

**Ministry of Finance
Internal Audit Department**

**Good Practice Guide:
Internal Audit Customer Handbook**

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The guide has been developed by the Internal Audit Directorate MOFED. Suggestions for improvements to the guide are very welcome and should be addressed to Director, IAD MOFED.

1. Introduction

Purpose and intended audience

1.1 Many customers / clients of the internal audit service within MDAs/Local Councils are not aware of the role and responsibilities of modern internal auditing – this is a problem at all grade levels. This handbook is designed for all customers of internal audit within MDAs and Local Councils, to help promote a better understanding of internal auditing and to ensure the effective delivery of internal audit services. Key customers are typically:

- Vote Controllers;
- Boards/Ministers;
- Audit Committees; and
- other senior management directly involved in the areas subject to internal audit review, and any recommendations thereon.

Focus on high performance

1.2 The focus of this handbook is on the customer's role in recognising and developing internal audit into a high performing service which adds value to the MDA or Local Council. The handbook first establishes the basics of an internal audit service and then describes how to identify and drive high performance.

1.3 A strong understanding by management of internal audit can help provide both an effective and efficient service which:

- meets quality standards and performance targets and seeks continuous improvement in its services;
- focuses on the areas of greatest importance to the MDA/Local Council;
- minimises duplication with other sources of assurance and makes the best use of resources available; and
- can act as both a trusted advisor and a critical friend, helping improve public service delivery.

2. Internal audit – the basics

WHAT DOES INTERNAL AUDIT DO?

2.1 Sierra Leone Public Sector Internal Audit Standards define Internal Auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

2.2 The internal audit function within MDAs and local Councils is increasingly focused on evaluating the management of key risks to and the continuous improvement to the delivery of effective public services and its service should be a key source of **independent insight and assurance** for Vote Controllers, Directors, Audit Committees, boards and Ministers.

2.3 The work undertaken by internal audit culminates in the provision of internal audit opinion based on an **objective assessment** of the framework of governance, risk management and control. The results of internal audit’s work should help improve management’s ability to achieve the organisation’s public service delivery objectives, by improving the effectiveness of risk management, control and governance.

2.4 Each year the Director Internal audit MOFED prepares an annual internal audit report. The annual report may incorporate:

- the annual internal audit opinion on governance, internal control and the management of risks;
- a summary of the work that supports the opinions contained in the report;
- a statement on conformance with the Sierra Leone Public Sector Internal Audit Standards; and
- the actions and the results relevant quality assurance and improvement programme.

2.5 The purpose, authority and responsibility of the internal audit service within MDAs/Local Councils should be defined formally in an internal audit charter. The charter should be periodically reviewed and presented to Vote Controllers, Audit Committees and boards for approval.

The internal audit function – composition and reporting lines

2.6 The overall delivery of the internal audit service within GoSL is the responsibility of the Director Internal Audit MOFED, who may be supported by designated Heads of Internal Audit Unit (HIAU) within MDAs/Local councils.

2.7 The HIAU should report functionally to the Audit Committee and administratively to the Vote Controller for the delivery of the agreed internal audit plan (see below). The HIAU should periodically be invited to attend board meetings, particularly where discussion relates to governance, risk management or control.

2.8 Each internal auditor should be or be training towards a qualification as an internal auditor or an accountant. Exceptions to this may include seconded persons or certain subject matter experts, who may bring an alternative set of skills and experience.

The annual internal audit plan

2.9 The internal audit service should be delivered in accordance with a risk-based internal audit plan which has been agreed with Vote Controller, Audit Committee, boards and relevant senior management. Prior to clearance submission for this agreement a draft format of the internal audit plan should be submitted to the Director Internal Audit to ensure consistency and to confirm that the Sierra Leone Public Sector Internal Audit Standards have been followed in developing the plan. The plan should determine the priorities of the internal audit service, consistent with the MDA/Local Council goals. It should therefore demonstrate the extent of its alignment with the organisation's objectives and strategic/annual operating plans and set out the audits to be conducted and the planned timescales, and should differentiate between assurance, consulting and if undertaken any other non-audit work.

Overview of an individual internal audit

Engagement planning

2.10 Each engagement should be specifically planned in order that the auditors obtain an adequate understanding of the audit area and can determine an appropriate scope and approach for the engagement. The output of this exercise should be a formal term of reference agreed with the senior manager responsible for the area to be reviewed – the terms of reference should include the audit's objectives, scope, timing and resource allocations.

2.11 Where the approach to risk management is relatively mature, internal audit should use the risks and controls identified as the basis (but not sole focus) for the detailed audit work undertaken. Where the approach to risk management is immature or there is deemed to be some degree of deficiency in the approach, then internal audit should seek to understand and identify the key risks and controls pertaining to the audit area as part of the audit planning and fieldwork.

Fieldwork

2.12 The audit work should comprise assessment and testing of key controls in place to manage the identified risks, or within core systems. This would typically be undertaken through discussion with key staff responsible for the relevant processes; review of documentation; and testing of controls (which may be on a sample basis) to confirm that they are both designed and operating effectively. Such controls may be financial, operational or compliance in nature and might range from the segregation of incompatible duties, to the analysis of business cases before strategic plans are implemented, to embedding appropriate cultural attitudes.

Reporting

2.13 Each internal audit assignment should culminate in a conclusion/opinion on the adequacy and effectiveness of the framework of risk management control and governance. These conclusions, and corresponding recommendations for potential improvements in processes and controls, should be documented in a specific internal audit report. This report, which should include the actions agreed with management to address the internal audit findings, should be agreed with the local management contacts for the area being reviewed, before being finalised with senior management responsible for the area audited.

Follow-up of internal audit actions

2.14 Following the identification of actions to improve the MDA/Local Council's framework of governance, risk management and control, internal audit also has a role to play in helping ensure that actions are taken to implement recommendations. The HIAU must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

3. DRIVING HIGH PERFORMANCE

Meets quality standards and performance targets and seeks continuous improvement

A high performing internal audit service...

- conforms to the Sierra Leone Public Sector Internal Audit Standards (PSIAS);
- has a clear methodology for its work which supports PSIAS;
- collects performance measurement data for use in:
 - improving its efficiency;
 - measuring its impact on the organisation; and
 - is benchmarked against other MDA/Local Council internal audit services;
- has a quality assurance and improvement programme in place that covers all aspects of the internal audit activity; and
- receives an internal quality review of the service, undertaken by IAD, at least every three years, and results communicated to the Vote Controller, the Audit Committee and the board/Minister.

Key challenges

- how effective is internal audit's methodology? Does it lead to robust evidence-based conclusions, and promotion of good practice within the MDA/Local Council?
- how does the internal audit service perform against the standard Performance Measures set out by Internal Audit Directorate and any other measures agreed with the Vote Controller and or the board/Audit Committee? Where targets are not met are actions in place to improve performance and implementation monitored?

- how does internal audit ensure quality and continuous improvement is built into all of its work?
- what are the results of the most recent internal Quality Assurance Review and how are internal audit responding to the findings?
- Are audit customers / clients satisfied with the work of internal audit in MDAs and Local Councils

Focus on the areas of greatest importance

A high performing internal audit service...

- focuses their work on where independent assurance is most needed; and
- applies a risk-based approach to setting their internal audit plan, but also ensures sufficient coverage is provided of core systems and there is flexibility to meet key emerging issues.

Key challenges

- have key stakeholders been involved in the creation of the annual internal audit plan to ensure it meets their needs?
- to what extent is the internal audit plan risk-based and how has it taken account of the risk maturity of the organisation?
- does the plan also include sufficient coverage of core systems?
- overall, how effectively will the plan enable an annual opinion on the framework of governance, risk management and control to be provided?

Minimises duplication and makes best use of resources

A high performing internal audit service...

- avoids duplication of effort with other assurance providers; and
- ensures the best value is received from the resources available.

Key challenges

- have the Audit Committee/board determined and articulated their Assurance Framework, which identifies the various sources of assurance received by the organisation?
- how has the internal audit plan taken into account the assurance provided by other sources, for example, information assurance; health and safety, to avoid duplication?

NB – Whilst the scope of Auditor General’s financial audit work or value for money reviews may also be relevant, the Auditor General is external to the organisation with a statutory responsibility to report to Parliament rather than the MDA/Council.

- does the internal audit plan set out the engagements to be conducted; their respective priorities and timescales; the estimated resources needed and how the requirements have been assessed?
- has the capability of the existing resources been appraised to ensure the correct skills and experience are available to deliver the internal audit plan?
- how well does the internal audit service develop their people to attract and nurture talent to maximise their effectiveness and the value they can add?
- where external resources are used, has the provision been sufficiently appraised to ensure they are only used to provide specific needs that cannot be provided from within the Director Internal Audit MOFED’s internal audit service as a whole?

Acts as a trusted advisor and a critical friend, improving public service delivery

A high performing internal audit service...

- understands and keeps abreast of the increasing complexity of the relevant area of public service delivery;
- is respected, taken seriously and has strong relationships with key stakeholders within the MDA/Local Council, built on credibility, strong communication skills and relevant experience;
- provides advice and recommendations at all stages of the MDA/ Local Council business, driving and influencing decision making, not just providing retrospective assurance;

- ensures its independence and has procedures in place to manage any potential conflicts of interest;
- provides relevant, effective, evidence-based and pragmatic advice and recommendations and robust conclusions, drawing on experience of best practice to help improve public service delivery; and
- ensures that recommendations, which address their findings, are implemented in line with agreed timescales.

Key challenges

- how visible and valuable is the service provided by internal audit and how is this assessed? Are there specific areas for improvement identified by key customers? If so, are these being addressed to improve the value of the service provided?
- does senior management trust, respect and actively seek the counsel of internal audit?
- are there appropriate mechanisms in place for internal audit to keep abreast of the MDA/Local Council's strategic objectives and performance thereon, in order to effectively contextualise their findings?
- is internal audit involved in and able to contribute to, challenge and influence senior management strategic decision-making from a governance, risk and control point of view?
- is internal audit's work focused on more than simply retrospective assurance? For example, are internal audit engaged in reviews that provide assurance/advice as significant projects/programmes progress, or on emerging risks/issues, rather than solely ex-post?
- are the internal audit team able to challenge the current practice sufficiently and draw on experience of best practice to communicate the results of their work and effectively and credibly improve the framework of governance, risk management and control?
- is the Director Internal Audit MOFED/HIAU able to promote the work of internal audit effectively?
- how does internal audit ensure its independence and manage any potential conflicts of interest?

- how timely, clear and useful are internal audit's reports? Do they provide relevant, effective, evidence-based and pragmatic advice and recommendations?
- how effectively does internal audit ensure recommendations are implemented in line with agreed timescales?