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| ***Document number: ZFDA/ ED/IA/AP/001***    **THE REVOLUTIONARY GOVERNMENT OF ZANZIBAR**  **MINISTRY OF HEALTH**  **ZANZIBAR FOOD AND DRUGS AGENCY**  C:\Users\Hp\Documents\RIPOTI\ZFDA 2.png  ***RISK BASED AUDIT PLAN***      **FINANCIAL YEAR: 2020/2021**  P.O.Box 3595, Mombasa Area, Tomondo Road, Zanzibar  Tel: + 255 24 2233959-, Fax:+ 255 24 2233959, Website [www.zfda.go.tz](http://www.zfda.go.tz), E mail: [food@zfda.go.tz](mailto:food@zfda.go.tz) |

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# INTRODUCTION

This document sets out the inaugural risk assessment and Internal Audit plan for Zanzibar Food and Drug Agency (ZFDA)

The Institute of Internal Auditor (IIA) defines Internal Audit as:

*“... An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

## Objectives of the ZFDA

1. Maintain good governance and Management of the ZFDA.
2. Improve the quality, safety and efficacy of food, medicine, cosmetic and medical devices.
3. Strengthening laboratory services.
4. Strengthening co-operation and collaboration with individual organization and government agencies.

## Objectives of the Audit

1. Evaluating the risk management, control, and governance processes regarding all departmental activities and resources
2. Evaluating the effectiveness and efficiency of internal controls
3. Reviewing the reliability, integrity, and utility of financial and operational information
4. Appraising the economy and efficiency with which departmental/units resources are employed
5. Ascertaining whether programs or services are being implemented as intended
6. Assessing compliance with laws, regulations, authorities and policies

## Purpose of the Audit Plan

The purpose of this document is to provide management and the Audit Committee with:

1. An understanding of Internal Audit’s risk-based approach to developing its Strategy and Plan
2. The proposed Operational Plan for 2020/2021.

# APPROACH

Internal Audit work will be performed in accordance with:

1. International Professional Practice Framework of internal auditors (IPPF);
2. Public finance regulation 2005,
3. Internal audit manual
4. Internal Audit Charter

Internal Audit’s six steps approach to developing the Audit Operational Plan (2020/2021) is set out below.

*Figure 1: Step in developing audit plan*

# BASIS OF THE PLAN

In order to carry out the level of work that our risk assessment indicates is appropriate; we estimate that the resource requirement for ZFDA internal audit service is 219 days. Based on our risk assessment, this is the level of resource that we believe would be necessary to evaluate the effectiveness of risk management, control and governance processes.

# REPORTING

Internal Auditor shall report at least four times a year directly to the Executive Director. The Internal Auditor also has direct right of access to the Chair of the Audit Committee. Internal Audit work will be planned in conjunction with management as far as possible. Pre-assignment meetings will be arranged to discuss significant business risks, management concerns and the timing of audit work.

# BASIS OF THE PLAN

To facilitate effective planning, we have prepared a risk-based internal audit plan for the

Financial year ending 30 June 2021. The internal audit plan described below have been prepared to direct internal audit effort, based on available and envisaged resources, in terms of a risk-based methodology.

# AUDIT UNIVERSE AND RISK ASSESSMENT

## Risk assessment

Internal Audit has assigned inherent risk score based on:

1. Internal Audit’s knowledge of the ZFDA more generally; and
2. Discussions with management and other key stakeholders.

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1. The results are summarized in the table below.

*Table 1: Risk Assessment Results*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **Activity** | **Risk identified** | **Risk category** | **Inherent Risk Rating** | **Control environment Rating** |
| 1 | Supply chain management | Failure to adhere to Procurement requirements. | Finance | **4** | **2** |
| 2 | Asset management | Inadequate maintenance and safeguarding of assets. | Finance | **5** | **2** |
| 3 | Planning process | Non-alignment of budget and departmental plan. | Operation | **3** | **2** |
| 4 | Debtor management | -Inability to collect revenue due to the ZFDA.  -Absence of effective planned strategies for Follow-up of customer debts  -Ineffective Credit Policy | Finance | **4** | **2** |
| 5 | Supply chain management | Payments of services/ goods not yet rendered/received. | Finance | **2** | **3** |
| 6 | Supply chain management | Delays in the procurement of goods and services. | Finance | **3** | **2** |
| 7 | Risk management | Ineffective risk management process. | Operation | **3** | **3** |
| 8 | Disposal of unfit products | Inability to collect/dispose unfit product on time. | Operation | **2** | **3** |
| 9 | Supply chain management | Inadequate monitoring of service providers. | Finance | **3** | **2** |

*Table 2: Risk Assessment Results*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **S/N** | **Activity** | **Risk Identified** | **Risk Category** | **Risk Rating** | **Control Environment Rating** | **Audit requirement rating** |
| 10 | Asset management | Unauthorized removal of assets | Finance | **4** | **2** | **4** |
| 11 | Planning process | Mismatch between ZFDA goals & approved financial budgets | Operation | **3** | **2** | **4** |
| 12 | Human resource management | -Non-compliance with Employment legislation  -Ineffective Monitoring of Attendance Register | Legal | **2** | **4** | **4** |
| 13 | Human resource management | -High leave levels  -Ineffective daily work plan and segregation of duties | Operation | **3** | **4** | **4** |
| 14 | Human resource management | -Inability to recruit suitable Employees  -Outdated Asset Management Policy | Operation | **1** | **3** | **4** |
| 15 | Human resource management | Loss of key ZFDA employees | Operation | **2** | **3** | **4** |
| 16 | Products/premises registration | -Inability to detect fraudulent Applications  -Improper segregation of duties.  -Data mismatch of new registered customer | Operation | **3** | **4** | **4** |
| 17 | Performance management | Customer service failures | Operation | **1** | **3** | **4** |
| 18 | Performance management. | Employees non-compliance with established Standard Operating Procedures | Legal | **3** | **3** | **4** |
| 19 | Quality Management | Failure to attain ISO 9001:2015 Certification | Reputation | **3** | **2** | **4** |
| 20 | ICT control | -Malicious damage from unauthorized acces.  -Failure to institute proper and effective entrance controls in the server room | Technical | **3** | **3** | **4** |
| 21 | ICT control | -Software Virus damage.  -Non compliance with IT Policy.  -Electricity shock.  -Absence of periodic server backup test.  - Absence or  ineffective system Audit Trail | Technical | **3** | **3** | **4** |
| 22 | Documents control | Publication of material not approved for release | Operation | **3** | **4** | **N** |
| 23 | Human resource management | Health & Safety of employees. in adequate treatment of health | Operation | **1** | **5** | **N** |
| 24 | Asset management | Transport vehicle failure | Finance | **3** | **2** | **4** |

The above assessment of internal audit auditable areas reveals that the following business processes/ cycles should be the key focus of internal audit:

1. Assets management
2. Supply chain management
3. Debtor management
4. Planning processes
5. Risk management
6. Disposal of unfit products
7. Human resource management
8. Products/ premises inspection and registrations
9. Performance management system
10. Quality management system
11. ICT control
12. Products/premises registration

However, as management and the Audit Committee can appreciate, if there is limited resources (budget) for internal audit services, internal audit may not be able to cover all the above areas in year one. In the plan below, the timing and resources required to review the above internal audit auditable areas should be discussed and agreed with management and the Audit Committee.

We acknowledge that not all risks identified will be audited and/ or are auditable. Monitoring and management of risks is primarily a responsibility of management, and as such, management is responsible to ensure that risks of the ZFDA are properly identified, managed and monitored.

*Table 3: Internal Audit Plan 2020/2021*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **S/N** | **Audit Universe** | **Scope of Audit** | **Q1** | **Q2** | **Q3** | **Q4** | **Time Budget** |
|  | Asset management | * Fixed asset recording and accounting treatment * Fixed asset register maintenance and control * Bar-coding/ tagging of assets * Asset verifications * Reconciliations (between the fixed asset register and the general ledger). * Cash management |  |  |  |  | 40 |
|  | Human resource management | * Staff performance management * Staff recruitment and induction * Workforce planning / resource management |  |  |  |  | 10 |
|  | Quality Management | * Planning * compliance with established procedures * Monitoring |  |  |  |  | 5 |
|  | Planning process | * Budget compilation process * Budget approval * Budget control, monitoring and reporting * Management information on actual vs. budget * Budget virements |  |  |  |  | 20 |
|  | Performance management | * General Key Performance Indicators * Monitoring of performance |  |  |  |  | 12 |
|  | Products/premises inspection & registration | * Planning * Monitoring |  |  |  |  | 20 |
|  | Debtor management | * Credit Management * Debtors Collection * Billing Systems * Indigent Register |  |  |  |  | 40 |
|  | Sub total | |  |  |  |  | 147 |

*Table 4: Audit plan 2020/2021*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| S/N | Audit Universe | Scope of Audit | Q1 | Q2 | Q3 | Q4 | Time Budget |
|  | supply chain management | * Budget * Requisition and ordering processes * Receiving of goods and services * Payments process * Tendering process * Quality of items are not with specification * Purchases of items are unsuitable, too expensive and/or delivered too late |  |  |  |  | 40 |
|  | Risk Management | * Risk Management Plan * Monitoring and Reporting |  |  |  |  | 5 |
|  | ICT Control | * Overall management of IT * IT security management * IT security procedures * Computer operations |  |  |  |  | 5 |
|  | Audit Planning | * Risk Assessment * Annual audit plan * Audit charter |  |  |  |  | 22 |
|  | Grand Total |  |  |  |  |  | 219 |

*Table 5: three year internal audit strategic plan 2020-2023*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S/N** | **Audit Universe** | **2020/2021** | **2021/2022** | **2022/2023** |
| **1** | Assets management |  |  |  |
| **2** | Supply chain management |  |  |  |
| **3** | Debtor management |  |  |  |
| **4** | Risk management |  |  |  |
| **5** | Planning processes |  |  |  |
| **6** | Human resource management |  |  |  |
| **7** | Product premises inspection and registration |  |  |  |
| **8** | Performance management |  |  |  |
| **9** | Quality management system |  |  |  |
| **10** | ICT control |  |  |  |
| **11** | Audit Planning |  |  |  |

# CO-ORDINATION AND CO-OPERATION

It is accepted that the co-operation and availability of the ZFDA’s personnel plays a

Significant role in impacting the effectiveness and efficiency of the internal audit service. Every effort must be made to explain the purpose of internal audit to obtain the complete co-operation of departmental management and staff.

# PLANNING METHODOLOGY

**Step 1 -Understand Corporate Objectives and Risks**

In developing our understanding of your corporate objectives and risks, we have:

1. Reviewed budgeted plan 2020-2021
2. Drawn on our knowledge of the ZFDA; and
3. Met with a number of senior management and staff.

**Step 2 -Define the Audit Universe**

In order that the internal audit plan reflects management and operating structure we have identified the audit universe for ZFDA made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations.

**Step 3 -Assess the Inherent Risk**

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organization and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 1.

The inherent risk assessment is determined by:

1. Consultation with a number of key stakeholders across the ZFDA;
2. A review of relevant documents and reports;
3. Our knowledge of the ZFDA and results of previous Internal Audit work in ZFDA ; and
4. Our understanding of ZFDA.

*Table 6: Risk assessment rating*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Impacts** | **Likelihood** | | | | |
| 5 | 4 | 3 | 2 | 1 |
| **1** | 3 | 3 | 2 | 2 | 1 |
| **2** | 4 | 3 | 3 | 2 | 2 |
| **3** | 4 | 4 | 3 | 3 | 2 |
| **4** | 5 | 4 | 4 | 3 | 3 |
| **5** | 5 | 5 | 4 | 4 | 3 |

**Step 4 -Assess the strength of the control environment**

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

1. Our knowledge of your internal control environment;
2. The outcomes of previous internal audit reviews.

**Step 5 -Calculate the audit requirement rating**

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

***Table 7: Audit requirement rating***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Inherent Risk Rating** | **Control Environment Rating** | | | | |
| **5** | **4** | **3** | **2** | **1** |
| **1** | n/a | n/a | n/a | n/a | 1 |
| **2** | n/a | n/a | n/a | 2 | 1 |
| **3** | n/a | n/a | 2 | 2 | 3 |
| **4** | n/a | 3 | 3 | 3 | 4 |
| **5** | 3 | 3 | 4 | 4 | 5 |

**Step 6 -Determine the audit plan**

The risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed quarterly or annually.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which is driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the Plan as key sub-process audits.

# OTHER CONSIDERATIONS

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews in accordance with the management agreement.

*Appendix 1: Risk assessment criteria*

|  |  |
| --- | --- |
| Impact Rating | Assessment Rationale |
| 5 | Severe impact on operational performance; or  Severe monetary or financial statement impact; or  Severe breach in laws and regulations that could result in material fines or consequences; or  Severe impact on the reputation or brand of the organization which could threaten its future viability. |
| 4 | Major impact on operational performance; or  Major monetary or financial statement impact or  Major breach in laws and regulations resulting in large fines and consequences; or  Major impact on the reputation or brand of the organization. |
| 3 | Moderate impact on the organization’s operational performance; or  Moderate monetary or financial statement impact ; or  Moderate breach in laws and regulations with moderate consequences; or  Moderate impact on the reputation of the organization. |
| 2 | Minor impact on the organization’s operational performance; or  Minor monetary or financial statement impact ; or  Minor breach in laws and regulations with limited consequences; or  Minor impact on the reputation of the organization. |
| 1 | Insignificant impact on the organization’s operational performance; or  Insignificant monetary or financial statement impact ;or  Insignificant breach in laws and regulations with little consequence; or  Insignificant impact on the reputation of the organization. |

|  |  |
| --- | --- |
| Likelihood Rating | Assessment rationale |
| 5 | Has occurred or probable in the near future |
| 4 | Possible in the next 12 months |
| 3 | Possible in the next 1-2 years |
| 2 | Possible in the medium term (2-10 years) |
| 1 | Unlikely to occur in the near future |

Approved this \_\_\_\_\_\_\_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Head of Internal Audit Unit

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Chairman of the Audit Committee Executive Director