Great Family Organization

Internal Audit Policy and Procedure Manual

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1- Statement

The GFO Internal Audit Policyt is to provide independent and objective reviews and assessments of the humanitarian projects activities, operations, financial systems and internal accounting controls of the sectors. The Internal Audit policy accomplishes through the conduct of assurance and advisory audits, selected as a result of the risk analysis and assessment process. The Internal Audit Calendar is reviewed and approved by the Executive team and the Audit Committee of the Board of directors.

2- Objective

The GFO Internal Audit policy conducts independent reviews and appraisals of the organization procedures and operations. These reviews provide management with an independent appraisal of the various operations and systems of control. The reviews also help to ensure that the humanitarian resources are used efficiently and effectively while working towards helping the GFO achieve its mission, as directed by the Board of directors.

3- Responsibility and Authority of the Internal Audit

The GFO Internal Audit established as a dissension of the Board of directors and derives its authority directly from the Audit Committee. The Internal Audit reports functionally to the chair of the Audit Committee in the Board of directors office, functionally and administratively to executive director, and operationally (day-to-day) to the Finance Manager. The scope of Internal Audit's responsibility is defined within this policy and has been approved by the General assembly. The Internal Audit staff (herein, "Internal Audit", or "auditor") is authorized to conduct a comprehensive internal audit program within GFO and is responsible for keeping the Audit Committee informed of unusual transactions or other matters of significance. Additionally, the senior team will be notified of such findings, as and when appropriate.

4- Independence

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

5- Objectivity

Internal Audit is a service function organized and operated primarily for the purpose of conducting audits, in accordance with professional standards. The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to affected members of senior staff, the chair of the board of directors, and the Audit Committee.

Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures, and/or their effectiveness and efficiency in achieving GFO's objectives. Internal Audit may also recommend cost effective courses of action for management to consider in eliminating unnecessary risks that may have been identified during an audit.

6- Confidentiality

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

are considered highly confidential. They are distributed to the respective area the chair of the boards of directors, the finance manager and the Audit Committee. Other partners interested in the audit report may gain access by contacting GFO programs manager, with the approval of the appropriate chair of the boards of directors.

7- Code of Ethics

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

- Integrity

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

- Objectivity

Exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the area being examined. Make balanced assessments of all the relevant circumstances and do not become unduly influenced by individual interests or by others in forming judgments.

- Confidentiality

Respect the value and ownership of information they receive. Do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- Competency

Apply the knowledge, skills, and experience needed in the performance of internal auditing services and continually improve their proficiency and the effectiveness and quality of their services.

8- Standards of Conduct

Internal Audit will adhere to the following Standards of Conduct: Service

- Preserve: a commitment to carry out all responsibilities with an attitude of service toward GFO management while maintaining a sincere, dignified and caring attitude.
- Excellence: Uphold a high standard of service and a commitment to quality in performing all projects.
- Leadership : Provide noteworthy examples which emphasize high ethical and moral standards.
- Professionalism: Conduct activities in a manner that reflects favourably on the individual auditor, GFO finance unit, and GFO.

Responsibility for Detection of Errors or Irregularities Management of GFO is responsible for establishing and maintaining an effective system of internal controls to prevent and detect fraud and errors. Internal Audit is responsible for examining and evaluating the design and operating effectiveness of those controls. Audit procedures alone are not designed to guarantee the detection of fraud or errors. In the event that fraud or errors are detected of a material nature, the Internal Audit head will assess the implications and design appropriate audit steps to evaluate and quantify the potential impact. reported to the board of directors and Audit Committee, as appropriate.

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9- Risk Management

Risk Management (RM) is the consistent, structured and process-driven tool that enables GFO leadership and management to identify, assess, evaluate, mitigate, monitor, prioritize and respond to risk that affects the achievement of GFO strategic goals and objectives. RM enables the ongoing identification of risks and controls and monitoring of risk levels and trends over time.

9-11- Regulatory Compliance

Regulatory Compliance is the process under GFO's RM Program that assigns responsibility to GFO and staff for identifying and complying with applicable laws, regulations and policies. The GFO's Regulatory Compliance Program is intended to foster an environment where environment where managing risk and ensuring regulatory compliance is the responsibility of each member of the GFO's team.

9.2- Professional Proficiency

Professional proficiency is the responsibility of each auditor. The Chief Audit ("CA") will assign each audit to the person who possesses the necessary knowledge, skills, and disciplines to conduct the audit properly. Each auditor has a professional obligation to schedule and attend on going continuing professional forums and training to ensure they remain proficient and advance professionally.

10 - THE AUDIT CALENDAR

10.1- Risk-Based Audit Calendar

The CA is responsible for developing a risk based Audit Calendar that includes areas subject to regulatory review, each fiscal year. The Audit Calendar is a written document showing specific audits or projects to be performed by the Internal Audit staff. Upon obtaining consensus from the GFO Direction Team, the Audit Calendar will be presented to the Audit Committee annually for approval.

The Audit Calendar will be one of three primary outputs resulting from an Risk Management (RM) program linked to the GFO's strategic plan, "From Strength to Strength", the cornerstone of which will be a GFO-wide top-down risk assessment. This will be used to create a risk inventory that drives the three years risk-audit plan, a regulatory compliance calendar, and metrics used to monitor risk on an on-going basis.

The annual risk assessment will build on prior year work with a view of being continually more inclusive of all areas in which the GFOs exposed to risk. It will consider both inherent and residual risk (risk before and after consideration of controls, respectively). Data will be gathered through management interviews and surveys. Internal Audit will also consider the extent to which an area has been included in the Audit Calendar in prior years, seeking to provide audit coverage that is consistent and appropriate to risk level.

11- INTERNAL AUDIT PROCESS

There are four fundamental phases to the internal audit process: planning, fieldwork, reporting, and on-going follow-up. The first three take place at the time of audit, and of them, the reporting phase is most significant as it is the culmination of the previous steps and results in a report that is received by internal and external stakeholders. The on-going follow-up is part of a continual audit practice.

11.1- Planning Phase

During the planning phase of an audit, along with management being notified, information is gathered about the area to be reviewed, and existing controls are evaluated. Entrance Conference Prior to beginning an audit, management is informed of the audit indicating the scope and objectives of the review. During the entrance conference, the internal auditor meets with the management directly

responsible for the unit under review and any staff members management may wish to include. Management describes the unit or system to be reviewed, the organization, personnel, facilities, equipment, funding sources, and other relevant information. It is important that management identify issues or areas of special concern that should be addressed as part of the audit.

Internal Control Analysis The internal control structure will be reviewed to determine the areas of highest risk and to design tests to be performed in the fieldwork section.

11.2- Fieldwork Phase

The fieldwork concentrates on transaction testing and informal communications. It is during this phase that the auditor determines whether the controls identified during the preliminary review are operating properly and, in the manner, described by management and HR. The fieldwork phase concludes with a list of significant observations from which the auditor will prepare a draft audit report.

11.3- Testing

After completing the preliminary review, the auditor performs testing of the major internal controls and the accuracy and propriety of the transactions.

11.4- Communication

As the fieldwork progresses, verbal and/or written communications are made on any significant observations and are discussed with management. Hopefully, management can offer insights and help regarding the best method of resolving the observation. The goal is for there not to be any surprises.

Reporting Phase

The final report is the principal product where audit observations and recommendations for improvements are presented.

11.5- On-going Follow-up

Internal Audit will periodically follow-up with programs management to ensure that the agreed-upon programs actions to address control deficiencies have been properly implemented. Operating effectiveness of management's actions may be performed to ensure that the desired results were achieved. All unresolved observations will be discussed in the follow-up report.

Throughout each phase of the audit process, the auditor will work collaboratively with programs management. The audit process works best when programs management and Internal Audit have a solid working relationship, based on clear and continuing communication. In many cases, this working relationship is extended beyond the particular audit. By working with the programs management, Internal Audit will gain a better understanding of how the programs operates. Then, going forward, Internal Audit will be well positioned to evaluate the feasibility of making further changes or modifications to the programs.

12- PERFORMING THE AUDIT

12.1- Sample Selection

Sampling involves the application of audit procedures to less than 100% of a population to obtain and evaluate audit evidence about a particular characteristic of the population. It requires auditor judgment in planning/performing the sampling procedure as well as evaluating the test results. Sample sizes in controls-based auditing are typically driven by the frequency with which the control is performed. The below table provides guidance for sample sizes:

Frequency of Control	Assessment Population of control Occurrence	Numbers of Items to Test		
	Fr	low	Mid	high
Annual	1		1	
Quarterly	4		2	
Monthly	12		2 to 5	
Weekly	52	5	10	16
Daily	250	20	30	40
Multiple Times per day	Over 250	25	45	60

of the population and the related areas of risk when choosing a sample. Example: Focusing on and selecting certain types of general ledger accounts that have significant risk such as suspense accounts.

Before deciding on a sample methodology and size, the auditor must determine the audit objectives; identify the population characteristics of interest; and consider the degree of risk that is acceptable. Consideration should also be given to the significance of the control in question and the level of assurance desired. The fewer items tested, the greater the risk of an incorrect conclusion. Thus, for highly critical controls, or when a single manual control provides the sole support for any given assertion, the auditor will consider increasing the sample size to the high end of the range provided in the table above. The extent of testing of a particular control will vary depending on a variety of factors such as:

Statistical sampling is another method wherein a sample is randomly selected to reflect the characteristics that occur in the entire population. This enables the auditor to draw valid conclusions based on data derived from a relatively small sample of the total population. Statistical sampling includes random samples and interval samples.

- Complexity of the control
- Significance of judgment in the control operation
- Level of competence necessary to perform the control
- Frequency of operation of the control
- Impact of changes in volume or personnel performing the control
- Importance of the control (e.g., addresses multiple assertions, period-end detective control, only control that covers a particular assertion)

12.2- Testing Conclusions

The auditor is responsible for ensuring that controls have been adequately designed and are operating effectively to mitigate risk. Control design should be evaluated by considering whether the control activity is appropriate in light of the risk it is intended to mitigate. Operating effectiveness is evaluated by confirming the control operates correctly and consistently in accordance with management's design through detailed sample testing.

A finding is indicated if, during testing, the internal audit function concludes that any of the control activities identified in the engagement are not properly designed or operating as intended. The auditor will then assess each finding to determine its significance to the overall control environment. Evaluation factors will include the impact and likelihood of the underlying risk, as well as the existence of complementary or compensating controls.

All testing results should be clearly indicated on the individual work papers according to the documentation requirements and standards outlined below.

12.2.1- Work Paper Documentation

Work papers are a representation of the auditors' activities across the phases of every audit. Each phase of an audit is supported by audit work papers that document the work planned and performed, the auditor's thought process and the conclusions reached. Complete and accurate work papers include sufficient evidence to accomplish the following to a degree that a knowledgeable individual not involved in the audit could follow:

• Demonstrate that the audit plan, scope and objectives for the review have been satisfactorily completed;

• Contain detailed evidence for any findings resulting from the examination; and

• Support any audit opinion or rating rendered on the system of internal controls.

To that end, audit work papers also need to support that due professional care was exercised and illustrates compliance with professional auditing standards. Comprehensive and well-organized work papers are characterized as follows:

Complete.

Work papers must be able to "stand alone." This means that a person external to the audit or not necessarily familiar with audit policies and procedures should be able to follow the work from planning through fieldwork to the report with no information besides what appears in the work papers.

Concise.

Work papers must be confined to those that serve a useful purpose. Items that are used in the audit should be evaluated as to their necessity in the work papers. Work papers are not retained if they are not required to support the conclusions drawn in the audit. If a document is readily available or reproducible based on a description included in the work papers, it is not required to be included in the work papers. Documents that support evidence of exceptions to policy and procedure should be included in the work papers.

Uniform.

Work papers should be of uniform size and appearance, which will generally be 8 ½ x 11 inches. Smaller papers should be fastened to standard work papers, and larger papers should be folded or reduced to conform to size restrictions. All handwritten documentation should be done legibly. The preparer should allow for enough space on each schedule so that all pertinent information can be included in a logical and orderly manner. Lastly, the work papers should be sufficiently numbered and indexed.

12.2.3-Work Paper Standards

The test procedures and all control attributes to be validated will be documented in the RCM for each control to be tested. Those procedures must be followed exactly with all procedures to be completed for all samples selected.

To the extent possible, hard copy supporting documentation should be included in the workpaper for all samples tested. If it is not feasible to include support for all samples, at least one example should be included to facilitate CA review. There must be complete visibility into the conclusions reached through testing. Therefore, the specific information examined through testing (numbers, fields, signatures, etc.) to determine that a sample meets a particular attribute must be clearly indicated through tick marks (letter, check mark or inverted check mark). However, if an attribute is not met, a tick mark with a unique explanation should be used. This allows for more easily distinguishing between exceptions and non-exceptions for reporting purposes.

All working papers that are not self-explanatory should have a heading which includes the area under audit, title of work paper, and the date prepared. If it is not evident, the source of information and

purpose of the working paper should also be noted. Additionally, all supporting documentation should indicate the management personnel from whom it was received (name and title) as well as the data source (system name, manually prepared schedule, etc.).

Ambiguities are reduced if uniform meanings are adopted for the various terms used in audit programs. Below are some definitions which should be used to help eliminate confusion and aid communication among auditors:

- Analyse. To break into significant component parts to determine the nature of something.
- Confirm. To obtain proof to be true or accurate, usually by written inquiry from a source other than the audited.
- Evaluate. To look at or into closely and carefully for the purpose of arriving at accurate, proper, and appropriate opinions.
- Inspect. To examine physically, without complete verification.
- Investigate. To ascertain facts about suspected or alleged conditions.
- Test. To examine representative items or samples for the purpose of arriving at a conclusion regarding the group from which the sample is selected.
- Verify. To prove accuracy.

The auditor should sign and date all work paper files they have prepared or reviewed.

12.2.4- Work Paper Organization

In order to be useful, work papers must be well organized. This means that the flow of the work papers should be logical. A table of contents should be used to guide the reader to all components of the work paper file, which should be organized as follows:

- Audit Report
- Process Narrative/Overview
- Risk Control Matrix (RCM)
- Operating Effectiveness Testing
- Supplementary Materials

The primary document within the work papers will be the risk and control matrix (RCM) which aligns risks, controls, test procedures, and test results. It will be succeeded by work papers for each individual test performed. A reference number will be assigned to each test of operating effectiveness and noted on the RCM the test number will be the primary means of organizing supporting documentation and indicate this on the upper right corner of the document. Example: 13-001.T1 (Test #1 of Audit # 13-001). 13

12.2.5- Work Paper Review

Each individual auditor is responsible managing the progress of the audit. The CA may perform an interim review of audit work papers and will conduct a final quality check of all work papers to verify proper completion and adherence to department work paper standards. CA review must be completed prior to the issuance of a final deliverable.

The CA will prepare a log of review points to communicate any open questions or areas where the work papers need to be enhanced to the auditor. The auditor will then formally respond to each point in the log so that it is a complete record of reviewer's comments, auditor's responses/actions, and reviewer's confirmation that the points have been satisfactorily addressed. The log should be maintained within the work paper file.

12.2.6- Control/Confidentiality of Work Papers

The Internal Audit staff is to know exactly where the work papers are during the conduct of the audit. During the course of an audit, work papers should not be left unattended. Work papers are to be kept in a secure area not readily available to persons unauthorized to access them. Access to work papers is limited to authorized personnel. In circumstances where requests for access to audit work papers and reports are made by parties either within or outside GFO, approval must be obtained from the chair of the board of director and Executive Director.

13- COMMUNICATION AND REPORTING

13.1- Interim Communication

Communication with management is an integral part of any internal audit and, as noted previously, will occur on an ongoing basis as the audit progresses. During the course of performing an audit, the auditor should ensure their understanding of the controls and supporting documentation provided by management is correct and complete. If a potential finding is identified, it should be discussed with management so that the auditor can ensure their facts are accurate and initiate dialogue regarding the best method of remediation.

The auditor must confirm all preliminary facts and conclusions with management before the draft report is issued. Then, the draft report should be presented to management and discussed in an exit conference. This allows all parties to review what is anticipated to be contained in the formal audit engagement communication and provides a final opportunity for any misunderstandings to be resolved. Additionally, it provides management an opportunity to discuss possible actions to mitigate the noted findings and to give the auditor and CA feedback regarding the audit itself.

The corrective actions management will take to address findings are commonly referred to as "management's response". These corrective actions are formulated with input from the internal audit function, but are ultimately the responsibility of management to implement. If the internal auditor and engagement client disagree about the engagement results, the engagement communications may state both positions and the reasons for the disagreement.

13.2- Final Audit Report

The final audit report is the culmination of all work performed and communication of audit results to the management that was audited, as well as GFO Leadership and the Audit Committee of the Board of directors. It serves as the permanent record of the audit and its results and therefore must effectively describes the scope of work performed and the conclusions reached. To that end, the auditor will ensure that the final report is concise, comprehensive, and accurate. Within the final report, the priority of individual findings will be evaluated and an overall opinion of the audit will be issued..

Once all issues and ratings have been agreed with the functional manager(s) of the area audited and management responses have been provided, the draft report will be submitted to the CA for review. Upon the CA's approval, a draft report will be circulated to the financial manager. Following receipt of approval from the ffinancial manager, the CA will send a copy of the draft report to the area Vice President and offer to discuss the results. Upon approval from the Vice President, the report will be considered final .

14- ISSUES MANAGEMENT

14.1- Monitoring and Follow-up

Internal Audit's responsibilities do not end when engagement results are distributed. Monitoring and follow-up procedures will be performed to ensure observations have been addressed and resolved in a manner consistent with management's response included in the final engagement communication.

Issues raised through internal audit work are tracked in the Findings Log. Specifically, the gap or weakness identified, agreed remedial action, business owner responsible for remediation and due date of remediation are noted. Auditors are responsible for regularly reviewing the Findings Log and following up with management to confirm that corrective actions have been implemented by the agreed-upon due date. If the corrective action has a long-range due date (> 6 months), the auditor should inquire with management about the progress of implementation at least quarterly. Any requests made by management to change the due date must be discussed with the CA and presented to the area executive manager for approval. Then, the findings log will be updated to reflect the change and underlying rationale.

Once management has confirmed that a corrective action has been fully implemented, the auditor should perform a walk-through to confirm the control. The CA will report outstanding and overdue items to GFO chair of boards of directors and Audit Committee on a regular basis.

15- ADMINISTRATIVE PROCEDURES

15.1- Cooperation with External Auditors.

The CA is responsible for coordinating audit efforts with GFO's external auditors. The coordination of audit efforts should be considered in the planning of internal audit activities to ensure that the work of all auditing groups is complementary and will provide comprehensive, effective and efficient audit coverage.

15.2- Knowledge and Continuing Professional Education.

The internal auditing should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities. Auditors should maintain their technical competence through continuingin job training. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. The in job training may be obtained through membership and participation in professional societies; attendance at conferences, seminars, , and in-job training programs.

15.3- Supervision.

The CA should provide assurance that internal audits are properly supervised. Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment. The extent of supervision required will depend on the proficiency of the auditor and the difficulty of the audit assignment