



## **INTERNAL AUDIT GUIDELINES**

FOR COMPLIANCE WITH SIERRA LEONE PUBLIC FINANCIAL MANAGEMENT ACT  
& REGULATIONS(2016 & 2018)

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# **INTERNAL AUDIT GUIDELINES FOR COMPLIANCE WITH SIERRA LEONE PUBLIC FINANCIAL MANAGEMENT ACT AND REGULATIONS, 2016 AND 2018 RESPECTIVELY**

## **1. Introduction**

The purpose of this document is to provide internal auditors with guidelines for conducting their responsibilities in accordance with the provisions outlined in the Sierra Leone Public Financial Management (PFM) Act (Sections 10, 75 &76) and Regulations (Sections 143-152) of 2016 and 2018 respectively. These guidelines are designed to ensure that internal audit departments, divisions, or units operate effectively, adhere to internationally accepted standards, and contribute to the overall improvement of governance, risk management, and internal controls within public sector entities.

## **2. Internal Audit Department within the Ministry**

### 2.1 Composition and Responsibilities

- The Ministry shall establish an Internal Audit Department responsible for performing the internal audit function of the Ministry (PFM Act, Section 75-1).
- The Director of the Internal Audit Department in the Ministry of Finance shall ensure that internal audit departments, divisions, or units within the public sector entities comply with internationally accepted standards (PFM Act, Section 75-4).
- The Director of the Internal Audit Department in the Ministry of Finance may issue guidelines and instructions regarding the composition, appointment, functions, powers, and other relevant matters related to internal audit departments, divisions, or units (PFM Act, Section 10-2).

## **3. Internal Audit Functions**

### 3.1 Establishment of Internal Audit Department, Division, or Unit

- The Director of the Internal Audit Department in the Ministry of Finance may require budgetary agencies, subvented agencies, and other entities within the central government to establish or maintain an internal audit department, division, or unit (PFM Act, Section 75-1).
- The internal audit department, division, or unit shall perform various responsibilities, including (PFM Act, Section 75-2):
  - Ensuring adherence to control procedures and safeguarding of assets and records.
  - Monitoring the execution of the budget and reporting promptly on any irregularities.
  - Making periodic reports on completed audits.

- Reviewing the implementation of recommendations from both internal and external auditors.
- Reviewing external audit reports and management letters for entities included in the general government or public enterprises.
- Reviewing contracts for effective performance and value for money.
- Continuously reviewing the effectiveness and efficiency of internal control systems and procedures.
- Providing advice on internal controls.
- Reviewing operations to ensure consistency with objectives and goals.
- Performing other assigned functions by the head of the agency or entity.

### 3.2 Reporting and Compliance

- The internal audit department, division, or unit shall report to the Audit Committee of the agency or entity and the Director of Internal Audit, Ministry of Finance(PFM Act, Section 75-3).
- Direct matters related to the performance of the Vote Controller shall be reported to the head of the agency or entity.
- Internal audit departments, divisions, or units shall perform their responsibilities in accordance with internationally accepted standards(PFM Act, Section 75-4).

## 4. Internal Audit Regulations

### 4.1 Role and Responsibilities of Internal Audit Units

- Internal audit units shall examine accounting systems, internal controls, risk management, and governance processes of the entities(PFM Act, Section 75-2((g)& PFM Reg, Section 143-1, 143-8,147).
- Internal audit units shall operate in accordance with the Internal Audit Manual and other guidance provided by the Internal Audit Department of the Ministry (PFM Reg, Section 143& 144).
- Vote controllers are responsible for ensuring that the status and power of the internal audit function in each entity conform to the procedures established by the Internal Audit Department (PFM Reg, Section 143-3).
- The role of the internal audit function is to provide independent and objective assurance and consulting services, including compliance, safeguarding of assets, effectiveness and efficiency of operations, reliability and integrity of information, and risk management which are all designed to add value and improve an organisation's operations

## 4.2 System of Internal Control

- Vote controllers shall ensure the establishment of an effective system of internal control over financial and operational processes within the entity (PFM Reg, Section 147).
- The system of internal control shall include management policies, sound practices, authorization and recording of transactions, segregation of responsibilities, and procedures for reviewing adequacy and compliance(PFM Reg, Section 147,a-e).

## 4.3 Internal Audit Planning and Execution

- The Head of Internal Audit shall prepare a strategic internal audit plan and an annual internal audit plan in consultation with the Vote Controller and the Audit Committee(PFM Reg, Section 148).
- The plans shall specify the scope of each audit, operating procedures, quality assurance program and reporting requirements(PFM Reg, Section 148c).
- The internal audit plan should consider the risks and priorities of the entity, taking into account the financial and operational objectives, significant programs and activities, and emerging risks(PFM Reg, Section 148b).
- Internal audits shall be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (IPPF) issued by the Institute of Internal Auditors (IIA) (PFM Act, Section 75-4).
- The internal audit team shall perform audit procedures, including risk assessment, control testing, and substantive testing, to obtain sufficient and appropriate audit evidence.
- Audit findings and recommendations shall be documented in working papers, and the internal audit team shall prepare audit reports summarizing the results of the audit engagement.
- The internal audit team shall communicate the results of the audit to the auditee management and the Audit Committee in a timely manner(PFM Reg, Section 151-2).

## 4.4 Follow-up and Monitoring

- The internal audit department shall establish a process for monitoring the implementation of audit recommendations and management's actions to address identified weaknesses(PFM Act, Section 75-2d).
- Follow-up reviews shall be conducted to assess the status of the implementation of audit recommendations and to provide reasonable assurance on the effectiveness of management actions(PFM Act, Section 75-2d,143-9, Reg 151-4).

- Internal auditors should typically use **a software program, spreadsheet, or system** established by the Director of Internal Audit **to track** whether management action plans are implemented according to the established timelines (PFM Act, Section 75-3, Reg 151-2).

The results of follow-up reviews shall be reported to the auditee management and the Audit Committee of the entity and copies extended to the Director of Internal Audit.

#### 4.5 Professional Development and Quality Assurance

- Internal auditors shall maintain their professional competence by participating in ongoing professional development activities and keeping up-to-date with developments in the field of internal auditing.
- The internal audit department shall establish a quality assurance and improvement program to evaluate the effectiveness and efficiency of the internal audit function.
- The quality assurance program shall include periodic internal and external assessments of the internal audit department's conformance with the IPPF and the quality of its work (PFM Reg, Section 148e).

### 5. Audit Committees (PFM Act, Section 75-1, Reg 152) :

**5.1** Audit Committees shall be established in every budgetary and subvented agency. They shall report to the head of the agency and consist of members fulfilling specific criteria, including representatives from the agency, independent members, and members with expertise in finance, audit, or risk management.

**5.2** The Audit Committee shall perform its functions as outlined in the Audit Committee Charter, including reviewing the work of internal auditors, external auditors, and ensuring that appropriate actions are taken to address identified control weaknesses, fraud, or irregularities.

**5.3** Audit Committees shall ensure that internal auditors have unrestricted access to all relevant records, documents, and information necessary to carry out their audit procedures.

**5.4** The Government Audit Committee (GAC) is a committee established within the Ministry, reporting to the Minister. It comprises up to five members who are neither politicians nor civil servants and are appointed by the Minister. The Internal Audit Department in the Ministry serves as the Secretariat for the GAC.

The Government Audit Committee (GAC) has the following key functions:

1. Implement recommendations not addressed by lower-level Audit Committees.
2. Follow up on outstanding recommendations from the Auditor-General, Public Accounts Committee, and internal audits.

3. Address unresolved issues identified in audit reports and financial matters within budgetary or subvented agencies.
4. Ensure adequate resources for Audit Committees.
5. Prepare an annual report on the implementation status of outstanding recommendations from various audit reports.
6. Oversee compliance with financial reporting standards, ethics, and whistle-blowing activities by lower-level Audit Committees.
7. Review and provide recommendations on the strategic and Annual Work Plan of the Ministry's Internal Audit Department.

The GAC's role is to enhance accountability, governance, and the effective implementation of audit recommendations at a higher level across public sector entities.

## **6. Penalties under the Finance Act 2022, 2016**

Penalties for non-compliance with internal and external audit recommendations, as well as failure to grant access to internal auditors, are outlined in the Finance Act 2022. As an internal auditor, it is important to be aware of these penalties to ensure the effective enforcement of audit processes. The following penalties apply to vote controllers or responsible persons within various entities:

### **6.1 Failure to Implement or Respond to Audit Recommendations:**

- Applies to budgetary agencies, sub-vented agencies, central government entities, local councils, social security funds, and public enterprises.
- If a vote controller or responsible person fails to implement or respond to internal and external audit recommendations within thirty working days of the report's issuance:
  - Remuneration, fees, and allowances of the individual may be withheld.
  - Withholding requires authorization from the minister responsible for the entity.
  - Penalties remain in effect until the Vote Controller or responsible person complies with the recommendations.

In simplicity, if the recommendations in the final audit report are not implemented within 30 days from the final report issuance date, then the penalties apply. Note again, this is not during the audit and has nothing to do with responding to audit queries.

### **6.2 Failure to Grant Unrestricted Access to Internal Auditors:**

#### **6.2.1 Applicable to vote controllers or responsible persons.**

6.2.1.1 If a person fails to grant internal auditors unrestricted access to records, physical properties, or hinders the performance of audit assignments:

- Remuneration, fees, and allowances of the individual may be withheld.
- Withholding requires authorization from the minister responsible for the entity.
- Penalties cease once the Vote controller or responsible person complies with the request of the Internal Audit personnel.

### 6.3 Failure to Respond to Internal Audit Queries or Observations:

#### 6.3.1 Applies to any person subject to internal audit.

If an individual fails to respond to queries or observations raised by the Internal Audit department within 10 working days after the draft has been issued:

- Remuneration, fees, and allowances may be withheld.
- Withholding requires authorization from the Director of Internal Audit.
- Penalties are lifted once the individual responds to the Internal Audit's query or observation.

Remember, as an internal auditor, maintaining the integrity of the audit process and promoting adherence to recommendations is essential for ensuring transparency and accountability within the organization or entity you serve.

## 7. Conclusion

These guidelines provide internal auditors with a framework for conducting their responsibilities in compliance with the Sierra Leone Public Financial Management Act of 2016 and the Regulations of 2018. By following these guidelines and adhering to internationally accepted standards, internal auditors can contribute to the improvement of governance, risk management, and internal controls within public sector entities. It is important for internal auditors to stay updated with any amendments or revisions to the PFM Act and to seek guidance from the Internal Audit Department when necessary.