INTERNAL AUDIT TERMS OF REFERENCE

Introduction

1. The Internal Audit Terms of Reference (ToR) describes the framework within which the Internal Audit Service is delivered. It is intended to act as a guide for EEA and EEA/IGA staff throughout the research and business respectively and is also publicly available on the Ethiopian Economics Association (EEA) website.

Definition of Internal Auditing

2. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (*Definition of Internal Auditing, Institute of Internal Auditors, 2023).*

Objective of Internal Audit

3. The primary role of Internal Audit is to help the Executive and Management Committees to protect the assets, reputation and sustainability of the association.

4. Internal Audit's key objective is to provide reliable, valued and timely assessment to the Executive and Management Committees on the effectiveness of the system of internal controls mitigating current and evolving key risks and in so doing assist the group to enhance the effectiveness of the risk management culture withinn the association.

5. Internal Audit's work also helps the Executive and Management Committees assess whether the association's processes and actions are in line with its values, ethics, risk culture and other policies.

Responsibilities for Internal Control

6. The Chief Executive Officer (CEO) has a statutory responsibility to ensure that there are adequate systems of control, inspection and reporting.

7. The management is chaired by the CEO with the responsibility for maintaining adequate systems of control and reviewing the effectiveness of those controls.

8. Internal Auditor provides independent, objective assurance to the Chief Executive Officer (CEO). This helps to ensure that adequate, effective and sustainable control processes are in operation to manage all material risks across the staff and contributes to the continuous improvement of the risk management and control process.

Scope of the Internal Audit Service

9. Internal Audit's scope is unrestricted. All the research, Admin and business activities of EEA and EEA/IGA are included in the scope of Internal Audit's responsibility including those outsourced to third parties, and they are subject to regular and appropriate Internal Audit review in accordance with Internal Audit's risk based Audit Plan derived from the Audit Needs Assessment.

Reporting

10. Internal Auditor produces and presents a formal, annual and quarterly opinion on the adequacy, effectiveness and sustainability of the control processes to the CEO and management Committee, respectively.

11. To provide this opinion, Internal Audit:

   11.1 Determines audit needs by referring to the association's Strategic Objectives and Business Plans;

   11.2 Identifies and assesses the risks around those processes which operate to achieve the objectives;

   11.3 Evaluates the adequacy, effectiveness and sustainability of controls, both financial and non-financial, around those points in the processes which, were they to fail, would have a material impact on the association;

   11.4 Reviews the adequacy and effectiveness of the control processes in place covering significant change projects and, based on an assessment of risk, reviews the adequacy of the underlying control framework being implemented;

   11.5 Reviews the appropriateness of management action in relation to risks where the current control mechanisms are considered to be inadequate;

   11.6 Considers on the risk management and control culture of the organization.

As with all risk types, assessment of internal controls to mitigate fraud risk are included within Internal Audit's scope. Therefore, Internal Audit procedures are designed with fraud risk in mind, but should not be relied upon to detect fraud; it is Management's responsibility to design systems of control to prevent and detect fraud.

12. Internal Audit prepares an Annual Audit Plan that is approved by CEO. This Plan is flexible in so far as it is updated to reflect any changes to the association's risk profile during the year, and any resultant amendments to the plan are formally approved by CEO, which meets at least two times a year.

13. During the year, Internal Audit reports on a quarterly basis to the Chief Executive officer and to each management committee on the operation of the control processes and management's progress in addressing issues identified. All outstanding issues and their status are reported to the CEO. In addition, every quarterly Internal Audit reports the progress of all management actions reported to the individual Directors responsible for resolution via the quarterly control Report.

14. Reports to the CEO are drawn from the results of individual audits in the period. Internal Audit reports the issues emerging from and the findings of, each audit to relevant management and obtains their commitment to undertake appropriate remedial action.

Consulting work

15. Internal Audit acts as a point of reference for risk and control issues, providing ad hoc advice to CEO and the management and carrying out special reviews and investigations where appropriate. Advice will only be provided where it does not

impact on the required independence of the Audit function.

Access

18. Internal Audit derives its authority from the CEO who enable him to have unrestricted access to all records, systems, documents, property and staff as required in the performance of its work.

Independence and Objectivity

19. Internal Auditor remains independent of the activities that it audits to ensure objective judgement.
20. Any events that arise during the delivery of audits which might impair independence or objectivity such as scope limitation, restrictions on access to records or staff, or resource limitations will be reported to the CEO and subsequently the management committee.
21. The Internal Auditor has a direct reporting line to the CEO
22. The appointment or termination of the appointment of the Internal Auditor must be approved by the CEO.
23. On an annual basis, within the Internal Auditor Annual Opinion, the CEO will confirm the ongoing independence and objectivity of the Internal Audit Service.

Standards

24. Internal Audit adheres to International Standards on Internal Auditing and to standards of best professional practice as published by the major accountancy bodies, Chartered Institute of Internal Auditors and the Information Systems Audit & Control Association.

Academic and Professional Qualifications

The following are the qualifications of the Internal Auditor:

1. Certified Public Accountant, ACCA, Masters in Management, Accounting, Auditing, Finance, Taxation, and Business Administration or related fields
2. Relevant professional certification in Audit or risk.
3. Minimum of seven years of experience at a management level in the internal control/audit function of a similar association.
4. Demonstrable track record, knowledge and experience working with the various Executive Committees in private and public institutions.
5. Have excellent writing and research skills.
6. Have excellent communication skills.