PERFORMANCE AUDIT REPORT

EFFECTIVENESS OF INTERNAL AUDIT FUNCTION AND AUDIT COMMITTEES IN MINISTRIES AND GOVERNMENT DEPARTMENTS

Ministry of Finance and Economic Development
Ministry of Justice, Human Rights and Institutional Reforms

February 2019
PERFORMANCE AUDIT REPORT

EFFECTIVENESS OF INTERNAL AUDIT FUNCTION AND AUDIT COMMITTEES IN MINISTRIES AND GOVERNMENT DEPARTMENTS

Ministry of Finance and Economic Development
Ministry of Justice, Human Rights
and Institutional Reforms
# CONTENTS

## EXECUTIVE SUMMARY

Page 1

## CHAPTER ONE – INTRODUCTION

1.1 Background 7
1.2 Motivation 7
1.3 Audit Objective 7
1.4 Audit Design 8
1.5 Audit Scope 8
1.6 Audit Methodology 8
1.7 Methods of Data Collection 8
1.8 Assessment Criteria 9
1.9 Data Validation Process 10

## CHAPTER TWO – DESCRIPTION OF THE AUDIT AREA

2.1 Introduction 11
2.2 Internal Control Cadre 11
2.3 Regulatory Framework of the Internal Control Cadre 11
2.4 Organisation Set Up 12
2.5 Overview of the Internal Audit Process 13
2.6 Office of Public Sector Governance 14
2.7 Audit Committee 14
2.8 Mandate and Charter of the Audit Committee 15

## CHAPTER THREE – FINDINGS

3.1 General 17
3.2 Internal Audit Charter 17
3.3 Audit Coverage 17
3.4 Audit Planning 19
3.5 Types of Audit 20
3.6 Annual Report submitted to Financial Secretary 20
3.7 Audit Reports to Management 21
3.8 Implementation of Recommendations 21
3.9 IT Tools for Internal Auditing 22
3.10 Quality Assurance 23
3.11 Training for Internal Auditors 23
3.12 Audit Committee Charter 24

Continued
CONTENTS (Continued)

3.13 Composition and Quality of Audit Committee 24
3.14 Training for Committee Members 28
3.15 Responsibilities on Governance Areas 29
3.16 Audit Committee Activities 29
3.17 Evaluation of Audit Committee’s Performance 30

CHAPTER FOUR – CONCLUSION 33

CHAPTER FIVE – RECOMMENDATIONS
5.1 Recommendations to Enhance the Effectiveness of ICC 35
5.2 Audit Committee 36

TABLES

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
</tbody>
</table>

FIGURES

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
</tbody>
</table>
# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>Audit Committee</td>
</tr>
<tr>
<td>AO</td>
<td>Accounting Officer</td>
</tr>
<tr>
<td>DIC</td>
<td>Director Internal Control</td>
</tr>
<tr>
<td>FM Kit</td>
<td>Financial Management Kit</td>
</tr>
<tr>
<td>HoA</td>
<td>Head of Audit</td>
</tr>
<tr>
<td>IA</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>IAPOM</td>
<td>Internal Audit Policy and Operations Manual</td>
</tr>
<tr>
<td>IASOPM</td>
<td>Internal Audit Standards Operating Procedures Manual</td>
</tr>
<tr>
<td>ICC</td>
<td>Internal Control Cadre</td>
</tr>
<tr>
<td>ICO</td>
<td>Internal Control Officer</td>
</tr>
<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
</tr>
<tr>
<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
</tr>
<tr>
<td>NAO</td>
<td>National Audit Office</td>
</tr>
<tr>
<td>OPSG</td>
<td>Office of Public Sector Governance</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

An effective Internal Audit function is a key component of good governance. According to the Institute of Internal Auditors (IIA), the Internal Audit function must evaluate and contribute to the improvement of an entity’s governance process and risk management using a systematic and disciplined approach. Effective Internal Auditing of Ministries/Government Departments provides the assurance that public funds are not misused and/or mismanaged. The Internal Audit function in Government is carried out by the Internal Control Cadre (ICC) of the Ministry of Finance and Economic Development (MoFED). The Internal Control Unit, comprising the Internal Audit (IA) team, operates as an independent unit, reporting directly to the Accounting Officer (AO) of each Ministry and Government Department.

Audit Committees (ACs) play an important role in the governance framework of public sector organisations. They provide an independent source of assurance and advice to those charged with governance in Ministries/Departments on key aspects of their operations. The Office of Public Sector Governance (OPSG) has helped to establish ACs in Ministries and Government Departments since 2013. It is mandated to, among others, establish, review and monitor the effectiveness of these ACs.

This audit assessed whether the activities of ICC were effective in providing the right level of audit assurance in Ministries/Departments and whether the OPSG has been successful in establishing, reviewing and monitoring the ACs.

Key Findings

(i) Internal Audit

(a) The Internal Audit Charter defines the roles and responsibilities of Internal Auditors and management. It ensures commitment to the important exercise of Internal Auditing. The Charter was not signed with every AO. At MoFED, the Charter was signed with the Ministry’s AO, but not with the Heads of those Departments that fall under the aegis of MoFED. These heads are also the AOs of their respective Departments.

(b) Ministries were not regularly audited by ICC. This was attributed to unavailability of sufficient staff. In 2016-17, five Ministries, with budgetary allocations of some Rs 3.7 billion, were not audited. Limited resources available were, however, allocated to special assignments at certain Statutory Bodies. Most of these Ministries were still not covered in 2017-18, even though additional staff members were available with new recruitments as from July 2017.

(c) Audit Plans of selected Ministries/Departments indicated that most of the audit were on support functions, such as Transport, Warehousing and Human Resource, instead of on the core functions of the auditees. ICC did not make any provision in Audit Plans of Ministries/Departments for the audit of governance structure and risk management system.
(d) Audit results were communicated through Management Letters and Annual Internal Audit Reports that were signed and issued by the Heads of the Audit teams posted at the Ministries/Departments, instead of management of ICC. Most reports were not reviewed by the top management of ICC. ICC’s management did not take ownership of the audit reports issued.

(e) Since 2010, the ICC is equipped with important IT software to manage, carry out and document its audit activities, and to perform data analytics. These cost the organisation some Rs 2.1 million, but have not been efficiently and effectively used since their acquisition. Due to inadequate IT equipment, non-dispensation of prompt training and non-renewal of licenses, electronic documentation of audit work was done for a brief period only. IT analysis of databases and other electronic records maintained by several auditees has never been done. A good use of these costly resources has not been made.

(f) Though a periodic quality assurance review was conducted to ensure that audit work was carried out according to IIA Standards, an Improvement Programme to correct shortcomings detected was not maintained.

(ii) Audit Committee

(a) Audit Committee Mandate and Charter

- The Finance and Audit Act, through the Financial Management Kit, provides the mandate for the AC. It is a formal high-level statement of the AC’s responsibilities and those of its members. However, no mention was made in the Charter for the mandate of an AC. Hence, most Ministries/Departments and their AC members were not aware of the legal requirement to establish and operate an AC. They tended to take AC activities too lightly.

- In the Audit Committee Charter developed by OPSG, most governance areas were included and the corresponding AC’s responsibilities towards these were soundly stated. Governance structure, a key area, was, however, not covered. This area encompasses several aspects of a Public Body, like purpose and mandate, legal structures and authorities, and policies, strategic priorities and plans.

(b) Appointment and Independence of Audit Committee Members

- Appointment of AC members was on an annual basis. This span of time was considered too short as members might not make a substantial contribution to the work of the Committee. Stability and continuity within the AC may also be compromised.

- Independence, attributes and skills of members are essential characteristics for an effective AC. The OPSG did not sufficiently consider these when advising or assisting Ministries/Departments in setting up their ACs and selecting the Chairpersons and members.
- The AO appointed the AC Chairperson and members who were all drawn from the same Ministry/Department, and most of them were from the management team. This practice compromised the AC’s independence and affected its proper functioning. The OPSG did not address this major shortcoming.

- When appointing the ACs, a profiling exercise to choose the right candidates was not done. The OPSG did not provide sufficient guidance to the AOs as to what qualities to look for in potential AC members.

- The AC Charter did not explicitly mention the range of skills and expertise that AC members should collectively possess. The OPSG had also not advised or guided the AOs in determining the skills’ mix required for their ACs.

- As the Chairperson and members were taken from the same entity, most of them had skills and expertise relevant to the organisation, but these were not sufficient to provide oversight on its governance, risk management, and internal control practices.

- AOs are busy managing the affairs of their organisations. Their own actions and decisions call for scrutiny by independent ACs. Due to the lack of independence of ACs this scrutiny cannot be done.

(c) Training for Audit Committee Members

Neither Ministries/Departments nor the OPSG provided the necessary training to new and existing AC members to allow them to efficiently and effectively fulfil their roles and responsibilities. Members had only the Charter as guide to perform AC activities. Checklists that would help to carry reviews and oversights on governance areas were neither developed nor made available.

(d) Audit Committee Activities

- AC activities which basically are provision of oversight of the governance, risk management, and internal control practices in a Public Body were satisfactorily described in the Charter. However, except for follow-up of Auditors’ recommendations made, the ACs did not undertake the other reviews and oversight activities described on the whole range of governance areas mentioned in the Charter. Thus, the ACs were not fully functional.

- Focusing on follow-up of Auditors’ recommendations is attributed to the fact that most AC members did not have the necessary knowledge, expertise and skills to carry out other oversight activities. The required training had not been dispensed, and the necessary tools had not been provided to them.

Most importantly, performance indicators which centered on the implementation of audit recommendations prompted Committees to put emphasis on the follow-up of Auditors’ recommendations. AC fees were recommended for payment when the OPSG certified that the AC was effective and had delivered the targeted results. Therefore, with a view to securing payment of fees to members, the AC concentrated
(e) **Evaluation of Performance of Audit Committees**

- Evaluation of the performance of ACs was principally based on implementation of different audit recommendations. This was too narrow. As the whole range of oversight activities was not undertaken, none could be stated to be fully functional and effective.

- A proper evaluation that considers whether an AC complies with its Charter, the level of participation of its members, and the overall contribution of the AC to the Ministry/Department, was not done.

- Self-assessment of ACs which is required by the Charter was not done. Leading practice organisations, like the IIA, favour self-assessment of ACs.

**Conclusion**

**Internal Auditing**

The present practices and activities at ICC do not allow it to fully and effectively play its role of providing an independent, objective assurance on governance, risk management and control processes. The benefits expected from an Internal Audit function are not being fully derived by Ministries/Departments.

**Audit Committee**

ACs are not functioning as they should. ACs are not independent of management of the Ministry/Department where they have been established. In appointing members, attention has not been paid to their personal attributes, skills and expertise. Training and necessary tools have not been provided to AC members. Oversight activities on numerous governance areas are not done. ACs are, thus, not fully functional and effective.

The OPSG has not fully and effectively fulfilled its roles enjoined in its mandate.

**Key Recommendations**

**Internal Audit Function**

(a) Each Ministry/Department should have its Internal Audit Charter signed by its AO.

(b) Limited staff resources need to be properly allocated, and Ministries/Departments need to be regularly audited to allow for maximum coverage.
(c) Audit Plans should cover more of the core activities of audit clients. Proper risk assessments need to be done on all auditable areas.

(d) ICC needs to assist management in the setting up of a risk management framework. Good practices that lead to overall good governance should also be promoted and encouraged.

(e) Reports need to be signed and issued by higher officials of ICC as from the rank of Manager.

(f) ICC should get adequate support for the optimal use of the already available IT tools.

(g) ICC should develop and maintain a Quality Assurance and Improvement Programme that covers all aspects of its activities.

Audit Committee

(a) The mandate for the AC should be explicitly stated in the Charter.

(b) The term of office for AC members needs to be reviewed.

(c) Independence of the ACs need to be enhanced. An external Chair should be chosen. Appointment of the Chair and members for ACs should preferably be done by one with high authority within the Civil Service. A database of individuals willing to serve as AC members should be set up and maintained.

(d) A profiling exercise that facilitates the selection of candidates with the right characteristics should be done.

(e) A competency based selection process should be developed for appointing AC members. A list of the personal attributes, skills and expertise an AC needs should also be drawn. A broad range of skills and expertise should be explicitly stated in the Charter.

(f) Ministries/Departments should provide AC members with training. As a minimum, appropriate checklists should be prepared for the review and oversight of governance arrangements. A process of continuing education should be established.

(g) To be fully operational and effective, the ACs need to fulfill all the roles and responsibilities described in the Charter.

(h) AC’s performance needs to be properly assessed. Compliance with Charter requirements, participation of AC’s members and contribution of the AC to the organisation should be taken into consideration. A self-assessment exercise with inputs from relevant parties and stakeholders is more appropriate.
Ministries’ Replies

With respect to Internal Audit, MoFED stated that recommendations made are being considered to enhance the effectiveness of the ICC.

Actions are being initiated to revisit the structure of the ICC and Scheme of Service of its personnel to enable them to undertake Governance Audit, Performance Audit and the audit of Risk Management System. MoFED is contemplating assistance of specialised body, like the World Bank to provide tailor made programmes for the ICC staff, other specific training programmes are also being looked at.

As for Audit Committee, all recommendations made are being implemented. The Audit Committee Charter is being revised. The Ministry of Justice, Human Rights and Institutional Reforms is also proposing to publish a Handbook that will provide guidance on the setting up and operation of Audit Committees. The Handbook is in preparation and is expected to be completed by April 2019.

Provisions have also been made in the draft revised Charter for:

- The reinforcement of independence of members and nominate of AC members to be made by OPSG, in consultation with the Ministry, and Cabinet to be apprised accordingly, to ensure high consideration of the Committee.

- The need for Ministry/Department to ensure that appropriate training is provided to AC members.

- Checklists and all training materials will be included in the Handbook.

- Details of expected performance of AC spelt out in the Performance Contract will also be dealt with in the Handbook.
CHAPTER ONE
INTRODUCTION

This Chapter provides a background of the subject matter examined and describes the approach used to conduct this Performance Audit.

1.1 Background

Governments around the world are under increasing pressure to produce results. Much importance is being given to effective public sector management and good governance as they lead to good management, good performance, good stewardship of public money, and ultimately to positive outcomes. Internal Audit (IA) and Audit Committees (AC) are recognised as key components of good governance. They play a crucial role in improving management and accountability, both financial and non-financial, of Ministries and Government Departments. In Mauritius, the IA function is carried out by the Internal Control Cadre (ICC) of the Ministry of Finance and Economic Development (MoFED). The Internal Control Unit, comprising the IA team, operates as an independent unit, reporting directly to the Accounting Officer (AO) of each Ministry and Government Department.

The Office of Public Sector Governance (OPSG), now under the purview of the Ministry of Justice, Human Rights and Institutional Reforms, has helped to establish ACs in Ministries and Government Departments since 2013. The OPSG is mandated to, among others, establish, review and monitor the effectiveness of these ACs.

Government is operating in a complex and rapidly changing environment which presents new challenges to ICC and ACs in fulfilling effectively their roles and responsibilities.

1.2 Motivation

Government expenditure totalled some Rs 130 billion in 2016-17. How this money is spent, and the quality of services provided by Government are important to all taxpayers and users of services. As such, good governance in public services should be of a high standard, putting greater pressure on ICC and ACs for a higher level of assurance. Recently, MoFED expressed some concerns on the effectiveness of the IA function and the role of ICC. With regard to AC, though one of the reasons for its setting up, was and still is to minimise the number of audit queries regularly reported upon in the National Audit Office (NAO) Annual Reports, little improvement has been noted.

It was against this background that the NAO carried out this Performance Audit on the effectiveness of the IA function and ACs in Ministries and Government Departments.

1.3 Audit Objective

The audit assessed whether the activities of ICC were effective in providing the right level of audit assurance in Ministries/Government Departments and whether the OPSG has been successful in establishing, reviewing and monitoring the ACs.
1.4 Audit Design

The audit objective is further detailed by the audit questions and audit scope as described below:

> Was the ICC operating effectively to achieve its intended objectives?
> Was ICC using appropriate tools in, and was it carrying out regular quality assurance reviews on, the conduct of its audit activities?
> Was the OPSG successful in fulfilling its role of establishing ACs?
> Was the OPSG reviewing and monitoring adequately the effectiveness of the ACs?

The answers to these questions supported the conclusion against the audit objective.

1.5 Audit Scope

The audit focused on ICC’s activities in fulfilling its objectives, and OPSG’s activities in establishing, reviewing and monitoring the effectiveness of ACs at a sample of Ministries/Departments. It excluded a review of the organisation structure of the ICC and its activities at the Rodrigues Regional Assembly. The relevant structures, processes, procedures and practices were examined. The audit covered the period January 2012 to November 2018.

1.6 Audit Methodology

The audit was conducted in accordance with the requirements of the NAO Performance Audit Manual, which is based on International Standards of Supreme Audit Institutions. Different methodologies were used to understand the audit area, along with obtaining sufficient, relevant and reliable audit evidence that support the conclusions and recommendations.

1.7 Methods of Data Collection

Data was collected through documents reviews and interviews with staff.

1.7.1 Documents Reviewed

Information relating to policies, guidelines, regulations, processes, systems, procedures and practices was collected through review of files and documents at the ICC, MoFED and OPSG. Financial information was extracted from the Accountant General’s Annual Report so as to confirm information obtained from other sources. Several documents on the subject of IA and AC were consulted and guidance was drawn from publications of the Institute of Internal Auditors (IIA).¹

¹ The IIA is the Internal Audit profession’s global voice, recognised authority, acknowledged leader, chief advocate, and principal educator. Internal Auditors play an important role for an AC as they examine and report
1.7.2 **Personnel Interviewed**

The personnel of ICC and OPSG at operational, middle and senior management levels were interviewed. The interviews were used to confirm that the facts and figures obtained from documents reviewed were correctly understood, and, also, for providing explanations and/or clarifications where information was not available.

1.7.3 **Sampling**

A sample of Ministries was chosen to obtain an overview of the activities of the ICC thereat.

With regard to ACs, a sample was also selected. This included a few that were consistently reported as effective by OPSG, like the ACs at the Office of the Director of Public Prosecutions, at the Ministry of Foreign Affairs, Regional Integration and International Trade, and at MoFED.

1.8 **Assessment Criteria**

Criteria used as a basis for evaluating the evidences collected, developing audit findings and reaching conclusions on the audit objectives were extracted from the following sources:

- Financial Management Kit;
- Internal Audit Policy and Operations Manual (IAPOM);
- Internal Audit Standards Operating Procedures Manual (IASOPM);
- Institute of Internal Auditors Standards;
- Legislations, namely the Finance and Audit Act;
- AC Charter and Performance Contract prepared by OPSG;
- New Code of Corporate Governance (2016);
- Literatures on Audit Committee, including model Audit Committee Charters.

Details of other assessment criteria used in this report are given in the relevant paragraphs.
1.9 Data Validation Process

Draft Management Letters were issued to MoFED and the Ministry of Justice, Human Rights and Institutional Reforms. They highlighted the audit criteria used, key findings and recommendations resulting from this Performance Audit assignment. These were formally discussed at Exit Meetings. Final Management Letters were thereafter issued. This procedure served to confirm the relevance, accuracy and suitability of contents in the Management Letters.
CHAPTER TWO
DESCRIPTION OF THE AUDIT AREA

This Chapter describes the audit area, including the Vision, Mission and Roles and Responsibilities of the Internal Control Cadre, Office of Public Sector Governance and an Audit Committee.

2.1 Introduction

In this Chapter, the activities of ICC are described. The regulatory framework, organisation set up, roles and responsibilities of ICC and IA process followed are explained. It also describes the roles and responsibilities of OPSG in relation to setting up, monitoring and review of ACs.

2.2 Internal Control Cadre

In 1999, the ICC which falls under the aegis of MoFED was set up. It is responsible for the IA function in Ministries and Government Departments. The vision of the ICC is to be a customer oriented organisation providing value-added internal audit services in accordance with international professional and ethical standards. Its mission is to provide quality internal audit services in a spirit of partnership with AOs in the achievement of Government’s objectives through recommendations to improve governance, risk management and control processes.

2.3 Regulatory Framework of the Internal Control Cadre

2.3.1 Mandate

The Financial Management Kit (FM Kit), issued as Financial Instruction under Section 22(2) of the Finance and Audit Act, gives the authority to ICC to carry out internal audit function in Ministries/Departments.

In 2013, MoFED issued an Internal Audit Policy and Operations Manual (IAPOM) as part of the FM Kit. The IAPOM was prepared in line with the standards and guidelines contained in the document ‘Essentials: An Internal Audit Operations Manual’ published by the IIA Research Foundation. The IAPOM outlines the policies, standards and procedures governing the IA function. The roles and responsibilities of the Internal Control Officers (ICOs) are defined in the IAPOM. Audit steps and procedures are detailed in the Internal Audit Standard Operational Procedure Manual (IASOPM) which, also, forms part of the FM Kit. The ICC is required to comply with the provisions contained in these Manuals.

2.3.2 Internal Audit Charter

The Internal Audit Charter is a formal document which defines the purpose, authority, and responsibility of the IA activities, consistent with the definition of Internal Auditing, the Code of Ethics, and the IIA Standards. The Charter establishes the IA activity’s position within the
organisation, authorises access to records, personnel, and physical properties relevant to the performance of assignments, and defines the scope of IA activities. The Director, Internal Control (DIC) periodically reviews the Internal Audit Charter and presents it to AOs for endorsement.

2.4 Organisation Set Up

As at 30 June 2018, the ICC was headed by a DIC who was assisted by 103 officers in different grades from Deputy Director, Internal Control, Manager Internal Control, Assistant Manager Internal Control, Principal Internal Control Officer and Internal Control Officer/Senior Internal Control Officer. 69 officers were permanently posted in the Internal Control Units of 16 Ministries/Departments. 19 were posted in roving teams and the remaining ones (mainly higher officials as from the grade of Managers) were posted at the ICC’s Head Office. ²

The Internal Control Unit is an integral part of the Ministries/Departments and it reports directly to the AOs ³. Its role is to assist management to attain the organisational’s goals by providing an independent and objective assurance, and consulting activity designed to add value and improve the organisation’s operations through independently reviewing and evaluating the effectiveness of risk management, controls, governance and operations and by providing objective analyses and constructive recommendations for improvement. The scope of work of the Unit encompasses all aspects of the Government’s activities, including those of some Statutory Bodies. All systems, processes, operations, functions and activities within the Ministries/Departments are subject to Internal Control review.

² The Internal Control Unit comprises Internal Control Officers posted ‘permanently’ in Ministries/Departments with huge budgets and wide ranging operations. Internal Control roving teams are constituted to conduct audit of relatively smaller Ministries/Departments (where no permanent teams are needed). Roving teams, also, conduct audit of Statutory Bodies and Other Bodies which do not have an internal audit function. A reshuffling exercise is carried out every three years to reconstitute permanent and roving teams and to reallocate audit clients.

³ The Accounting Officer is the officer who is charged with the duty of controlling expenditure on any service in respect of which public funds have been appropriated, and with the duty of collecting revenue and paying that revenue into public funds (paragraph I.2.9 FM Kit). Therefore, the Accounting Officer is the managing head of a Ministry or Government Department.
2.5 Overview of the Internal Audit Process

The audit process followed by the ICC is shown below:

A Strategic and Annual Audit Plan is prepared by officers in the grade of Manager assisted by an Assistant Manager or Principal Internal Control Officer who assumes the role of Head of the Audit (HoA) team posted at Ministries/Departments, before the start of each financial year. Prior to preparation of the Plans, the HoAs carry out a risk assessment exercise on auditable areas. The Plan is reviewed and approved by the DIC. The plan is then agreed, finalised and jointly endorsed by the DIC and the AO before the start of the financial year.

Audit works commence with an Entry Meeting, followed by a preliminary survey. The survey serves to prepare audit programmes for the performance of detailed audit tests. HoAs collect, analyse, evaluate and document sufficient information to achieve the assignment’s objectives. Important issues, together with recommendations, are reported to the AO.
A follow up audit is conducted after a reasonable period of time, usually three months after issue of the final report to the AO, to evaluate corrective actions that have been taken on the audit recommendations made.

2.6 Office of Public Sector Governance

The OPSG falls under the purview of the Ministry of Justice, Human Rights and Institutional Reforms. It is responsible for the provision of services relating to good governance practices, management consultancy, financial and organisational reviews in public sector organisations, including Ministries/Government Departments, State Owned Enterprises and Local Authorities.

Another responsibility of the OPSG is to review and monitor the effectiveness of established ACs. To this end, an AC Unit was set up, with the following tasks:

- Sensitising Ministries/Departments on the benefits of an AC;
- Preparing AC Charter to guide the ACs in their operations;
- Advising on the composition of the ACs;
- Assisting in drafting the Performance Contract between AOs and the AC members;
- Monitoring the performance of the ACs through their quarterly status reports;
- Assessing the effectiveness of the ACs and recommending payment of fees to their members.

2.7 Audit Committee

ACs have an important role in the governance framework of public sector entities. An AC provides to those charged with governance an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. They are recognised as a valuable provider of independent assurance and advice to the AO on key aspects of an entity’s operations. ACs do not, however, displace or change the management and accountability arrangements within entities, but enhance the existing governance framework, risk management practices and control environment. ACs also strengthen the independence of the audit activity.

Typically, the AC assists the AO by providing oversight on the adequacy of the organisation’s initiatives for:

- Governance structure;
- Ethics;
- Internal control framework;
- Risk management;
- Internal and external audit;
- Public accountability reporting.

In broad terms, the AC reviews each of the governance areas mentioned above and provides independent advice and guidance on the adequacy and effectiveness of management’s practices. This advice and guidance normally include recommendations and suggestions to strengthen these governance arrangements.

2.8 Mandate and Charter of the Audit Committee

The AC mandate is a formal high-level statement of the AC’s responsibilities and those of its members. AC is covered in the FM Kit which forms part of Financial Instructions issued under Section 22 of the Finance and Audit Act. Paragraph I.2.29 of the Financial Management Manual Volume I (which forms part of the FM Kit) sets out the objective of an AC and describes its role. The legal obligation for Ministries and Departments to establish and operate an AC is thus defined.

The AC Charter is a key document that specifies the AC’s terms of reference. The Charter normally includes the AC’s mandate, authority, membership, roles and responsibilities of the AC and its members, and also those of internal and external stakeholders who may have to interact with the AC. The operations of the AC are also described in the Charter.
EFFECTIVENESS OF INTERNAL AUDIT FUNCTION AND AUDIT COMMITTEES IN MINISTRIES AND GOVERNMENT DEPARTMENTS
CHAPTER THREE

FINDINGS

This Chapter presents the findings on whether the activities of ICC were effective in providing the right level of assurance in Ministries/Departments, and whether the OPSG was successful in establishing, reviewing and monitoring the Audit Committees.

3.1 General

Paragraphs 3.2 to 3.11 present the findings on the effectiveness of ICC. Areas covered included Internal Audit Charter, Audit Coverage, Audit Planning, Types of Audit, Reporting, Implementation of Recommendations, IT Tools for Internal Auditing, Quality Assurance and Training. With respect to ACs, the findings on areas, such as Audit Committee Charter, Composition and Quality of Audit Committee, Training for Committee Members, Responsibilities on Governance Areas, Audit Committee’s Activities and Evaluation of Audit Committee’s Performance are presented at paragraphs 3.12 to 3.17.

3.2 Internal Audit Charter

The Internal Audit Charter provides a framework for the conduct of Internal Audit in an organisation. It details the roles and responsibilities of both Internal Auditors and management during the audit. Both the AO and the DIC have to sign the Charter as required at paragraph 3.7 of the IAPOM. When an Internal Audit Charter is signed by the relevant parties, it shows their commitment to the important exercise of internal auditing.

At MoFED, the Charter was signed by the DIC and the AO before the start of an audit period. For other Departments falling under the aegis of the Ministry, such as the Registrar General’s Department and the Corporate and Business Registration Department, no Charter was signed with the Heads of Departments who are also the AO of their respective Department. At these Departments, the Heads (AOs) were only provided with a copy of the Charter signed by the AO of MoFED, but was not endorsed by the Heads.

3.3 Audit Coverage

Internal Auditors need to assess and provide assurance to management that the control systems it has set in place are working well, that rules, procedures and regulations are complied with, and that operations at the entity are efficiently carried out to meet its objectives. Organisations with substantial budgets - an indication of wide ranging operations with possible exposures to risks - necessitate audit scrutiny on a regular basis to ensure that precious taxpayers’ monies are well employed.
Several Ministries were not regularly covered by ICC. Examples are given in Table 1 below.

**Table 1: Ministries not regularly covered by the Internal Control Cadre**

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Audit Period</th>
<th>No. of ICC OfficersPosted</th>
<th>Original Estimates 2016-17 (Rs m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Housing &amp; Land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism, Ext Com &amp; Civil Aviation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Affairs, Reg Int &amp; I. Trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Integration &amp; Eco Emp.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil Service and Adm. Reforms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arts &amp; Culture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Services</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Min of Industry &amp; Commerce</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Min. of Business, Enterprises</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ICC Records and Annual Report of the Accountant General

- **Audited**
- **Not audited**
- **N/A: Not Applicable**

The Ministry of Housing and Lands with a budget totalling some Rs 3.7 billion for the years 2012 and 2014, and the 18-month period January 2015 to June 2016 was not audited during these times. It was only examined by a roving team in 2013. Likewise, the Ministry of Tourism with a total budget of Rs 5.6 billion for the period January 2014 to June 2018 was not audited. It was last audited in 2013 by a roving team. In 2014, only the Civil Aviation Department which falls under the aegis of this Ministry was audited. The Ministry of Social Integration was not subject to Internal Audit checks from January 2015 to June 2018. Budget allocated to the Ministry during the period amounted to Rs 2.1 billion.

It was explained that Internal Audit activities could not be undertaken at the above due to unavailability of sufficient staff. Since 2012, about 40 per cent of its establishment was not filled and this proportion peaked to some 54 per cent in 2017, before the recruitment of additional personnel.

In 2016-17, five Ministries with budgetary allocations of some Rs 3.7 billion were not audited (see Table 1 above). Some of the already limited labour resources were allocated to special assignments at certain Statutory Bodies, such as the National Library, Islamic Cultural Centre, and the Irrigation Authority. Most of these Ministries were still not covered in 2017-18, even though additional staff members were available with new recruitments as from July 2017.
Carrying out internal auditing at Statutory Bodies, like the above, has been occasional at the ICC. The assignments were undertaken with the approval of MoFED even though staff resources were limited. These audits were given priority over the larger Ministries and their Departments. The latter form part of the ICC’s normal client base.

With respect to Ministries/Departments covered, not all planned audit exercises were carried out thereat. As per the 2016-17 ICC Annual Report submitted to the Financial Secretary, only 125 out of 159 planned audit exercises were completed in 16 Ministries (with permanent teams). This represented a completion rate of 79 per cent. It was explained that special assignments requested by AOs had to be undertaken at these Ministries/Departments. Indeed, 41 such assignments (out of the 54 requested) were carried out in 2016-17. These absorbed much time and resources. Thus, not all originally planned activities could be undertaken. Similarly, in 2017-18, not all auditable areas identified as risky in the Plans were covered, as room had to be made for the carrying out of special assignments.

3.4 Audit Planning

ICC prepares a Strategic Plan every three years based on risks. It is followed by an annual Audit Plan for each Ministry/Department. The Audit Plans of selected Ministries/Departments were scrutinised. Shortcomings in the Plans included the following.

3.4.1 Auditing Core Functions

The Audit Plans indicated that most of the works of the ICC were on auditing support functions, such as Transport, Warehousing and Human Resource, instead of focusing on the core functions of the Ministries/Departments. For example one of the core functions at MoFED is Budgeting, but no provision was made for this activity in the Audit Plan. It is understood that the audit of Budgeting is technical as it involves the examination of budget formulation, approval, execution and budget oversight (including budgetary controls). As no attempt was made to audit this core activity of MoFED, this undermined the value addition of the IA function.

3.4.2 Auditing Governance and Risk Management

Since 2013, ICC is required, through its audits, to help an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (paragraph VI.2.1 of the IAPOM). However, ICC did not make any provision in their Plans for the audit of governance. This area encompasses several important aspects of a public body which warrant audit scrutiny. Examples are:

- legal structures and authorities;
- its purpose and mandate;
- strategic priorities and plan;
mandates of committees and their governance responsibilities;

appointment and performance measurement mechanisms for committee members.

The risk management system operated by management was also not covered by Internal Auditors. Audit needs to provide assurance on the establishment, implementation, maintenance, and effectiveness of risk assessment, risk management, and risk reporting practices of the organisation.

3.4.3 Risk Assessment

In drawing Internal Audit Plans, appropriate risk assessments are required. The ICC identified auditable areas for each Ministry/Department. The risk profile of the areas was determined based on discussions with management\(^4\) of the organisation. Each auditable area was attributed a score using a methodology prescribed in the IASOPM and was ranked accordingly. A few auditable areas, such as Asset Management, Procurement, Transport, Warehousing, and Human Resource Management were rated as risky at all Ministries/Departments. Consequently, audit resources were devoted to these areas at all audit clients. While it is agreed that the first two named areas are high risk, same cannot be said of the others. The level of risk associated with the other areas varies from one organisation to another and at different times.

3.5 Types of Audit

At paragraph VI.1.3 of the IAPOM, it is stated that the ICOs, by virtue of their roles and responsibilities and their position within the organisation, are expected to contribute positively towards improving governance within the organisation, in particular accountability and transparency. These expectations have led to the evolution and development of new types of audit, such as Performance Auditing, systems reviews and special investigative assignments. During the period examined, ICC focused mainly on Compliance Audits.

No Performance Auditing was carried out. Training to undertake this type of audit was dispensed to a few ICC officers in 2009. However, the necessary structure or arrangements to drive it has never been set in place since then.

3.6 Annual Report submitted to Financial Secretary

According to paragraph VI 3.26 of the IAPOM and paragraph I.4.15 of FM Kit Vol. 1, the DIC should prepare and submit to the Financial Secretary an Annual Internal Audit Report highlighting major IA findings and recommendations, together with AOs’ responses thereto. This Report allows the Financial Secretary to gauge the adequacy of internal control and risk management systems in Ministries/Departments and for initiating any necessary action.

In 2012 and 2013, the Annual Internal Audit Reports submitted were in line with requirements mentioned above. The 2012 Report contained a summary of the findings and recommendations for all Ministries/Departments audited. In the 2013 Report, findings were grouped according

\(^4\) Usually, Accounting Officers, Directors and Sector Management Support Teams were involved.
to the auditable areas covered. However, as from 2014, the Reports contained only statistics on the achievements of the ICC and its performance throughout each financial year.

The change in contents of the Annual Internal Audit Report submitted to the Financial Secretary from major findings and recommendations to mainly statistics is not proper.

3.7 Audit Reports to Management

Audit results were communicated to management, through Management Letters and Annual Internal Audit Reports which were prepared and reviewed, along the line illustrated in Figure 2 below.

All reports were reviewed by the Manager, Internal Control and sent to the Head of the Audit (HoA) Team for signature and issue to the AO.

B – Only reports on special assignments requested by the Financial Secretary were further reviewed by the DIC or the Deputy Director, Internal Control before they were sent to the HoA for signature and issue to the AO.

Figure 2: Reporting Process of the Internal Control Cadre

All reports were signed by the HoA and issued to the AO. Most reports were neither reviewed by the Deputy Director Internal Control nor the DIC. Only special assignments were reviewed by the Directors before being signed and issued by the HoA.

With this unusual practice, ICC’s management did not take ownership of the reports. The signature and issue of reports by junior officers may lead to a lack of consideration by the auditee.

3.8 Implementation of Recommendations

At paragraph VI 2.20 of the IAPOM, it is stated that the responsibilities of management towards the IA function include taking improvement actions to address the recommendations made by ICOs, according to agreed implementation time schedules. As per ICC’s Annual Reports for 2014, January 2015 to June 2016 and 2016-17 submitted to the Financial Secretary, 2,027 of
the 4,062 recommendations made during these periods were implemented. This represented, on average, a 50 per cent implementation rate.

The remaining 50 per cent of the recommendations were not implemented because of management’s inadequate response to Auditors’ work. For example, at the Registrar General’s Department, in spite of request from Internal Auditors to have an Exit Meeting to discuss the audit findings and recommendations in a draft Management Letter, management did not respond. The draft Report was finalised without meeting the AO or the management team.

Furthermore, as per ICC’s 2016-17 Annual Report for MoFED, ICC pointed out that the issues raised in November 2016 for the financial year 2015-16 were still the same in August 2018. Management had not done enough to implement the corrective measures that it had accepted and which were included in previous Management Letters as recommendations.

From the above, all the efforts made to audit and come up with recommendations had not contributed to improve the systems and/or operations of the audited entity for lack of sufficient consideration by management.

An analysis of the Annual Internal Audit Reports of a few Ministries/Departments submitted to AOs also showed that most recommendations made did not relate to significant audit matters. Examples were: ‘Log Books should be properly filled in’, ‘Cash Book has to be maintained for recording all expenditure and income’, ‘Request Form should be subject to approval’, ‘Attendance Register should be properly kept’, and ‘Attendance of staff should be monitored on a regular basis’.

3.9 IT Tools for Internal Auditing

Audit procedures are increasingly supported by the use of computer tools for the documentation and management of audit work, and for data extraction and analysis procedures. Since 2010, the ICC has two such tools, but they were not efficiently and effectively used.

The Teammate Software and licenses (for 20 laptops) were acquired at a cost of some Rs 1.8 million in April 2011. The Software was hosted on a server at MoFED. Out of five modules, only the Electronic Working Paper one could be used as the limited capacity of the server did not allow the utilisation of the others, namely Planning, Scheduling of Tasks, Tracking of Work, and Data capture in respect of resource allocation. In 2013, the Software was hosted by the Government Online Centre’s server and was upgraded in 2014. Training on the use of Teammate was provided in 2014 only. Teammate was used up to 2015, as licenses and maintenance agreement were not renewed.

The Interactive Data Extraction and Analysis (IDEA) software was also purchased for Rs 362,803 in 2010, but has never been used. The software was intended to be used for analysis and review of large volumes of transactions of various complexities and carrying out various tests, such as data input and validation checks, data processing or report validation checks and output controls checks. The purchase price included end user support, as well as provision of service packs or software upgrades for a period of one year. From information obtained, no proper training was dispensed on the use of the software after its acquisition.
The ICC is equipped with important IT software to carry out and document its audit activities, and to perform data analytics. Due to inadequate IT equipment, absence of prompt training and non-renewal of licenses, electronic documentation of audit work has been done for a brief period only. IT analysis of databases and other electronic records maintained by several auditees (for example National Transport Authority, Registrar General’s Department and the Treasury) has never been done as the software could not be used for lack of training.

A good use of these costly resources has not been made.

3.10 Quality Assurance

Paragraph 2.2 (g)(iv) of the IASPOM requires that periodic quality assurance reviews be conducted to ensure that audit work is being carried out according to IIA Standards. This exercise was conducted by the Deputy Director, Internal Control by reviewing working paper files on completion of audit assignments. The review exercise checked whether the assignments were properly planned, executed, documented and reporting done correctly. While this ensured that audit activities undertaken had the necessary quality, an Improvement Programme to correct shortcomings detected was not developed and maintained.

3.11 Training for Internal Auditors

At paragraph VI.3.26 of the IAPOM, it is stated that the DIC is responsible to design and organise training of ICOs. In 2013, an in-house training on Internal Auditing by a private Audit Firm was organised for all officers of the ICC. Since then, except for a few officers who attended training organised and/or dispensed by other bodies locally or abroad every year, no other training had been provided to all ICC personnel.
The findings on Audit Committees are described below:

3.12 Audit Committee Charter

Overall, the Charter developed by OPSG for Ministries/Departments was satisfactory. Several governance areas mentioned at paragraph 2.7 above were covered and the corresponding AC’s responsibilities towards these were fairly well stated.

The following shortcomings were, however, noted:

- **Mandate.** In model AC Charters prepared by leading practice organisations, such as IIA, the mandate for the AC is included. In the current Charter used by ACs, no mention was made of the mandatory obligation for Ministries/Departments to operate an AC as stated at paragraph 2.8. Due to this omission, most of them were not aware of the legal requirement and tended to take AC operations and matters too lightly.

- **Term of Office.** The length of a member’s tenure on the AC should be sufficient to enable the member to make a substantive contribution to the work of the Committee. It is also important to maintain a level of stability and continuity within the AC. To these ends, AC members need to be appointed to terms long enough, but not so long that they become too close to management, and this affects their objectivity. Longer terms can also make members become too familiar with the organisation’s strategies, policies and practices. For more objectivity, these have to be avoided. According to the IIA, terms of less than two years are too short and terms of more than four years may be too long. To ensure greatest continuity within the AC, appointment of members is usually staggered and members are not allowed to serve more than two terms.

Appointments to the ACs were on an annual basis (paragraph 3.6 of Charter refers). From the above, this is considered too short. A term of three to four years is considered reasonable.

3.13 Composition and Quality of Audit Committee

One of the responsibilities stated in OPSG’s mandate is to establish ACs. Independence, attributes and skills of AC members are essential characteristics for an effective AC. Therefore, when advising or assisting a public entity in setting up its AC and selecting the Chair and members, the OPSG was expected to consider these important elements.

(a) **Independence.** The distinguishing feature of an effective AC is its independence from management. This independence assists in ensuring that the AC acts in an objective and impartial manner, free from conflicts of interest, inherent bias or undue external influence. Full independence allows the AC’s members to ask difficult questions (and at times, ‘hard’) that challenge management’s actions and decisions. An independent source of advice is of greatest benefit to organisations. To ensure the AC’s independence, it is a leading practice for the majority of its members to be independent from the organisation.\(^5\)

---

\(^5\) According to IIA, an independent AC member is a person who is not employed by, or providing any services to, the organisation beyond his/her duties as a committee member.
AOs appointed AC members (paragraph 3.1 of Charter refers) who were drawn from his/her Ministry/Department, and most of them were from the management team of the entity.\(^6\) The AC, therefore, could not be said to be fully independent of management. The inability or reluctance of these members to ask difficult questions to higher officials of the entity to whom they could have to report to, could have existed. An element of bias, also, cannot be denied. AC members would naturally avoid issues where their own performance would be questioned. Without a certain degree of independence, an AC cannot function correctly.

In the Charter used, mention was not made that members should come from the same entity. They could have been chosen from other bodies for greater independence. The current practice finds its root in the 2012 AC Charter which required that members should be drawn from the same public body. The OPSG attempted to correct this anomaly in 2015, by revising the 2012 Charter to allow composition of an AC with members from other public entities. Unfortunately, the revision was not approved. The wrong practice since 2013 continues to this date. While OPSG should be commended for the effort made in 2015 to remedy the situation, it has not done enough, since then, to set things right. Alternative solutions have not been searched, considered, worked out and proposed.

Getting independent members to sit on an AC in Government has been a major hurdle to establishing proper ACs. However, according to the Australian NAO, in the context where members are taken from the same organisation, there are a number of ways to strengthen the AC’s actual and perceived independence. These include:

- the appointment of an external Chair who can perform his or her role unencumbered by any management responsibilities and provides the opportunity for the AO to receive advice and assurance from an independent perspective.

- the appointment of committee members who exhibit an independence of mind in their deliberations and do not act as a representative of a particular area within the entity or a particular stakeholder interest.

- rotating AC members to enable new knowledge and experience to be introduced periodically to the Committee and to allow the opportunity to include members from different parts of the entity over time. While it should be recognised that members who are officials or employees of the entity will generally have management responsibilities, it is important to ensure that the AC itself does not assume management responsibilities.

- having policies in place to facilitate timely identification of changing relationships or circumstances that may affect the independence of AC members, including potential conflicts of interest.

\(^6\) For example, the Chair of the AC at MoFED held the post of Director, Economic and Finance. In several other ACs, members were Deputy Permanent Secretaries who had important managerial duties.
At this stage, it is worth mentioning that the concept of AC stems from the private sector. The AC of a private company which is a sub-committee of the Board is, by virtue of its legal status, independent. The Board is the highest level of the governing body charged with the responsibility to direct and/or oversee the activities and management of the entity. In Mauritius, where Government has a structure referred to as the “Westminster Model”, board-like responsibilities in Ministries/Departments are vested in a single individual, known as the Accounting Officer. Hence, members of the AC are appointed by the AO. However, as AOs are so steeped in managing the affairs of their organisations, it becomes necessary for their own actions and decisions to be scrutinised by an independent AC.

In this order of ideas, it will be appropriate for the external Chair to be appointed by one with high authority within the Civil Service. The latter should be above all Ministries/Departments and, therefore, above all AOs. This will not only ensure the independence of the Chair, but, also, allow him/her to draw and command respect from the AO in whose organisation he/she will lead the AC. Ideally, all the other members of the AC should be independent of the organisation and appointed by the same high authority.7

Alternatively, each nominated external Chair and the AO may consult with each other and appoint other Committee members. This selection could be made from a database of officers willing to act as AC members. This database could include serving, as well as retired officers of the Public Sector, that is, Ministries/Departments, as well as State Owned Enterprises.8

Through the options and arrangements described above, the AC, thus established, will enjoy higher independence, and be in a position to scrutinise the entity’s management actions and decisions, starting with the AO which is not the case at present.

(b) Attributes of Members. In selecting the Chair and members of an AC, consideration of their personal qualities is critical. When appointing members of ACs, a profiling exercise to pick the right candidates was not done. The OPSG has not guided the AOs as to what qualities to look for in potential AC members.

According to the IIA, the top three attributes AC members should demonstrate are inquisitiveness, outspokenness, and courageousness. Other basic requirements of members include common sense, wide experience, sound judgment, objectivity, be proactive, a healthy skepticism, and strong communication skills. Members should be able to ask relevant questions (‘hard’ questions when necessary), assess answers and continue to probe for information until completely satisfied with the answers provided.

The Chair has a pivotal role in the overall effectiveness of the Committee. He/she must have good leadership and communication skills. In addition, the Chair needs to have the necessary qualities to maintain effective relationships with the AO, senior management, and other committee members and stakeholders, raise and tackle difficult issues, encourage

7 As a rule, an AC reports to the one who appoints it for necessary action. Therefore, if the ACs in the Civil Service are appointed by someone with high authority, then arrangements must be made so that ACs’ reporting to the latter is eased and necessary decisions and actions follow.
8 As confidential information of Ministries/Departments will have to be considered by ACs, it would be preferable to restrict membership to Civil Servants initially.
active participation of other AC members, and conduct Committee meetings in an efficient and effective manner.

(c) **Expertise and Skills.** To effectively discharge their responsibilities, AC members should collectively possess public sector experience and have general knowledge of:

- internal control and risk management;
- project management;
- IT systems and controls, including information security;
- internal and external auditing;
- legal and regulatory compliance;
- finance and accounting\(^9\).

In addition, where the entity’s operations are specialised in nature, skills and experience of a member(s) in the specific operation will facilitate the AC to meet its responsibilities.

The required skills’ mix for an AC is normally stated in the AC Charter. At paragraph 3.1 of the Charter, it is stated that the appointed AC should have ‘sufficient and relevant expertise to fulfill its role effectively taking into consideration the size and complexity of the relevant Ministries or Departments’. Thus, each Ministry/Department should determine the skills’ mix for its AC. However, as an AC carries out oversight activities on the various governance areas mentioned at paragraph 2.7, sufficient and relevant expertise is bound to encompass the different fields stated above.

An examination of AC’s composition of a few ACs showed that members did not collectively possess sufficient knowledge in the fields mentioned above. For example, the members of the AC at the Office of the Director of Public Prosecutions were State Counsellors, and had, thus, mainly legal expertise. Committee members at MoFED had knowledge in economics and finance, and managerial skills. At the Meteorological Services Department, they essentially had knowledge in meteorology. This was expected. Members were appointed from the same entity, and, therefore, most of them were bound to have knowledge in the field relevant to the organisation. However, this was not sufficient for the effective operation of an AC.

The current Charter prepared by OPSG did not explicitly mention the range of skills and expertise that members of an AC should collectively have. The OPSG had also not advised or guided the AOs in determining the knowledge and expertise needed for their ACs.

---

\(^9\) This is not relevant at present. However, as Ministries/Departments will in the near future be preparing financial statements, much financial information will have to be considered by an AC. Accounts and disclosures will have to be reviewed before submission for audit. Under these circumstances, one of the members will have to be aware of financial matters. The OPSG has been proactive and done well to provide this requirement at paragraph 3.3 of the Charter.
3.14 Training for Committee Members

At paragraph 12.3 of the Charter, it is stated that the AC shall ‘be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members’. As part of its mandate in establishing ACs in Government, some form of training needs to be dispensed by the OPSG. New members need to be provided with sufficient and relevant information and be briefed on their appointment to assist them to meet their committee responsibilities. All members need to be appropriately trained and guided to carry out their oversight activities. No training was provided to new and existing members. Members had only the Charter as guide to perform AC activities. This was not adequate.

To enhance the effectiveness of ACs, the OPSG conducted sensitisation activities to encourage members to be as independent as possible and to adopt international best practices aiming towards inter alia, objectivity, accountability, transparency and probity. While this was meaningful as it enhanced the required attributes of members, it was not sufficient to enable them to correctly drive AC operations.

If an AC is to be effective, it is important that it has sufficient knowledge of:

- The organisation’s mission, structure, including key relationships, and culture;
- The relevant legislation or other rules that govern the organisation;
- How the organisation operates;
- The governance arrangements and accountability structures in place;
- The organisation’s control environment\(^{10}\).

The above knowledge needs to be provided by the organisation. All members need to have the ‘tools’ or guidance necessary to perform review and oversight activities on governance initiatives. Governments (for example Scotland) and organisations (like, The Treasury in the United Kingdom), which take the AC business seriously, have devised AC handbooks for their members as a useful reference source and guide. These allow members to execute their roles effectively. Similar guides for the ACs in Ministries/Departments were neither developed nor made available.

The OPSG has not provided the necessary induction training for AC members. Checklists that would help to carry reviews and oversights on governance areas have also not been developed or made available.

---

\(^{10}\) The control environment is generally the overall awareness, actions and attitude of management regarding internal controls in the organisation. AC members need to broadly understand what controls exist or should exist and, also the major risks that impact adversely on the realisation of the entity’s objectives.
3.15 Responsibilities on Governance Areas

An AC needs to review and provide advice on the governance arrangements established and maintained within the entity, and have procedures in place to ensure that these arrangements are operating as intended.

Responsibilities of the AC on several governance areas, like internal control framework, risk management, auditing, ethics and reporting were stated in the Charter. However, governance structure, a key area, was not covered. This area embraces several aspects of the public body as mentioned at paragraph 3.4.2. These, together with policies of the organisation, its key stakeholders and their expectations, need to be scrutinised by the AC.

3.16 Audit Committee Activities

AC’s activities basically revolve around provision of oversight of an organisation’s governance, risk management, and internal control practices. Oversight is carried out through reviews and provision of independent advice, including recommendations and suggestions, on the adequacy and effectiveness of management practices. Thus, activities for an AC will typically include:

(a) Review and provide oversight on the systems and practices management establishes to monitor compliance with laws, regulations, policies, Code of Ethics, and identify and address any legal or ethical contraventions;

(b) Review and provide oversight on the organisation’s internal control framework\(^\text{11}\);

(c) Review and provide oversight on the establishment, implementation, maintenance, and effectiveness of the risk management system, and risk reporting practices;

(d) Review and approve the Internal Audit Plan which should be risk-based and supported by appropriate risk assessments;

(e) Monitor and assess the Internal Audit activity’s performance in accomplishing the approved plan through periodic reports by the Internal Audit function;

(f) Coordinate the activities of the Internal and External Auditors\(^\text{12}\);

---

\(^{11}\) This framework defines internal control and describes its five interrelated components, namely control environment, risk assessment, control activities, information and communication, and monitoring. It enables organisations to design, implement, and conduct internal control and assess its effectiveness.

\(^{12}\) Public sector entities are subject to audit by the National Audit Office (NAO) which has an independent legislative mandate to conduct different types of audits.

In the current Charter, an anomaly is apparent on the responsibilities of an AC towards Internal and External Audits. The ICC, falling under the aegis of MoFED performs the IA function in Ministries/Departments, while NAO provides external auditing services. The ICC team posted at a Ministry/Department forms an integral part of the public entity. The AC should, thus, review and approve the ICC Audit Plan and not just review it (as provided at paragraph 9.5.3 of Charter). In contrast, NAO being an independent body, its Audit Plan may only be discussed with and reviewed, if need be, by the AC and not reviewed and approved by the Committee, as stated at paragraph 9.6.4 of Charter.
(g) Review Internal and External Audit reports and corresponding management action plans to address recommendations;

(h) Review regular reports on implementation status of approved management action plans resulting from prior audit recommendations;

(i) Review and provide advice on the key financial management and performance reports and disclosures issued to the public;

(j) Direct and oversee special investigations as needed.

The above had been satisfactorily described in the Charter. However, except for follow-up of Auditors’ recommendations made, the ACs did not undertake the other reviews and oversight activities mentioned above. Therefore, the ACs were not fully functional. This might be attributed to the fact that almost all AC members did not have the necessary knowledge, expertise and skills for these tasks. The necessary training had not been dispensed and tools had not been provided to members to enable them carry out their AC responsibilities, as mentioned at paragraph 3.14.

Focusing on follow up of Auditors’ recommendations was also motivated by the performance indicators set out in the Charter and used to assess AC’s performance.

### 3.17 Evaluation of Audit Committee’s Performance

Paragraph 14.1 of the Charter provides that the AO agrees on a Performance Contract with the Chair and other AC members. The performance indicators, by which the effectiveness of the AC is measured, include:

- Reduction in previous audit queries from the Director of Audit (National Audit Office), as measured by the number of cases attended/resolved, and the steps taken to avoid recurrence of such criticisms;

- Improvements in internal controls, as measured by the number of recommendations made by the Internal Control Unit (Internal Auditors) which have been implemented;

- Recommendations made by the AC and implemented within a timeframe;

- Implementation of the recommendations made by the Public Accounts Committee.

Paragraph 4 of the Performance Contract stipulates that the OPSG will assess the effectiveness of the AC annually. AC fees were recommended for payment when the OPSG certified that the AC was effective and had delivered the targeted results. Therefore, with a view to securing payment of fees to members, the AC concentrated on monitoring the implementation of recommendations made in previous audit reports. Follow-up on audit reports is an important
activity as it increases the probability that recommendations will be implemented.\textsuperscript{15} This greatly improves both Internal and External Audit effectiveness.

Implementation of audit recommendations does contribute to bring an improvement in internal controls, and, consequently, lesser future audit queries. However, proper and continuous reviews and oversight activities on key governance areas are also needed. Evaluating the performance of an AC based on implementation of different recommendations only is too limiting. The Charter spells out the roles and responsibilities of the AC, and the expected coverage. To fulfill the Charter requirements, active participation of competent and skillful AC members is important. When Charter obligations are correctly met, the AC is able to contribute to the governance of the entity and assist it in meeting its objectives.

In this order of ideas, when evaluating the performance of an AC, the following need to be ascertained:

(a) \textit{if it complies with its Charter}. Monitoring implementation of recommendations from assurance providers is, but one requirement of the Charter. It also lists numerous reviews and oversight activities on different governance areas that have to be undertaken (see paragraph 3.16);

(b) \textit{the level of participation of its members}. Assessing members’:

- regularity in attending meetings;
- understanding of the entity’s operations and governance arrangements;
- understanding of, and commitment to the AC’s roles and responsibilities;
- ability to act objectively and independently and make constructive contribution to the work of the Committee;
- professional conduct;
- willingness to devote the time required to prepare for, and participate in, Committee meetings and outside Committee meetings;
- other attributes

help in determining this level of participation.

(c) \textit{the overall contribution of the AC to the organisation}. Facilitating decision-making, promoting and monitoring an ethical culture, and overseeing a sound internal control system are some of the ways how an AC could help management drive the vision of a public entity to achieve its objectives.

As the OPSG did not carry out this three level assessment of an AC, but focused mainly on how successful the AC had been in causing the implementation of auditors’ recommendations

\textsuperscript{15} Follow-up is not restricted to the implementation of recommendations, but focuses on whether the entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time.
(as result of the performance indicators stated in the performance contract), its assessment was narrow, and therefore, incomplete.

Results of OPSG assessment over the past five years are given in the Table 2 below:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC set up</td>
<td>31</td>
<td>-</td>
<td>33</td>
<td>-</td>
<td>36</td>
</tr>
<tr>
<td>AC effective</td>
<td>28</td>
<td>90</td>
<td>24</td>
<td>73</td>
<td>16</td>
</tr>
<tr>
<td>AC ineffective/not operational</td>
<td>3</td>
<td>10</td>
<td>9</td>
<td>27</td>
<td>18</td>
</tr>
<tr>
<td>Source: OPSG</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*In 2017, assessments for three ACs were put on hold as necessary documents were not yet submitted to the OPSG. As of November 2018, these assessments were still not completed.

Fees were paid to ACs that OPSG certified as effective. Thus, some Rs 4.43 million\(^1\) had been paid to 107 ACs rated as effective during the past five years. Given that these ACs had not fully executed what was required of them, the ACs could not be said to be fully operational. Thus, they could not be rated as effective.

Leading practice organisations, like the IIA and the Audit Committee Institute, advocate self-assessment for ACs. Questionnaires are used to assess compliance to the Charter. The AC Chair evaluates the performance and contribution of members. Inputs from management, Internal and External Auditors, and also stakeholders help to complete the evaluation.

It is worth mentioning that the Charter does require self-assessment of ACs (paragraph 15.1 of Charter refers). It also requires the AC to report on how its performance and that of its members have been conducted. However, no self-assessment of ACs has ever been conducted.

---

\(^1\) Since 2013, composition and annual fees paid to an AC have been as follows: a Chair (Rs 18,000), two members (Rs 9,000 per member) and a Secretary (Rs 5,400). Therefore, total AC fees paid to the 107 ‘effective’ ACs amounted to Rs 4,429,800 \([107*(18,000 + 2*9,000 + 5,400)]\).
CHAPTER FOUR

CONCLUSION

This Chapter concludes against the audit objective based on analysis and findings supported by audit evidence as elaborated in the previous Chapter.

Internal Audit

ICC plays an important role in public sector governance. It assists management to attain organisational goals by providing an independent, objective assurance on governance, risk management and control processes. The present practices and activities at ICC do not allow it to fully and effectively play this role.

The benefits expected from an IA function are not being fully derived by Ministries/Departments. This is mainly attributed to:

- Inadequate audit coverage of Ministries/Departments;
- Insufficient coverage of core areas of Ministries/Departments;
- Insufficient training and use of available IT Tools;
- Not conducting new types of audits;
- Shortcomings in reporting and quality assurance.

Audit Committee

An AC is a crucial component of good governance. Indeed, an effective AC provides a complementary vehicle for implementing and strengthening relevant control systems incorporating sound risk management plans within an organisation.

At present, this benefit is not being derived by Government, as ACs are not functioning as they should. This is mainly attributed to inappropriate composition and quality of the ACs. ACs have not been properly set up. Their members are not independent of management of the Ministry/Department where they have been established. In appointing members, attention has not been paid to their personal attributes, skills and expertise.

Training has not been provided to AC members. They only have the AC Charter as guide. Thus, AC members do not fully understand their roles and responsibilities, and those of an AC. The absence of training and limited skills do not facilitate the work of the ACs. Oversight activities on numerous governance areas are not done. To secure payment of fees, ACs focus on follow-up of Auditors’ recommendations. Assessing performance of ACs by OPSG is too limiting.

The OPSG has not fully and effectively fulfilled its roles enjoined in its mandate.
CHAPTER FIVE
RECOMMENDATIONS

This Chapter presents the recommendations based on analysis of the findings and conclusions.

5.1 Recommendations to Enhance the Effectiveness of ICC

Hereunder are the specific recommendations on IA.

5.1.1 Internal Audit Charter

Each Ministry/Department should have its Internal Audit Charter signed by its Accounting Officer.

5.1.2 Human Resources

- Limited staff resources need to be properly allocated based on the Ministry’s budget and risks. Audit activities at Ministries/Departments need to be regularly undertaken to allow for maximum coverage.
- An assessment of the training needs of the ICC should be carried out, and training planned and dispensed accordingly on a regular basis.

5.1.3 Planning

- Audit needs to provide assurance on the establishment, implementation, maintenance, and effectiveness of risk assessment, risk management, and risk reporting practices of the organisation.
- As part of its responsibility, ICC, through consulting activities, needs to assist management in the setting up of a risk management framework. Good practices that lead to overall good governance should also be promoted and encouraged. These two areas should be included in its Audit Plans and adequately executed.
- Each audit component should be reassessed at the annual planning stage in order to decide whether it is still a risky area on which ICC should focus.
- The ICC needs to develop a road map, including strategies, plans, structures and other arrangements that will allow the conduct of new types of audit.

5.1.4 Reporting

- The ICC Annual Report submitted to the Financial Secretary should provide an overview of the shortcomings in the internal control and risk management systems in Ministries/Departments for decision making and corrective actions. Proper reports need to be prepared and submitted.
➢ Management Letters and Annual Reports need to be signed and issued by higher officials of ICC as from the rank of Manager.

➢ Audit recommendations need to have more substance if they are to add value to the organisation. Auditing core activities are bound to yield such recommendations. More efforts should be put in to follow up implementation of recommendations.

5.1.5 Use of IT Tools

ICC should get adequate support for the use of the already available IT tools.

5.1.6 Ensuring Quality of Internal Audit

ICC should develop and maintain a Quality Assurance and Improvement Programme that covers all aspects of the IA activities. The Programme must include ongoing and periodic internal assessments, and external assessments by a qualified independent reviewer or review team at least once every five years as required by the IIA Standards.

Reply from Ministry of Finance and Economic Development

Recommendations made at paragraphs 5.1.1 to 5.1.6 are being considered to enhance the effectiveness of the ICC.

The following actions are also being initiated:

➢ The structure of the ICC and Scheme of Service of its personnel are being revisited to enable them to undertake Governance Audit, Performance Audit and the audit of Risk Management System.

➢ Regarding Development of Risk Management and Capacity Building programmes on Governance Audit, Performance Audit and the audit of Risk Management System, MoFED is contemplating assistance of specialised body, like the World Bank, to provide tailor made programmes for the ICC staff.

➢ Looking for other specific training programmes that will update and enhance the skills of the ICC staff.

5.2 Audit Committee

In respect of Audit Committee, hereunder are the specific recommendations.

5.2.1 Reviewing the AC Charter

➢ The mandate for the AC should be explicitly stated in the Charter;

➢ The term of office for AC members needs to be reviewed so that the AC can make a substantive contribution, and to maintain continuity and stability;
➢ Governance structure should be included in the Charter and oversight activities on same appropriately defined.

5.2.2 Ensuring Independence

➢ There is a need to enhance the independence of the AC. An external Chair should be chosen. Appointment of members for ACs of Ministries/Departments should preferably be done by one with high authority within the Civil Service. A database of individuals willing to serve as AC members should be set up and maintained.

➢ To enhance the effectiveness of the AC, a profiling exercise that facilitates the selection of candidates with the right characteristics should be done.

➢ A competency based selection process should be developed for appointing AC members. A list of the personal attributes, skills and expertise an AC needs should also be developed. A broad range of skills and expertise should be explicitly stated in the Charter.

➢ Members’ competencies and the overall balance of skills on the Committee should be periodically evaluated to align with the changing environment in which the entity operates.

5.2.3 Training for Audit Committee Members

Ministries/Departments should provide AC members with training within a reasonable time following their appointments. As a minimum, appropriate checklists should be prepared for the review and oversight of governance arrangements set by management. A process of continuing education should be established.

5.2.4 Audit Committee Activities

To be fully operational, the ACs need to fulfill all the roles and responsibilities described in the Charter.

5.2.5 Assessing Performance of Audit Committee

AC’s performance needs to be properly assessed. Compliance with Charter requirements, participation of AC’s members and contribution of the AC to the organisation should be taken into consideration. A self-assessment exercise with inputs from relevant parties and stakeholders should be followed.
Reply from Ministry of Justice, Human Rights and Institutional Reforms

All recommendations made are being implemented. The Audit Committee Charter has been revised and is being sent to the Attorney General’s Office for vetting. Provisions have been made therein for recommendations made at paragraphs 5.2.1 to 5.2.5. The Ministry is also proposing to publish a Handbook that will provide guidance on the setting up and operation of Audit Committees. The Handbook is in preparation and is expected to be completed by April 2019.

With respect to “Ensuring Independence” (paragraph 5.2.2), provisions have been made in the draft revised Charter for:

- Reinforcement of the independence of members by provision for external Chairperson and members.
- Nomination of AC members to be made by the OPSG in consultation with the Ministry, and Cabinet to be apprised accordingly to ensure high consideration to the Committee.

Profiling and selection of candidate would be spelt out in the Handbook

As for “Training for Audit Committee Members” (paragraph 5.2.3):

- Provisions have been made in the draft revised Charter for the reinforcement of the training requirements of the members and the need of the Ministry/Department to ensure that appropriate training is provided to the AC members.
- Checklists and all training materials would be included in the Handbook.

Details of expected performance of AC spelt out in the Performance Contract would be dealt with in the Handbook.