



Internal Audit Procedures and Guidelines

This document is as approved by the REC Caucasus executive Body (Collegial Trio) and is set out at the end of the document.



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1 Introduction and Institutional Context

The Regional Environmental Centre for the Caucasus (RECC) operates as a regional institution implementing programs and projects funded by public resources, international donors, and development partners. RECC's activities involve fiduciary responsibilities, compliance obligations, environmental and social safeguards, and accountability to multiple stakeholders.

In this context, the establishment and maintenance of a robust Internal Audit function is a fundamental element of sound governance. Internal Audit provides independent assurance to the Board and financial management regarding the effectiveness of governance arrangements, risk management practices, and internal control systems.

This Internal Audit Policy and Procedures Manual defines the framework within which Internal Audit operates at RECC. It sets out the mandate, authority, scope, governance arrangements, procedures, and safeguards governing internal audit activities. The Manual is intended to ensure consistency, transparency, and professionalism in the performance of internal audit work and to align RECC's practices with internationally recognized standards.

Internal Audit is not a substitute for management responsibility. Relevant Management remains fully accountable for the design and operation of internal controls and for the achievement of RECC's objectives. Internal Audit provides independent assurance and constructive recommendations to support management and the Board in fulfilling their responsibilities.

2 Purpose, Objectives, And Fundamental Principles

2.1 Purpose of Internal Audit

The purpose of Internal Audit at RECC is to provide independent, objective assurance and advisory services designed to add value and improve organizational operations. Internal Audit assists RECC in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and internal controls.

Internal Audit contributes to the protection of RECC's assets, reputation, and institutional credibility by identifying weaknesses, emerging risks, and areas requiring improvement before they escalate into significant issues.

2.2 Objectives

The objectives of Internal Audit are to:

- provide the Board with independent assurance on the adequacy and effectiveness of internal controls;
- assess whether RECC's resources are used economically, efficiently, and effectively;
- evaluate compliance with internal policies, donor agreements, contractual obligations, and applicable laws and regulations;
- assess the effectiveness of risk management processes and control mechanisms;
- identify systemic weaknesses, recurring issues, and patterns of non-compliance;
- promote ethical conduct, integrity, and accountability across the organization;
- support financial management through practical, constructive, and risk-focused recommendations.

2.3 2.3. Fundamental Principles

Internal Audit at RECC operates in accordance with the following principles:

- **Independence** – freedom from interference in determining audit scope, performing work, and communicating results.
- **Objectivity** – unbiased and impartial judgment based on evidence.
- **Integrity** – honest, ethical, and professional conduct.
- **Confidentiality** – responsible handling of sensitive information.
- **Due Professional Care** – application of skill, diligence, and professional judgment.

3 Definitions And Key Terms

For the purposes of this Manual, the following terms have the meanings set out below. These definitions are intended to ensure common understanding and consistent application across RECC.

(This section is intentionally extensive and forms a core interpretive reference.)

Audit Universe

The complete set of auditable entities, activities, processes, projects, systems, and organizational units within RECC that may be subject to internal audit.

Audit Engagement

A specific internal audit assignment undertaken to achieve defined objectives within an agreed scope and timeframe.

Audit Recommendation Tracking Matrix (ARTM)

A structured monitoring tool used to record audit findings, agreed corrective actions, responsible persons, deadlines, evidence of implementation, and escalation status.

Board

The governing body of RECC with ultimate responsibility for strategic direction, oversight, and institutional accountability.

Control Environment

The collective attitude, awareness, and actions of the Board and/or Executive Director regarding internal control, governance, ethical values, and accountability.

Corrective Action

An action taken by management to address an identified audit finding or control weakness and prevent its recurrence.

Environmental and Social Management System (ESMS) Manual

RECC's framework for identifying, assessing, mitigating, monitoring, and reporting environmental and social risks associated with its activities.

Escalation

A formal process through which unresolved audit issues are elevated to higher levels of authority in accordance with defined timelines and responsibilities.

Fraud

Any intentional act or omission designed to deceive, mislead, or manipulate, resulting in loss of resources, misrepresentation, or reputational damage to RECC.

Gender Policy

A structured approach to integrate gender equality and inclusion in RECC's operations and project outcomes.

Grievance Redress Mechanism (GRM)

A formal system through which stakeholders may submit complaints or concerns related to RECC activities, with defined procedures for review and resolution.

High-Risk Finding

An audit finding that poses a significant threat to RECC's objectives, compliance, financial integrity, or reputation.

Independence

Freedom from conditions that threaten the ability of Internal Audit to perform responsibilities objectively and without undue influence.

Internal Audit

An independent, objective assurance and advisory function designed to add value and improve RECC's operations.

Internal Control

Policies, procedures, processes, and practices designed to provide reasonable assurance regarding achievement of objectives.

Investigation

A special audit engagement conducted to examine suspected fraud, corruption, misuse of funds, or serious misconduct.

Financial Manager

Responsible for overseeing the organization's financial operations, implementing internal controls, managing financial and operational risks, and carrying out other relevant financial duties.

Management Response

Management's (Executive Director) formal reply to an audit finding, including acceptance, corrective action, timelines, or justification.

Material Weakness

A deficiency, or combination of deficiencies, in internal control that significantly increases risk exposure.

Objectivity

An unbiased mental attitude allowing internal auditors to perform engagements without compromise.

Risk

The possibility that an event will occur and adversely affect the achievement of objectives.

Risk and Audit Committee (RAC)

A committee of the Board responsible for oversight of internal audit, risk management, and internal control.

Risk-Based Audit Planning

A planning approach that prioritizes audit engagements based on assessed risks.

Whistleblower

An individual who reports suspected wrongdoing in good faith.

4 Authority, Independence, And Access

Internal Audit derives its authority directly from the Board of RECC. This authority is formalized through this Manual and the Internal Audit Charter.

Internal Audit is independent of operational management. Independence is safeguarded through functional reporting to the Board via the Risk and Audit Committee and administrative reporting to the Executive Director solely for operational matters.

The Internal Auditor has unrestricted, direct, and timely access to all records, systems, premises, activities, and personnel necessary to perform audit work. Any limitation of access or interference shall be reported immediately to the Risk and Audit Committee.

The mandate and authority of Internal Audit are further formalized in the Internal Audit Charter (Annex 1).

5 Scope Of Internal Audit

Internal Audit covers all activities, functions, projects, and systems of RECC, regardless of funding source. The scope includes financial, operational, compliance, safeguards, governance, and information systems.

Internal Audit assesses both the design and operating effectiveness of controls and focuses on areas of higher risk and institutional significance.

6 Types Of Internal Audit Engagements

Internal Audit engagements at RECC are designed to provide assurance over the adequacy and effectiveness of governance, risk management, and internal control systems. Engagements are selected through the risk-based audit planning process and are aligned with RECC's mandate, operational activities, and donor requirements. Depending on the audit objective and scope, Internal Audit engagements may take the forms described below.

6.1 Financial Audits

Financial audits focus on the accuracy, completeness, and reliability of RECC's financial records and reporting. These engagements assess whether financial transactions are properly authorized, recorded, supported by appropriate documentation, and reported in accordance with applicable accounting standards, internal financial policies, and donor requirements. Financial audits also examine controls over budgeting, expenditure, cash management, and financial reporting processes.

6.2 Compliance Audits

Compliance audits assess adherence to RECC's internal policies and procedures, donor agreements, contractual obligations, and applicable laws and regulations. These engagements identify areas of non-compliance that may expose RECC to financial, legal, or reputational risk. Compliance audits may focus on specific functional areas such as procurement, human resources, financial management, or project implementation.

6.3 Operational and Performance Audits

Operational and performance audits evaluate the efficiency, effectiveness, and economy of RECC's operations and activities. These engagements assess whether processes are appropriately designed and implemented to achieve organizational objectives and whether resources are used optimally. Operational audits may also identify process weaknesses, inefficiencies, or opportunities for improvement.

6.4 Thematic and Safeguards-Related Audits

Thematic audits focus on specific areas of institutional importance or risk, including environmental and social safeguards, gender-related commitments, grievance redress mechanisms, and information systems. These engagements are conducted within the framework of compliance or operational audits and assess whether relevant policies, procedures, and controls are effectively implemented and documented. Internal Audit periodically reviews the effectiveness of the Environmental and Social Management System (ESMS), the implementation of the Gender Policy, and the proper functioning of the GRM to ensure compliance with organizational and donor requirements.

6.5 Procurement and Contract Audits

Procurement and contract audits assess compliance with RECC procurement rules, donor procurement requirements, and contractual obligations. These engagements review procurement planning, tendering processes, contract management, and payment controls to ensure transparency, fairness, and value for money.

6.6 Special Audits and Investigations

Special audits and investigations are conducted in response to suspected fraud, corruption, misuse of funds, serious misconduct, or significant breaches of policy. These engagements may be initiated based on management requests, whistleblower reports, or Board direction. Special audits are conducted with due regard for confidentiality, objectivity, and fairness, and findings are reported to appropriate oversight bodies in accordance with this Manual.

7 Governance And Oversight Arrangements

7.1 Role of the Board

The Board of RECC holds ultimate responsibility for the oversight of governance, internal control, and risk management arrangements. In relation to Internal Audit, the Board provides strategic direction and ensures that the Internal Audit function operates independently and effectively.

The Board's responsibilities include:

- approving the Annual Internal Audit Plan;
- reviewing significant audit findings and systemic issues;
- ensuring that management takes appropriate corrective action in response to audit recommendations;
- overseeing unresolved high-risk issues and ensuring timely escalation where necessary.

The Board relies on Internal Audit as a key source of independent assurance in discharging its fiduciary and oversight responsibilities.

7.2 Risk and Audit Committee

To support effective oversight, the Board establishes a **Risk and Audit Committee (RAC)**. The RAC acts as the primary interface between Internal Audit and the Board and provides focused oversight of audit and risk-related matters.

The RAC's responsibilities include:

- reviewing and recommending the Annual Internal Audit Plan to the Board;
- reviewing internal audit reports, including high-risk findings and management responses;
- monitoring the implementation status of audit recommendations;
- reviewing unresolved or recurring issues and determining whether escalation is required;
- safeguarding the independence, authority, and objectivity of the Internal Audit function.

The RAC comprises members with relevant professional expertise. The members are appointed by the Internal Auditor and Executive Director through relevant procedures. The committee reports its conclusions and recommendations to the Board.

7.3 Relationship with Financial Manager

While Internal Audit reports functionally to the Board through the RAC, effective cooperation with financial manager is essential for successful audit outcomes. Financial manager is expected to facilitate audit work, provide access to information, and engage constructively with audit findings and recommendations.

Internal Audit maintains a professional and independent relationship with financial manager and does not assume its management responsibilities.

8 Roles, Responsibilities, And Accountabilities

8.1 Internal Auditor

The Internal Auditor is responsible for planning, executing, and reporting on internal audit activities in accordance with this Manual. Key responsibilities include:

- developing and maintaining a risk-based Annual Internal Audit Plan;
- conducting audit engagements objectively and with due professional care;
- identifying and assessing risks and control weaknesses;
- issuing clear, evidence-based audit reports;
- monitoring implementation of agreed corrective actions;
- maintaining confidentiality and ethical conduct at all times.

The Internal Auditor may be an individual or an external firm contracted to provide internal audit services, provided independence and competence requirements are met.

8.2 Executive Director

The Executive Director is responsible for ensuring that the Internal Audit function is supported operationally and that audit recommendations are addressed appropriately.

The Executive Director:

- receives periodic updates from Internal Audit on audit activities;
- ensures financial management cooperation with audit engagements;
- facilitates implementation of corrective actions across the organization;
- escalates significant issues to the Board where required.

8.3 Management of Programmes and Projects

Management of Programmes and Projects at all levels is responsible for:

- identifying and managing risks within their areas of responsibility;
- designing and operating effective internal controls;
- responding to audit findings in a timely and constructive manner;
- implementing corrective actions within agreed timelines;
- providing evidence of implementation to Internal Audit.

Internal Audit does not relieve management of these responsibilities.

9 Risk-Based Internal Audit Planning

9.1 Audit Universe

Internal Audit maintains an Audit Universe that encompasses all auditable activities, processes, projects, systems, and organizational units within RECC. The Audit Universe is reviewed and updated periodically to reflect changes in operations, funding arrangements, and risk exposure.

9.2 Risk Assessment

Risk assessment is the foundation of audit planning. Internal Audit assesses risks based on:

- potential impact on RECC's objectives, finances, compliance, and reputation;
- likelihood of occurrence;
- adequacy and maturity of existing controls;
- results of previous audits and evaluations.

Risk assessments consider both internal and external factors, including donor requirements and regulatory expectations. As part of the risk assessment process, Internal Audit may apply structured assessment tools to support the identification and prioritization of audit risks. Such tools may include control environment assessment matrices used to evaluate the overall maturity and effectiveness of governance, risk management, and internal control arrangements. A standard template of the Control Environment Assessment Matrix is provided in Annex 8.

9.3 Annual Internal Audit Plan

Based on the risk assessment, Internal Audit prepares an Annual Internal Audit Plan outlining planned engagements, scope, timing, and resource requirements.

The Plan is submitted to the Risk and Audit Committee for review and recommendation and to the Board for approval. Changes to the Plan during the year require appropriate justification and approval.

A template of Annual Internal Audit Plan is provided in Annex 2.

10 Internal Audit Methodology And Engagement Lifecycle

10.1 Engagement Initiation and Notification

Each audit engagement begins with formal notification to relevant management staff. The notification outlines the audit objectives, scope, methodology, and indicative timeline. Early communication promotes transparency and cooperation.

Formal notification is issued using the standard template provided in Annex 3.

10.2 Planning and Scoping

During the planning phase, the Internal Auditor:

- gains an understanding of the audited area;
- identifies key risks and controls;
- defines audit objectives and scope;
- develops an audit program aligned with identified risks.

Planning ensures audit work is focused, efficient, and risk-based.

10.3 Fieldwork and Evidence Collection

Audit fieldwork involves collecting sufficient, relevant, and reliable evidence through:

- document review;
- interviews with staff;
- observation of processes;
- data analysis and testing.

Evidence is documented and retained in audit working papers to support findings and conclusions.

10.4 Evidence Standards and Professional Judgment

Audit conclusions are based on evidence rather than opinion. Professional judgment is applied in evaluating evidence, assessing control effectiveness, and determining the significance of findings.

10.5 Exit Meeting

At the conclusion of fieldwork, Internal Audit holds an exit meeting with the Executive Director to discuss preliminary findings, clarify factual matters, and ensure mutual understanding.

10.6 Draft Reporting

A draft audit report is issued to the Executive Director and financial manager for review. Financial manager and/or Executive Director is given the opportunity to comment on factual accuracy and to propose corrective actions and timelines. Following receipt and consideration of management

comments, Internal Audit finalizes the report in accordance with the reporting and disclosure arrangements set out in Section 12.

10.7 Audit Working Papers and Record Retention

Internal Audit maintains audit working papers to document planning, procedures performed, evidence obtained, and conclusions reached during each engagement. Working papers provide support for audit findings and demonstrate that audit work has been conducted in accordance with this Manual.

Audit working papers are retained in a secure manner and are accessible only to authorized personnel. Records are maintained for a period consistent with RECC's document retention requirements and applicable donor or legal obligations. Confidential information contained in working papers is protected from unauthorized disclosure.

10.8 Use of Professional Judgment and Sampling

Internal Audit applies professional judgment in planning and performing audit engagements, including determining the nature, timing, and extent of audit procedures. Professional judgment is exercised when assessing risk, evaluating evidence, and forming audit conclusions.

Where appropriate, Internal Audit uses sampling techniques to obtain reasonable assurance regarding the effectiveness of controls. Sampling approaches are selected based on audit objectives, risk assessment, and the characteristics of the population under review.

11 Management Interaction, Fairness, And Safeguards

11.1 Right of Response

The financial management and other relevant management staff as appropriate have the right to respond formally to all audit findings. Responses should indicate whether findings are accepted and outline planned corrective actions.

11.2 Disagreement Resolution

Where Executive Director, financial manager and other relevant management staff as appropriate disagrees with audit findings, the disagreement is documented in the final report. Internal Audit assesses management explanations objectively and escalates unresolved disagreements where appropriate.

11.3 Non-Punitive Approach

Internal Audit is not a disciplinary function. Its role is to identify risks and weaknesses and to support improvement. Disciplinary decisions, where applicable, are the responsibility of Programmes and Projects managers, Financial Manager, Executive Director and/or the Board.

11.4 Confidentiality and Professional Conduct

All audit work is conducted with strict confidentiality and respect for professional conduct standards.

12 Audit Reporting, Communication, And Disclosure

12.1 Audit Reporting Principles

Internal Audit reports shall be clear, factual, balanced, and evidence-based. Reports are intended to support informed decision-making by Executive Director and the Board and to promote accountability and improvement.

Audit reports focus on:

- identified risks and control weaknesses;
- root causes and systemic issues;
- practical, proportionate recommendations.

Reports avoid technical jargon where possible and clearly distinguish between facts, observations, and conclusions.

12.2 Structure and Content of Audit Reports

Audit reports typically include:

- background and audit objectives;
- scope and methodology;
- summary of key findings and risk ratings;
- detailed findings and recommendations;
- management responses and agreed corrective actions;
- timelines for implementation.

Audit reports are prepared using the standard structure provided in Annex 4.

12.3 Distribution of Audit Reports

Final audit reports are distributed to:

- the Board;
- the Risk and Audit Committee;
- Executive Director;
- Financial Manager;
- Management of Programmes and Projects.

Distribution is determined based on the significance and sensitivity of findings.

13 Follow-Up, Monitoring, And Escalation

13.1 Monitoring of Audit Recommendations

Internal Audit monitors the implementation of audit recommendations using the Audit Recommendation Tracking Matrix (ARTM) as set out in Annex 5. Financial management and other relevant management staff as appropriate responsible for providing evidence demonstrating implementation of agreed actions.

Internal Audit periodically reports on the status of recommendations to the Risk and Audit Committee and the Board.

13.2 Escalation of Unresolved Issues

Where audit recommendations are not implemented within agreed timelines, Internal Audit initiates escalation in accordance with the Escalation and Corrective Action Protocol template (Annex 6). Escalation is progressive and proportionate and aims to ensure timely resolution of issues while maintaining a constructive and non-punitive approach.

13.3 Repeated Minor Weaknesses

Repeated minor weaknesses may indicate systemic control deficiencies and, when observed, may be reclassified as higher-risk issues. Internal Audit highlights such patterns to Executive Director and/or the Board.

14 Ethics, Whistleblower Protection, And Non-Retaliation

14.1 Ethical Framework

RECC is committed to high standards of integrity, ethical conduct, and transparency. Internal Audit supports this commitment by assessing ethical controls and promoting accountability.

14.2 Whistleblower Protection

RECC encourages the reporting of suspected fraud, corruption, misconduct, or serious non-compliance in good faith. Individuals who report concerns are protected from retaliation. Whistleblower reports may be submitted through established grievance or reporting mechanisms. Internal Audit may assess the effectiveness of these mechanisms as part of its work.

14.3 Non-Retaliation

Any form of retaliation against individuals who raise concerns or cooperate with audit activities constitutes a serious violation of RECC policies and may result in disciplinary action. Declarations of interest and ethical compliance are maintained in the Register set out in Annex 7.

15 Investigations And Special Reviews

15.1 Authority to Investigate

Internal Audit has the authority to conduct investigations into suspected fraud, corruption, misuse of funds, mismanagement, or serious breaches of policy.

For the purposes of investigations, the Internal Auditor may:

- access all records, systems, and documentation;
- interview any staff members or relevant third parties;
- examine transactions and activities without prior notice where justified.

15.2 Suspension of Activities

Where serious irregularities are suspected, Internal Audit may recommend the temporary suspension of transactions or activities pending investigation. Decisions on suspension are taken by the Executive Director or, where appropriate, the Board.

15.3 Reporting of Investigations

Findings from investigations are reported to the Executive Director, the Risk and Audit Committee, and the Board as appropriate. Reports clearly distinguish between substantiated findings and allegations.

16 Quality Assurance And Continuous Improvement

16.1 Quality Assurance

Internal Audit operates in accordance with recognized professional standards and applies quality assurance procedures to ensure consistency, accuracy, and reliability of audit work.

16.2 Continuous Improvement

Internal Audit periodically reviews its methodologies, tools, and practices and incorporates lessons learned from completed engagements. Feedback from the Board, Executive Director and/or Financial Manager is considered in improving audit effectiveness.

16.3 External Quality Review

Where appropriate, RECC may commission an external quality assessment of the Internal Audit function to benchmark practices against recognized standards and good practice.

17 Effective Date, Review, And Amendments

This Internal Audit Policy and Procedures Manual enters into force upon approval by the Executive Director.

The Manual is reviewed at least once every three years, or earlier if significant changes occur in RECC's operations, governance arrangements, or risk profile.

Amendments to this Manual require approval by the Executive Direct



This document was reviewed, adopted, and approved on [date] by the REC Caucasus Executive Body (Collegial Trio) in accordance with the organization's internal governance procedures, and shall enter into force as of the date of approval.

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