OWH Internal Audit Report

1 June - 31 December 2021

Contents

1. Organizational Background 1
2. Vision Statement: 1
3. Mission Statement: 1
4. OWH Internal Control System: 1
5. Internal Audit Function 2
5.1 Purpose: 2
5.2 SCOPE 2
5.3 CODE OF ETHICS for the Internal Auditors: 3
5.4 Audit approach 3
6. Explanation of the Performance Indicators: 4
7. Audit Conclusion 6
7.1 Key Recommendation: 6
7.2 Summary of the Audit Finding: 6
7.2.1 Control Environment 6
7.2.1.1 High Risk Findings: 7
7.2.2 Risk Assessment 8
7.2.3 Control Activities 8
7.2.4 Control Information System 9
7.2.4.1 High Risk Findings: 10
7.2.5 Monitoring Activities 10

1. Organizational Background

OWH is a non-political, nonpartisan, nonprofit and independent organization founded in 2017. The organization was registered with the NGOs Department of the Ministry of Economy of the Islamic Republic of Afghanistan in the year 2010 with the registration # 4261.

2. Vision Statement:

OWH's vision is a Developed, Educated, Prosperous, and Healthy community. Where everyone is eligible to the same standards of services without any discrimination and biasness.

3. Mission Statement:

OWH strive to offer the highest quality of the healthcare, educational, Welfare and livelihood services to the people; by using the proven blend of the ancient and new knowledge's, tempered by the research and experience of the top professionals.

OWH's mission is to provide quality services with a sense of friendliness and individual pride that will be accessible to the wider population.

4. OWH Internal Control System:

Internal control is the process designed, implemented and maintained by management, and other personnel to provide reasonable assurance about the achievement of the Organization's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and Compliance with applicable laws and regulations.

Internal control has five components:

- The control environment
- Risk assessment process
- The information system relevant to financial reporting
- Control activities
- Monitoring of controls

5. Internal Audit Function

5.1 Purpose:

OWH recognizes the relevance of strengthening governance and control systems through the establishment of an efficient and effective internal audit function.

The purpose of the 'Internal audit Function' is to set out the framework within which Internal Audit department provides objective and independent assurance and advice to the Board of trustees, and to the Boards of Directors of the Organization, over the processes and systems of internal control and risk management operating in the Organization.

Internal auditing provides assurance on the Organization's controls, risk management, and governance to help the Organization achieve its strategic, operational, financial, and compliance objectives.

Internal Auditing is a catalyst for improving the Organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and processes.

5.2 SCOPE

The Internal Audit Assignment applies to all the Organization's activities, including other organizations working in Joint venture with OWH or are sub awardees of the organization.

All Organization officers, contractors, the officers and Committee members of related entities, involved in and with responsibility for contributing towards the achievement of Organization's objectives, asset management and reporting responsibilities.

The scope of internal audit is to ensure the effective and regular review of all operational, financial and related activities. Internal audit coverage may extend to all areas of Organization including financial, accounting, administrative and operational activities in compliance with applicable legislative requirements.

Detecting and reporting irregularities so that Organization can take action and report such irregularities in accordance with legislative requirements.

Risk assessment and management, including the identification and assessment of risks to which Organization's operations are exposed.

When an external service provider undertakes the Internal Audit activity as a result of out sourcing the function, the provider will make Council aware that Council has overall responsibility for maintaining an effective Internal Audit function.

5.3 CODE OF ETHICS for the Internal Auditors:

Internal Auditors always adhere to the Code of Ethics which governs the behavior of individuals in the conduct of internal auditing.

The Internal Auditor have an impartial, unbiased attitude and avoid any conflict of interest. The Internal Auditor declare and disclose any Conflict of Interest to the Organization, including any potential conflict of interest.

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

- Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- 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.
- Competency – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.
- Independence and objectivity – The internal audit function must be independent from the organization's other departments and Internal Auditors must be objective in performing their internal audit work.

5.4 Audit approach

The Internal Audit function evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.

6. Explanation of the Performance Indicators:

- ✓ **Fully Satisfactory:**

The assessed governance arrangement, risk management practices and controls were adequately established and functioning well. Issues identified by the audit if any are unlikely to affect the achievement of the Organizational objectives.

- ✓ **Satisfactory:**

The assessed governance arrangement, risk management practices and controls were adequately established and functioning, but needs some improvements.

Issues identified by the audit do not significantly affect the achievement of the Organizational objectives.

These issues may be resolved on the spot and depending on the priority this may not require to be presented in the report.

- ✓ **Partially Satisfactory:**

The assessed governance arrangement, risk management practices and controls were established and functioning, but needs major improvements.

Issues identified by the audit could significantly affect the achievement of the Organizational objectives.

- ✓ **Unsatisfactory:**

The assessed governance arrangement, risk management practices and controls were either not adequately established or functioning well, but needs major improvements.

Issues identified by the audit could seriously compromise the achievement of the Organizational objectives.

Priorities of Audit Recommendation:

- ✓ **High:**

Prompt action is require and the time frame must be as short as possible to ensure that OWH is not exposed to high risks and failure to do so bears unavoidable negative consequences.

- ✓ **Medium:**

Action is required to be taken while having a good time period. The consequences are not immediate and thus the recommendations could be applied in a matter of weeks and a couple of months.

- ✓ **Low:**

Action is desirable but not required, the internal controls are working and to furtherly enrich the internal controls these recommendations are made. That could be implemented any time in the future. (Action required with no set time frame).

7. Audit Conclusion

S.NO	Internal Control Component	Risk Rating
1	Control Environment	Medium
2	Risk Assessment	Low
3	Control Activities	Low
4	Information and Communication	Low
5	Monitoring Activities	Medium
Over All Risk Ratting		**Low**

7.1 Key Recommendation:

Total = 3

High Priority = 3

7.2 Summary of the Audit Finding:

7.2.1 Control Environment

S.NO	Audit Rating	No of Findings	Priority
1	Fully Satisfactory Findings	4	N/A
2	Satisfactory Funding/ Some Improvements Required	3	Low
3	Partially Satisfactory/ Major Improvement Required	0	N/A
4	Un Satisfactory	2	High

Auditor's Response:

During the internal audit assignment, the organizational environment was assessed. The activities were satisfactory and the areas that required some more improvements were discussed with the relevant department.

Organizational policies are applied and regularly assessed, and the activities are aligned with the objective of the organization.

7.2.1.1 High Risk Findings:

- ✓ **Observation # 1:**

During the Internal Audit Function this is identified that organizational website and social media pages do not exist officially. There are some social media pages associated with the organization's name bur not related to the Organization.

Implication

Unavailability of official and controlled website will bring un-acceptable consequences like misuse of the organization name and miss-representation of the Organizational activities.

Action Required:

There should be an official website associated with the organization and the required information should be updated in regular intervals.

- ✓ **Observation # 2 :**

Data backup policy of the organization requires a server to be there to properly backup all the data on regular intervals. During the audit this have been identified that the server for the backup of the data is unavailable.

Implication:

Absence of the server is break of the control environment as the information might not be available if required after a span of time.

Also, availability of the server is the requirement of many donors and its unavailability may cause ineligibility of the organization in certain project implementation.

Action Required:

The procurement process of the server should be initiated immediately and proper trainings to the staff should be provided for better use of the system.

7.2.2 Risk Assessment

S.NO	Audit Rating	No of Findings	Priority
1	Fully Satisfactory Findings	3	N/A
2	Satisfactory Funding/ Some Improvements Required	0	N/A
3	Partially Satisfactory/ Major Improvement Required	0	N/A
4	Un Satisfactory	0	N/A

Auditor's Response:

The macro and micro risk assessment are regularly made and the actions defined are satisfactory. New innovations have been made in terms the newly faced risk e.g., PSEA policy and Whistle Blower policy have been formed to align with the requirements of the donors.

7.2.3 Control Activities

S.NO	Audit Rating	No of Findings	Priority
1	Fully Satisfactory Findings	3	NA
2	Satisfactory Funding/ Some Improvements Required	1	Low

3	Partially Satisfactory/ Major Improvement Required	0	Low
4	Un Satisfactory	O	Low

Auditor's Response:

All the activities are performed in control manner, segregation of duties, authorization and recording are in place for every action and activity performed.

All the main procedures are completed in the activities during the audit period e.g.

- Authorization
- Performance Reviews
- Information Processing
- Physical Controls
- Segregation of Duties

7.2.4 Control Information System

S.NO	Audit Rating	No of Findings	Priority
1	Fully Satisfactory Findings	2	NA
2	Satisfactory Funding/ Some Improvements Required	3	Low
3	Partially Satisfactory/ Major Improvement Required	0	N/A
4	Un Satisfactory	1	High

7.2.4.1 High Risk Findings:

Observation # 3:

The financial documents do not have the donor stamp over them, and the project Budget VS actual Analysis have not been provided by the Finance Department.

Implications:

Unavailability of the donor stamp could raise issue of duplication in terms of payments and misplacement of the financial documents.

If the BVA analysis is not made on time there may be consequences like over and underutilization of the budget.

Action Required:

Agreement is made between the departments that the scenario of donor informative stamps over the documents will be adopted.

Also this is agreed that on monthly basis BVA analysis will be made and presented to the management team.

7.2.5 Monitoring Activities

S.NO	Audit Rating	No of Findings	Priority
1	Fully Satisfactory Findings	2	NA
2	Satisfactory Funding/ Some Improvements Required	2	Low
3	Partially Satisfactory/ Major Improvement Required	1	High
4	Un Satisfactory	0	N/A

The overall performance in Monitoring and Control activities is satisfactory only the areas that requires improvements are:

1) Post Monitoring Visits
2) Submission of the Attested Version of the Monitoring Reports by every Department along with the soft version.