

MINISTRY OF FINANCE
GOVERNMENT OF SIERRA LEONE

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GOOD PRACTICE GUIDE
'ON HOW TO GET ACTION
ON AUDIT
RECOMMENDATIONS'

LINPICO

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MDAs- Ministries, Departments and Agencies

NSAs- Non State Actors

PFM- Public Financial Management

ASSL- Audit Service Sierra Leone

IAD- Internal Audit Department

ISA- International Standards of Auditing

IT- Information Technology

IIA- Institute of Internal Audit Standard

Chapter 1

1. Introduction

The purpose of this document is to assist users in the implementation and follow-up of recommendations made by auditors and others and to help in obtaining better results from their audit work.

The role of audit in the public sector is to support those with responsibility for governance in their oversight, foresight and insight role. A well-functioning audit institution is better placed to confirm that controls are operating effectively and as intended by the management of the organisation and suggest ways in which MDAs can operate better. They do this by producing reports on all audit engagements. However, their relevance can only be felt if the recommendations made in their reports are followed up upon until they are implemented otherwise the benefits associated with the work of auditors will be lost.

1.0 Overview of the regulatory provisions on implementation of audit recommendations

1.0.1 Legal requirements (Local laws and Professional standards)

The PFM Act 2016 sets out the internal audit regime for Sierra Leone. Section 75 (2d) mandates Internal Audit to review progress in the implementation of the Auditor General's recommendations. This section states:

The internal audit department, division or unit of a budgetary agency or other entity established shall review implementation of the Auditor General's or other external auditor's recommendation.

The Institute of Internal Auditor (IIA) standards also recognises the importance of follow-up to ensuring management actions effectively ease the risk identified. However, the standards are not clear as to how it should be done because of the fact that each organisation is different¹.

The standards further require that when conducting follow-up of an audit report, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow-up and adopt an unbiased and independent approach.

Follow-up enables auditors to assess the adequacy, effectiveness and timeliness of actions taken by those charged with governance on observations and recommendations. This applies to agreed actions from both consulting and assurance engagements ²

However, a lot of factors may impede the implementation of recommendations proffered in audit reports. This guide suggests good practice for use by auditors, vote controllers and others as appropriate, on how to get actions on audit recommendations.

¹ Standard 2500 – Monitoring Progress- Revised Standards, Effective 1 January 2017

² International Professional Practices Framework (IPPF), Excerpt from Practice Advisory 2500.A1-1

Chapter 2

2. Ingredients of a good audit outcome

2.1 Conduct quality audits

The audit cycle typically involves several distinct phases. It includes:

- Scope identification,
- Audit methodology,
- Risk analysis,
- Field work,
- The review meeting stage and
- The reporting stages.

However, the more usual audit cycle refers to four phases

- Planning
- Field work
- Reporting and
- Follow-up

All types of audits be it financial, compliance, IT and performance audits follow these stages. Performing quality audits means following to the latter these distinct phases. In every assurance engagement it is necessary to ensure that:

- a) Clear audit objective (s) are established at the planning stage of any audit assignment
- b) Auditors are trained on good report writing skills
- c) Sufficient motivated staff resources are provided
- d) A well constituted quality assurance unit should be established to ensure that field auditors follow the standard operating procedures and in addition ensure that observations are properly documented, investigated and concluded.
- e) Healthy communication within and between audit teams and MDAs should be instituted to ensure better understanding of the business processes, system boundaries and issues during the course of the audit.
- f) The audit team should be selected to include members possessing the necessary skills and experience for the audit.

Audit organizations should provide the environment and the structures that reinforces adherence to systems and processes thereby ensuring positive audit outcomes.

2.2 Cooperation between Internal and External Audit

Internal and External audit are separate and distinct institutions with different mandates. Fundamentally, internal audit is part of the system of internal control of the entity in which it resides; external audit is not. Cooperation between internal and external audit is crucial for effective audit work where the former may – subject to review – rely on the work of the latter.

ISA 610 sets out how the knowledge and experience of the functions of internal audit influences the understanding of the external auditor. The auditing standards for both external and internal audit necessitates effective coordination and the sharing of information.

How to Get Action on Audit Recommendations'?

Interaction and cooperation between the external and internal auditor is expected to help those charged with governance to obtain a wide-ranging view of the operations and risk at the same time eradicating areas of potential duplication of audit coverage and reporting. Good communication between them should also be useful to accounting officers as both audit engagements and the ensuing recommendations geared towards the improvement of risk management and internal control will be coordinated better.

Notwithstanding the fact that the activities of these two institutions have different objectives, there may be some potential areas of overlap for example in the area of financial reporting. External audit may provide “management letter points” related to weaknesses in internal controls observed during their audit engagement. These management letter points should be considered by internal audit when planning their audits. In addition, internal audit may initiate separate follow-up activities to ascertain the effectiveness of management’s corrective actions. In fact, as stated in the preceding paragraph, the PFM gives IAD the mandate to review the implementation of external audit recommendations. Similarly, external auditors should consider the findings of internal audit as an input into their own work.

Coordination during the audit planning process by both institutions should be enhanced. In addition, IAD and ASSL should create the enabling environment for the senior and middle level managers to meet and discuss issues of concern and jointly find a way forward. As is the case now the final management letters of the external auditors are made available to the internal auditor. In addition, the entire report of the internal auditor should be available to the external auditor.

2.3 Quality Recommendations and Reporting

Making quality recommendations greatly increases the likelihood that they will be appropriately implemented.

The fundamental to effective audit work are recommendations that, when adequately implemented, accomplish a defined result. Therefore, they must be:

- clear-as to the deficiency as well as its cause,
- Convincing as to the corrective recommendation; and
- within the control of the management of the institution to implement.

The recommendations should be continually re-evaluated as follow-up actions progresses.

The achievement of audit objectives depends on the quality of the recommendation that are made. A recommendation that is not convincing will not be implemented. A recommendation that does not correct the basic cause of a deficiency may not achieve the intended result.

A number of audit recommendations tackle a range of complex issues, which require extensive consultations and negotiations coupled with approvals that involves different stakeholders. For example, the recruitment of additional personnel in the public sector requires a lot of negotiations, authorisations and approvals from various institutions such as the Human Resource Management, the Ministry of Finance, the Public Service Commission and the requesting MDA. This process can be time-consuming given the level of consultations that are required amongst these institutions. All of these issues have to be taken into consideration when making recommendations.

How to Get Action on Audit Recommendations?

The reader of the report should have no doubt that a recommendation has been made. Recommendations should be clearly labelled as such, not hidden, buried or concealed by text. They should be readily identifiable and stand out in the report.

Recommendations should identify the underlying causes of the identified deficiency. For example, audit work may disclose that the policy of the MDA is being overridden. However, if the policy includes requirements that cannot be practically met, a recommendation to comply with it will not be effective. A better recommendation would be to simplify the policies so that its requirements would be less cumbersome and costly to administer while still accomplishing its objectives³.

A decision on a recommendation is influenced by the significance of the deficiency it is intended to correct. The finding and the recommendation must clearly demonstrate that acting on the recommendation will improve operations, safeguard assets, or bring the situation in compliance with laws and regulations

2.4 Recommendations should be properly directed

Recommendations should be directed to the responsible officers who have the authority to resolve the deficiency identified. Auditors must be clear about who is responsible. For example, “We recommend that the Procurement Officer should.....”. The purpose of this is to ensure that the responsibility for the implementation of the recommendation is directed to the correct officer.

The recommendation should also identify the system or class of account that is affected by the break in internal control. For example, “It is recommended that regular reconciliation is carried out between the revenue assessed and revenue collected by the Reconciliation Officer”.

Recommendations should state as specifically as possible just what action should be taken. Audit recommendations do not tell how to develop a system, but they should be specific about the system that needs improvement and the objectives that should be achieved by the change.

2.5 Prioritize Audit Recommendations

All recommendations require follow-up. However, some dealing, for example with fraud and similarly serious matters should be prioritised.

Auditors should follow-up to ensure that key recommendations are implemented in a timely manner. They may also seek support from other oversight MDAs and NSAs to aid in the implementation of recommendations especially those that deal with areas of high risk.

2.6 Communicate Effectively

The auditor should endeavour to communicate reportable issues and management responses to all stakeholders and especially those responsible for managing the associated risk and internal controls. In our setting for example, assessment of revenue to be collected is done by the MDA generating the revenue whilst another MDA collects such revenue. Therefore, observations bordering on general ledger accounts reconciliations should be communicated to both MDAs separately. This approach will enable the auditor to pin-point responsibility in cases where such observations have either not been responded to and/or implemented. This approach will also encourage managements of both entities to meet and reconcile and correct the control failure.

³ How to get action on Audit Recommendations- United States General Accounting Office (GAO) July 1991

2.7 Examine Management Responses

Auditors should evaluate management responses to audit queries and/or management letters. Response such as “Noted” or “The necessary action will be taken” is not a good management response. Such responses do not state what has been or will be done, who will be responsible and when it will be implemented. Such responses demonstrate no commitment. As part of their responses auditors should request an action plan and time line that addresses the agreed recommendations. This shows that management is committed to the implementation of the recommendations.

The examination of management responses can also help the auditor develop audit procedures and criteria against which to measure the satisfactory implementation of recommendations. For this reason, auditors should avoid accepting vague management responses such as that stated in the preceding paragraph or such as "We will review the current procedures for ways to improve". Examining the responses of auditees will enable auditors to assess definitive actions and results during follow-up.

2.8 Exit and/or Closeout Meetings

The close out or exit-meeting is normally attended by line managers who often interact with auditors during audit engagements. This might be the appropriate time for senior executives to review and understand audit outcomes. It will also allow all sides to understand the issues more deeply, clear up any ambiguities and finalize the audit engagement. This meeting should be used by the auditor and the auditee to summarize the audit results, agree on the recommendations and outline the follow-up testing procedures and process. In addition, management will gain an understanding of the follow-up procedures to be used and criteria against which the auditor will measure progress made by the MDA management in the implementation of the agreed recommendations.

Chapter 3

3. Responsibilities of other accountability Institutions

3.1 Commitment of established accountability institutions

Auditors, MDAs and other accountability institutions such as the judiciary, parliament and the ministry of finance should be committed to identifying and bringing about needed change. The commitment of these institutions should be personal and professional.

One way of showing commitment is for the Ministry of Finance being the supervisory ministry to strengthen audit committees across MDAs by providing a budget line for their functions and meetings. This will enable the ministry to take administrative actions if vote controllers and Audit Committees fail to hold to account those who defaults in implementing audit recommendations.

The responsibility of the management of MDAs for implementing audit recommendations arises from section 13 of the PFM Act, 2016 which sets down the requirements for effective internal control systems. Managements of MDAs should demonstrate this commitment by ensuring that auditors have unhindered access to information, support the formation and functioning of a well constituted audit committee and the work of internal audit.

Chapter 4

4. Follow-up and monitoring an important element

4.1 Insistent Monitoring and Follow-ups

Acceptance of a recommendation does not ensure the intended results; effective implementation does. Continued attention is required until results are achieved. More specifically, all audit findings and recommendations in the public sector should be followed up within at least two years' time otherwise all the dramatic efforts carried out during the audit process would eventually end up with ineffective and futile consequences for the entire public management framework.

Audit institutions should have a system that provides the structure and discipline needed to promote action on audit recommendations. Furthermore, a strong, effective and well-resourced audit committee needs to be established across MDAs. It should ensure that recommendations are continuously and persistently pursued until they are implemented. In addition, these institutions should assess whether the MDAs they audit have a follow-up system in place that adequately aligns with and meets their basic responsibility for the implementation of audit recommendations. For instance, all vote controllers should endeavour to maintain an audit file within their respective MDAs. This I believe should be the starting point.

In addition, even before recommendations are made, they must be agreed with the management of the MDA preferably at the exit conference. Furthermore, a timetable has to be agreed with management and also assign responsibilities to specific MDA officials for action. However, following the set guidelines for the implementation of audit recommendations, may not guarantee action for a variety of reasons. Therefore, the status on the implementation of recommendation must be monitored actively.

Monitoring and following up on the status of audit recommendations may involve

- i. ascertaining progress made to date following the submission of the final audit report;
- ii. identifying bottlenecks and/or delays in the implementation of the recommendations;
and
- iii. taking the required actions to get implementation when minimal progress is observed.

In instances where, during monitoring and follow-up, the auditor observes that time and circumstances have rendered the recommendation invalid or when the auditor receives additional information indicating that the recommendation has become irrelevant then such recommendation should be closed. Auditors and vote controllers should also jointly reassess strategies to get positive action on those recommendations.

Chapter 5

5.1 Conclusions

Recommendations are the vehicles by which audit can truly add value. But it is the action on recommendations – not the recommendations themselves - that help a government work better at less cost. Effective follow-up is essential to get the full benefits of audit work.

Vote Controllers are ultimately responsible and accountable for resolving and implementing recommendations, ideally promptly and effectively. At the same time auditors have a duty to follow-up to see that action is taken and intended results realised.

In recent years the extremely poor implementation rate to recommendations made by the Auditor General and the IAD has raised concerns not only by the Auditor General and IAD but it has also been raised by stakeholders, including development partners and the media.

It is hoped that this will go a long way to reduce the incidence of non-implementation of recommendations.

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