the auditee the list of composition of the audit delegate and audit in charge, mission letter, the operational audit checklist, and the audit program. After the unit under **FSA** received these documents, they agreed on the time of requesting an audit by the audit delegates.

During the conduct of the audit on the subject of……, the unit under **FSA** prepared documents in an organized manner that made it easy for the audit delegates and the audit in charge to review and spend less time to complete information collection.

The audit delegates and the audit in charge inquired of the auditee about the audit topic. It was observed that the auditee provided thorough clarification without displaying any behavior intended to conceal information from the audit delegates and the audit in charge.

During data and information collection at the unit under **FSA**, the audit delegates and the audit in charge observed that the working environment of the unit under **FSA** was well-organized. The unit under **FSA** arranged and provided a workspace for the audit delegates and the audit in charge to review documents, and assigned a division to provide documents in a timely manner. The audit delegates and audit in charge commend the unit under **FSA** for their high level of cooperation in providing workspace and timely documents, which allowed the audit work for the fiscal year 2023 to be completed smoothly and with good results.

- **In Case of Incomplete Cooperation:**

Before collecting data and information at the under unit of **FSA**, the audit delegates and audit in charge prepared and submitted to the auditee the list of composition of the audit delegate and audit in charge, mission letter, the operational audit checklist, and the audit program. After the unit under **FSA** received these documents, they agreed on the time of requesting an audit by the audit delegates.

During the audit, the audit delegates and the audit in charge observed that the provision of documents by the unit under **FSA** on the topic... was not yet complete, as [document name] had not been provided for verification and review. After receiving guidance from the Task Force Committee to supplement the data and information collection procedures from the unit under **FSA** on the topic…on [data], the audit delegates and audit in charge met with the assigned division of the unit under **FSA** and received the [relevant document names].

10.Findings

The findings section presents to users of the audit report the results discovered by the audit in charge during the audit process. The findings shall be prepared as follows:

Through the collection of information, data, and review of evidence obtained at the [under unit of **FSA**], the audit in charge has identified the following findings:

- Finding 1……
- Finding 2……

11.Analysis and Evaluation by The Audit in Charge

The analysis and evaluation section allows readers to understand the process of determining the audit in charge's analysis and evaluation of findings during the audit. It shall describe the evidence collection process and present to users of the audit the topics, findings, criteria, root causes, and impacts. The audit in charge may describe this point as follows:

To ensure accurate and comprehensive evaluation, the audit in charge collected evidence at the unit under the **FSA** using audit procedures specified in the performance audit guidelines, including inquiry, observation, and document review, using the checklist provided by the internal audit unit of **FSA** before the audit in charge used it to collect evidence during the audit. The results of the analysis and evaluation by the audit in charge are based on the evidence and findings as follows:

A. Finding 1:

Issue1………………………….

-
    - Criteria:
    - Root Cause:
    - Impact:

Issue2………………………….

- Criteria:
- Root Cause:

- Impact:

12. Comments and Requests of the under unit of FSA

This section presents to readers the response or non-response of the unit under **FSA** to the draft annual audit report, their requests or counter-evidence, and requests regarding the feasibility of implementing recommendations. It is divided into 2 different cases as described below:

- **In case of Response from the under unit of FSA:** Shall describe the date, the draft was delivered to the under unit of **FSA,** their written comments and requests, or any counter-evidence presented, without including the audit in charge's own opinions or views. It shall also describe requests regarding the feasibility of implementing recommendations. The audit in charge may describe this case as follows:

Based on CIRCULAR No…. date…. on "**Operational Audit Mechanisms and Procedures**", determine that the audit in charge shall provide the person responsible for coordinating audit work of the unit under **FSA** with their draft operational audit report, allowing the [under unit **FSA]** 20 (Twenty) working days after receiving the draft to provide a written response to the internal audit of **FSA** regarding the findings.

After receiving the Task Force Committee's agreement in principle on the draft performance audit report at the unit under **FSA** for the fiscal period…., the audit in charge delivered the draft performance audit report to Mr./Ms./Miss…., who is the person in charge of the unit under **FSA,** on[date]. On [date], the internal audit unit of **FSA** received comments on the draft performance audit report of the unit under **FSA** requesting amendments…. The Task Force Committee accepted the comments, requests, and evidence, and instructed the audit in charge to make amendments as requested by the under unit of **FSA.**

- **In case of No Response from the under unit of FSA:** Shall describe the date on which the audit report was delivered, the absence of comments or requests from the under unit of **FSA**, or failure to receive comments or requests within 20 days, which is deemed to mean that the unit under **FSA** agrees with the content of the audit report. The audit in charge may describe this case as follows:

Based on CIRCULAR No…. date…. on "**Operational Audit Mechanisms and Procedures**", determine that the audit in charge shall provide the person responsible for coordinating audit work of the unit under **FSA** with their draft operational audit report, allowing the [under unit **FSA]** 20 (Twenty) working days after receiving the draft to provide a written response to the internal audit of **FSA** regarding the findings.

The audit in charge's audit report was delivered to Mr./Ms./Miss…. who is the person in charge of the unit under of **FSA** on[date]. After delivering the audit report and within 20 working days [the under unit of **FSA]**, the audit in charge did not receive any comments or requests from the under unit of **FSA,** Therefore, the audit in charge may deem that the unit under of **FSA** has agreed to the draft audit report.

13.The Task Force Committee's Analysis and Evaluation

The committee's analysis and evaluation of the task is a part that shows the reader the composition, mechanisms, and procedures that the task force committee uses to review the auditor's operational audit report. Therefore, it shall be organized into three points.

A-Point 1: Describe the regulatory framework that allows the Internal Audit Unit of **FSA** to establish a task committee to review the results of the audit report of the auditor in charge and the composition of the Task Force Committee. The auditor in charge can describe this point as in the example below:

According to Section 8 of the Guidelines on Operational Audit Mechanisms and Procedures, the Internal Audit Unit of FSA shall establish a committee to review and evaluate the audit reports of the auditors in charge. His Excellency, the President of the Organization, issued Decision No... dated the date of the month of the year.... on the establishment of a committee to review and evaluate the audit report of the auditor in charge of the Internal Audit Unit of FSA. The composition of the task force committee is as follows.

1. His Excellency Chhun **Sambath**, Head of the Internal Audit Unit, Chair
2. Mr.**Chhum Sereyvuth**, Deputy Head of the Internal Audit Unit, Vice Chair
3. Mr.**Lim Channa**, Deputy Head of the Internal Audit Unit, Vice Chair
4. Mr.**Uon Rithy**, Head of the Audit Department I, Member
5. Mr.**Im Sophal**, Head of the Audit Department II, Member
6. Mr.**Nuon Samratana**, Head of the General Affairs Department, Member
7. Mr.**Yim Virak**, Deputy Head of the Audit Department I, Member
8. Mr.**Srun Chansetha**, Deputy Head of the Audit Department II, Member
9. Mr.**Voeun KuyEng**, Head of the Planning and Training Division, Member
10. Mr.**Seng Chheanglay**, Head of the Audit Division I, Auditor in Charge
11. Ms.D**um Phanit**, Official of the Audit Division I, Auditor in Charge
12. Mr.**Sok Chettra**, Head of the Audit Division III, Auditor in Charge
13. Mr.**Tep Sopheak**, Head of the Audit Division IV, Auditor in Charge
14. Ms.**Kem Sereiboth**, Deputy Head of the Audit Division I, Auditor in Charge
15. Ms.**Prem Lina**, Deputy Head of the Audit Division II, Auditor in Charge

16. Mr.**Than Samnang**, Deputy Head of the Audit Division III, Auditor in Charge
17. Mr. **Ro Bunnarong**, Deputy Head of the Audit Division IV
18. Mr. **Som Sethvannak**, Deputy Head of the Planning and Training Division, Secretary

B-Point2: Describe the key principles on which the task force committee reviews and evaluates the results of the operational audit report. The auditor in charge can describe this point as in the example below:

The Task Force Committee reviewed and evaluated the Performance audit report of the audit firm in charge based on the guidelines on operational audits and the instructions on Operational audit mechanisms and procedures. By examining several key elements, such as the engagement auditor's performance of audit procedures, the engagement auditor's observation process, audit evidence for each audit topic, and the conclusions reached. The auditor's conclusions and recommendations for each audit topic.

B-Point 3: The date of the task force committee meeting for the review and evaluation of the audit report of the auditor in charge, as per the minutes of the committee's evaluation meeting for the task, shall be mentioned. The auditor in charge can describe this point as in the example below:

Task Force Committee meeting on the draft Performance audit report at [the unit under **FSA**] Organized on the date of the month of the year...... at the meeting room of the Internal Audit Unit of **FSA** at [hours and minutes] under the leadership of His Excellency **Chhun Sambath**, Head of the Internal Audit Unit of **FSA** and Chair of the Task Force Committee on at the beginning, His Excellency the Head of the Internal Audit Unit of **FSA** expressed his appreciation to the auditor in charge for his efforts in preparing the performance audit report at [the unit under the **FSA**] for the year.... On time and in accordance with the correct format. According to the review of the audit report, H.E **Chhun Sambath**, Head of the Internal Audit Unit of **FSA** and Chair of the task force committee, as well as the members of the task force committee for review, found some shortcomings related to content, vocabulary, and spelling.

C1. The case of the task force committee finds that the auditor's conclusions are comprehensive. The auditor in charge shall describe the following content:

As a result, the task force committee highly appreciated the auditor's implementation of work procedures, took responsibility, and accepted the findings. [Number of all findings] of the auditor in charge, and authorize the auditor in charge to continue preparing the procedures to submit this operational audit report. To the unit under FSA, review and provide comments as well as written suggestions to the Internal Audit Unit.

C2. The case of the task force committee finds that the auditor's conclusion was not comprehensive. The auditor in charge shall describe the following content:

As a result, the engagement committee reviewed and assessed several gaps in the engagement auditor's findings and recommended that the engagement auditor perform additional audit procedures on a number of topics, including

Topic 1………………...

Topic 2…………………

In addition, the task force committee also instructed the auditors in charge to conduct additional audits on certain topics.

On the date of the month, year...... at [hour, minute], the task force committee on the Arrangements held a meeting to review and re-evaluate the audit report of the auditor in charge after the auditor in charge completed the implementation of additional procedures on the Chair of the **……………….** During the meeting, there was a detailed discussion on the data and information that the auditors in charge collected from performing additional procedures as directed by the task force committee. The Task Force Committee reviewed that the auditor in charge had implemented procedures correctly and in accordance with the instructions and complied with the guidelines on operational audits and the instructions on Operational audit mechanisms and procedures.

As a result, the engagement committee highly appreciated the auditor's performance of additional procedures on the subject matter [number of subjects for which additional procedures were performed and accepted the findings [number of total findings] of the auditor in charge and authorize the auditor in charge to continue preparing the procedures to submit this Performance audit report to [unit under **FSA**] Review and provide written comments and suggestions to the Internal Audit Unit of **FSA**.

14.The Conclusions and recommendations of the auditor in charge

The auditor's conclusion and recommendation are a written statement expressing the auditor's conclusion by describing the criteria used to draw conclusions on economy, efficiency, and effectiveness. and the effectiveness of the unit under **FSA**. Therefore, it shall be organized by dividing it into 4 main points as described below:

A-Point 1: Describe the criteria used by the auditor to conclude on the performance of each audited unit for which the auditor is responsible. The auditor in charge may describe this point as follows:

According to the Guidelines on Operational Audits, implemented by Prakas (No. dated 2019-06-11), it is clearly stated that the auditor in charge shall use four (4) bases of conclusion as shown below:

1.Conclusion: The operations of [the unit under **FSA**] are generally economical, efficient, or effective, as may be provided after the audit has not identified any matters that are not economically, efficiently, or effectively material.

2.Conclusion: The operations of [the unit under FSA] are economical, efficient, or effective after the audit finds no significant issues of economy, efficiency, or effectiveness, except for minor deficiencies.

3.Conclusion: The operations of [the unit under **FSA**] are not economically, efficiently, or effectively efficient. This can be provided after the audit has identified issues that do not significantly affect economy, efficiency, or effectiveness.

4.Conclusion: Rejection may be given if an audit is not possible

B-Point 2: It shall describe the results of the review of work achievements, good points, efforts, and notable progress of the unit under the **FSA** on the areas or points reviewed, which is the overall view of the unit under **FSA**. The auditor in charge can describe this point as follows:

After conducting data and information collection at [the unit under **FSA**], the auditor in charge observed that [the unit under **FSA**], under the high leadership of His Excellency the Secretary General/His Excellency the Director General, has made every effort to guide the audit work. Many work achievements, such as**........**with a high sense of responsibility and in accordance with the set plan, which led to the achievement of proud results.

C-Point 3: Describe the results of the engagement auditor's review and evaluation using any model of conclusion that is limited to the basis of the conclusion. The engagement auditor may describe this point as follows:

Through examination and evaluation, after collecting data and information, the auditor is responsible for drawing conclusions according to Prakas No. 000 dated .... month .... year ... On the implementation of the Guidelines on Operational Audits of the Internal Audit Unit of the unit under **FSA**, as set out in Section 1. Section 2. The form and content of the operational audit report, in terms of the auditor's conclusion that the operations of [UNHCR] are economical, efficient, or effective, is exempt. Therefore, the auditor concluded that the operations of [unit under **FSA**]. There is an economy, efficiency, or effectiveness, except for some points, including management structure, inventory management, incentive system, and use of 10% fund contribution, that have not yet been met with applicable laws and regulations.

D-Point 4: The auditor shall state the recommendations on the subject matter that the auditor in charge of the review found to be problematic, and that recommendations for correction should be provided. The auditor shall demonstrate that the recommendations have been reviewed for suitable capabilities to implement and provide significant added value. In addition, the auditor in charge shall indicate what issues have caused the deviations in the performance and have not followed the given recommendations. The auditor in charge can describe this fourth point as follows:

In addition, based on the operational gaps identified, the auditor in charge has made a number of recommendations that will provide significant value to [the unit under **FSA**] through:

a) ....

b) ....and

c) ....

In addition, the auditor in charge made recommendations based on the topic and the risks that could arise if the recommendations are not implemented, as follows:

1.Topic1: ....

- Recommendation: [the unit under **FSA**] should/shall be prepared within .... The auditor in charge will review the progress of implementing the recommendations provided on [date].

-Consequences: In the event that [the unit under **FSA**] does not follow the recommendations submitted to the internal control system, [the unit under **FSA**] may face problems such as.......

15.Monitoring the implementation of recommendations

In order to improve the internal control system of [unit under the FSA], the auditor in charge made a number of audit recommendations in the audit report. The Internal Audit Unit of **F.S.A.** will monitor progress on implementation of recommendations made to [the unit under **FSA**] above in the next period.

16.Challenges and requests of the auditor in charge

16.1. Challenges

In accordance with the annual audit plan, the audit delegates and the auditor in charge worked hard to carry out their audit work until they successfully prepared the audit report. In line with these commendable results, the audit delegates and the auditor in charge also encountered a number of challenges, including:

A- Challenge 1 [Describe in text]

B- Challenge 2 [Describe in text]

C- Challenge 3 [Describe in text].

16.2. Request

Based on the challenges mentioned above, the audit delegates and the auditor in charge have the following requests:

A- Request 1 [Describe in text]

B- Request 2 [Describe in text]

C- Request 3 [Describe in text].

17.Appendix

The auditor in charge shall include annexes related to the audit process.

Received this instruction, the audit delegate and auditor in charge, deputy head of Internal Audit Unit, head of department, deputy head of department, and heads of divisions of Internal Audit Unit of **FSA** shall implement this instruction effectively from the date of signing.

Phnom Penh: July 24, 2023

Internal Audit Unit

Head of Unit

H.E.Chhun Sambath