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MINISTRY OF FINANCE

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To All Chief Executive Officers of Government Ministries,
Offices, Agencies, Other Entities and Public Bodies

CIRCULAR MEMORANDUM: 2020/10

PUBLIC FINANCE MANAGEMENT (INTERNAL AUDIT) REGULATIONS 2020 ("Regulations")

1. We wish to set out as follows for information and reminder, the requirements and conditions provided for in the above Regulations in respect of the internal audit function across Government:

(I) Application of the Regulations

Please note that these Regulations apply to all internal audit functions across Government, in particular, this affects all Government departments and Government agencies (as defined under the Public Finance Management Act 2001 ("PFM Act")) including public bodies (as defined under the Public Bodies (Performance and Accountability) Act 2001 ("Public Bodies Act")).

For avoidance of doubt, the Regulations also affect the internal audit function of an office that is not under the oversight of the Public Service Commission (PSC) nor subject to the Public Service Act 2004 ("PS Act"), a constitutional or statutory authority, or an office with employees appointed under the PS Act but the heads of offices are appointed under other relevant legislation.

(II) Audit Committee

The Regulations provide for the set-up of an Audit Committee under regulation 11, and this Committee governs the internal audit function of all Government departments and Government agencies, offices and entities (other than public bodies).

The Regulations also complement the existence of the audit committees established under the Public Bodies Act. These audit committees govern the respective public bodies for which they are responsible.

(III) Internal audit function

Relevant CEO is responsible to setup and maintain his/her own internal audit function. In doing so, he/she may consider any recommendation from CEO MoF and Audit Committee.

What if there is no internal audit function?

There may be some departments which do not need internal audit functions due to its low risk nature, size, etc. so MoF IAID may be used to carry out an internal audit if needed subject to a written agreement/MOU between the two entities.

But for departments which require an internal function but has not yet established its own, MoF IAID will act as default to provide the internal audit services until the function is setup.

What is the purpose of an internal audit function?

- Report to the Audit Committee for functional oversight (including monitoring and evaluation)
- Report to the relevant CEO for administrative purposes
- Examine evidence in order to provide independent assessments (to the Audit Committee, management and relevant stakeholders) on governance, risk management and control processes
- Risk-based audits and any other audit required by CEO MoF and Audit Committee (provided that audits are in line with the International Professional Practices Framework Standards (IPPF))
- Advisory services
- Assist with improvement of internal control systems and processes
- Assess whether controls are efficient and effective – and confirm whether or not the controls are adequate to respond to risks
- Liaise with Management to identify risks
- Contribute to improvement in operations
- Promote and abide by the Code of Ethics applying to internal auditors (*principles of integrity, independence, objectivity, confidentiality and competency*)
- Raise red flags as soon as any improper conduct is known – if an internal auditor discovers or suspects an irregularity or problem arising from an issue or area not covered under the current audit, he/she must extend his/her audit to cover that issue and report to CEO MoF.
- Provide insight and advice on strategic risks (Management makes the final decision)
- Checks that financial statements (financial and operational information) are accurate, true and reliable

What guidance is there for the work of an internal audit function?

- IPPF, International Audit Manual, Internal Audit Assignment Practice Guide, and the Association of Certified Fraud Examiners Professional Standards (ACFE) must all be considered when carrying out assignments, planning, internal audit fieldwork, internal audit

reporting, internal audit programmes and guidelines, internal audit tests, and other relevant areas.

- Assistance can be obtained from MoF, an expert, or any other person in order to complete an internal audit assignment.

Appointment of a person to head the internal audit function

The relevant CEO is responsible for the necessary arrangements to appoint a person who holds the relevant qualifications, and has the relevant skills, competence and experience to manage and lead internal audit matters.

The qualifications, JD and selection criteria must be endorsed by the Audit Committee before advertisement.

(IV) Charter of internal audit function

Overarching Internal Audit Charter

- CEO MoF issues an overarching Charter that governs the operations of all internal audit functions.

Individual internal audit charters (specific to an office)

- Determined by the relevant CEO and the head of his/her internal audit function must determine (in liaison with MoF and the Audit Committee).
- Audit Committee reviews and approves, annually.
- Must be in line with the overarching Charter.
- Readily available to the office.
- Contains certain information such as the purpose and mission of the internal audit function, internal audit standards, authority to fulfill internal audit duties, reporting structure, ethical principles to abide by, scope of the internal audit function, responsibilities of the internal auditor, organizational relationships, ancillary roles of the function, conduct of the internal audit work, and planning and reporting achievements of internal audit activities, resources and continuing professional development of internal auditors.

(V) Internal audit access

An internal audit function has reasonable access as follows (subject to proper safeguards and relevant approvals being obtained):

- unrestricted access to buildings, offices, places and stores controlled or used by an office;
- require to inspect or obtain copies of any document, record, information or data (including computer data) in hardcopy;
- ask questions, or enquire with any employee about any loss to public money or public property;
- request from an employee any information or explanation relevant to the internal audit carried out;
- access to personal files and records;
- examine, photograph or film anything in premises covered under the internal audit assignment;

- require any person in the place where the internal audit assignment is being carried out to give assistance;
- to exercise any other powers or functions (relating to the internal audit function) under the PFM Act as per a written delegation by CEO MoF.

Where the approval of the relevant CEO is required to obtain copies of documents, records, etc. such approval must not be unreasonably withheld.

(VI) Internal audit planning

An internal audit function must:

- assist MoF in developing a *medium term strategic internal audit plan* before the plan is approved by CEO MoF;
- prepare an *annual internal audit plan* specific to the office (responsibilities of the relevant CEO, risk assessment for each area of operations, and resources needed to carry out the annual internal audit plan) before the plan is approved by the Audit Committee (on advice of relevant CEO);
- prepare a *plan for each internal audit* to be performed under the annual internal audit plan (approved by the relevant CEO).

For any internal audit plan prepared, consultations must be carried out with:

- relevant CEO; and
- employees of the office covered under the internal audit assignment; and
- Controller and Auditor General (or a senior officer representative); and
- CEO MoF (or ACEO-IAID MoF) for the overall government internal audit risk assessment and cross government internal audit; and
- Audit Committee (for review/feedback).

(VII) Internal audit risk assessments

Individual internal audit risk assessment (specific to the office)

- Prepared by an internal auditor must (in consultation with the relevant CEO)
- Prepared on an annual basis
- Prepared in accordance with the IPPF Standards
- Final to be made available to the relevant CEO, the internal audit function of the office concerned, Audit Committee, and CEO MoF.

Cross government internal audit risk assessment

- Prepared by the ACEO-IAID MoF (in consultation with the internal audit functions across government) and considering what was reported in the individual internal audit risk assessment. For purposes of the cross government internal audit risk assessment, we will identify only the high risk common areas.
- Prepared annually

(VIII) Internal audit reports

Reports to be submitted by the internal audit function:

- *Internal audit report:*
 - *Draft* to be submitted to the relevant CEO and head of the division covered under the internal audit assignment (for their comments to be provided within a reasonable time).
 - *Final Draft* to be submitted to the Audit Committee for functional oversight (including monitoring and evaluation) and the CEO MoF and CAG for information and guidance.
- *Report on the performance of the annual internal audit plan:* to be submitted to the relevant CEO, CEO MoF and Audit Committee, together with the Draft internal audit report.
- *Other reports (as required by the relevant CEO or Audit Committee or internal audit function):* to be submitted to the relevant CEO, CEO MoF and Audit Committee, together with the Draft internal audit report.

What must the relevant CEO do with the reports he/she receives?

- Consider the contents of all reports, including actions or recommendations required to be carried out;
- Follow-up on action needing to be carried out (by reviewing the outcome of any directions or recommendations made in the reports);
- Provide written response to the Audit Committee on actions taken or his/her views otherwise.

(IX) Certification by the relevant CEO

By 30 June each year, the relevant CEO is required to submit to CEO MoF a written certification of the following matters:

- That the approved internal audit charter (specific to the office) is in place;
- That the internal audit function is independent and have no operational roles or involvement in the payment process;
- That an internal audit risk assessment has been carried out identifying areas of highest risks;
- That an annual internal audit plan has been developed and approved and adequately addresses the risks identified (including internal audits identified in the cross government annual internal audit plan);
- That adequate resources have been allocated to the internal audit functions;
- That issues and recommendations from internal audit reports have been properly considered and appropriate action implemented.

(X) Relationship with Controller and Auditor General (CAG)

ACEO-IAID MoF must consult with CAG in preparing the cross government annual internal audit plans to obtain maximum benefit and avoid duplication from an internal audit coverage including spot check reviews.

(XI) Audit Committees

Audit Committee for Government departments, agencies, offices (not including public bodies)

- Composition consists of CEO MoF (Chair), CAG, President of SIA, CEO MPE, and Chairperson of Public Service Commission.
 - SIA's nominee must be a person who is not a Government employee, qualified and has over 10 years experience in either accounting or auditing profession).
 - Nominees for other members must be at senior management level.
- CAG has no voting rights and attends only as an honorary member for purpose of advocacy, advisory and counseling on good quality governance and quality auditing.
- Relevant CEO must attend Committee meetings as required by the Committee (if necessary attend with the head of his/her internal audit function) and reports to the Committee on the internal audit work performed, issues identified and status of prior recommendations.
- Set-up of the Committee must be in line with the Audit Committee Charter and IPPF Standards or any other document or instrument as confirmed by Secretariat.
- ACEO-IAID MoF to act as Secretariat (no voting rights).
- Committee procedures (e.g. meetings, disclosure of interests, etc.)
- Functions of the Committee:
 - Provide oversight of the operation of an office's governance, risk management and consider effectiveness of internal control systems (including information technology security and control);
 - Advise and provide guidance on adequacy of offices' initiatives for values and ethics, governance structure, risk management, internal control framework, oversight of the internal audit activity and other providers of assurance, financial statements and public accountability reporting;
 - Recommend resourcing or funding of an internal audit function and provide analysis as appropriate
 - Consider adequacy of internal audit coverage across government
 - Consider work plans or request changes to an internal audit function where it is satisfied that coverage is inadequate
 - Ensure compliance of the internal audit function with IPPF Standards

- Review and approve the individual internal audit charters annually
- Review and endorse the annual internal audit plan prepared by the internal auditor
- Review and follow up on internal audit reports prepared by the internal audit function
- Carry out any other tasks or function determined by Cabinet (on advice of CEO MoF).
- Must comply with the IPPF Standards and Audit Committee Guidelines-Improving Accountability and Performance

Audit Committee for public bodies

The requirements of Schedule 8 of the Public Bodies Act continue to apply.

For purposes of the overall governance and coordination of the internal audit function across government, the audit committees for the respective public bodies are required to provide copies of internal audit reports brought to their attention to:

- CEO MoF;
- Chairperson of the board of the public body concerned;
- Secretariat of the Audit Committee for Government departments, agencies, offices (for consideration at the next ensuing meeting of that Committee).

(XII) Internal Audit Forum

How is this Forum formed, and who are its members?

- Comprises of all internal auditors across government
- CEO MoF prepares the ToR for the Forum and distributes to the relevant CEOs and heads of internal audit functions across government
- Forum is chaired by ACEO-IAID MoF
- Forum may agree to set-up committees/sub-committees for its purposes (e.g. Professional Practices Committee, Quality Assurance Committee, etc.)

What is the purpose of the Forum?

To coordinate and work together as internal auditors to develop and increase a professional approach through adopting a common methodology, procedures, technology and techniques, and to contribute collectively to the development and implementation of the cross government internal audits and relevant internal audit activities including professional development.

How can the relevant CEO assist in making this Forum work?

- By ensuring that the internal auditor of that office attends the forum meetings.
- Failure by an internal auditor to attend is grounds for disciplinary action.

(XIII) Cross Government internal audits

- CEO MoF prepares this annually, with the assistance of relevant CEOs and heads of internal audit functions across government.
- ACEO-IAID leads and directs the overall cross Government internal audit.
- A cross government internal audit plan:
 - addresses the high-risk areas;
 - outlines the scope of internal audits to be performed across government;
 - involves the relevant resources including personnel responsible for the internal audit function of the respective offices;
 - is approved by the Audit Committee (other than the Audit Committee for public bodies);
- An internal auditor is responsible for carrying out the internal audit of the office where he/she is employed and reports to CEO MoF for compilation into the overall cross government internal audit report and for approval before implementation of matters noted in the internal audit report.

(XIV) Code of Ethics, etc.

All internal auditors must comply with the IPPF Standards (professionalism, balanced assessment, objectivity, independence, not involved in operational matters (except to attend meetings), not to be involved in payment processes, not to carry out pre-audits, honesty and diligence, avoiding illegal activities or engaging in acts that discredit work, disclosures by law, impartiality and confidentiality, no favours, conflicts of interest, etc.)

(XV) Offences and penalties

A person convicted of the following offences is liable upon conviction to a fine not exceeding 50 penalty units or imprisonment for a term not exceeding 1 year, or both:

- A person who provides false information when required.
- A person who unreasonably or without good cause fails to produce for inspection or otherwise fails to give access to any information, document or premises as required.
- A person who willfully suppresses any information or explanation without good cause.
- A person who unreasonably or without good cause obstructs an internal auditor in the performance of his or her functions.
- An officer who demands or takes a bribe, gratuity, recompense or reward for the neglect, omission, commission or performance of a duty under the Regulations.

- An officer who willfully fails to report any abuse or irregularity that comes to the notice of the officer in the course of the performance of a duty under the Regulations.
- Any officer who makes a report which the officer knows to be false or which the officer has no reason to believe to be true.
- An officer who knowingly acts in contravention of the Regulations.
- An officer who willfully fails when required to report a suspected case of fraud or irregularity by an offence.

A person who alters, erases, destroys or conceals any document or information with the intention of avoiding producing of a document or information as required, commits an offence, and is liable upon conviction to a fine not exceeding 100 penalty units or imprisonment for a term not exceeding 1 year, or both.

A person who breaches the Regulations may also be subject to a penalty following disciplinary action:

- under the Public Service Act 2004 (in the case of a Ministry); or
- in accordance with applicable procedures or guidelines developed (in the case of a public body or Government agency not subject to the Public Service Act 2004).

(XVI) Protection of internal auditors

All internal auditors have a duty to carry out internal auditing in good faith.

An internal auditor who acts in good faith and in accordance with relevant internal audit standards cannot:

- be terminated without notice of intention and reason of such termination or notice of right to reply; or
- be subject to arbitrary retaliation (including termination or deduction of employment benefits); or
- be removed or suspended; or
- be liable for an act or thing done in good faith and in the course of his/her employment.

These immunities must be further implemented in relevant contracts or working conditions governing the employment of internal auditors.

This however, does not prevent the exercising of powers of relevant authorities to impose disciplinary measures or penalties or carry out an investigation in respect of an internal auditor who is suspected or confirmed (after due process is followed) to be in breach of the law, a Code of Conduct or other requirements or principles governing the employment of an internal auditor.

(XVII) Investigations

An internal auditor cannot undertake an investigation (other than normal inquiries required for the internal audit assignment) unless he/she is given written authority by CEO MoF to carry out any of the powers or functions under the PFM Act. So without a written delegation from CEO MoF, an internal auditor must not carry out, or be required to carry out, any investigation.

What does an internal auditor do in these circumstances?

An internal auditor who has discovered, or suspects, or has been referred instructions from his/her CEO to investigate an irregularity, must not do so but instead, he/she must extend his/her internal audit coverage to that issue and report the matter to CEO MoF.

(XVIII) Prevailing effect

Any treasury instructions or operating manuals or policies issued under the PFM Act in relation to the internal audit function or internal controls are trumped by these Regulations.

2. We look forward to your cooperation and compliance with the above requirements as stipulated under the Regulations, so as to ensure better management and control of the internal audit function across government.
3. Should you have any queries please do not hesitate to contact Muliagatele Rosalini Ah Ki (ACEO-Internal Audit and Investigations) or Salote Peteru (ACEO-Legal Services) on telephones 34362 or 34370, respectively.


(Leasiosiefa' asisina Galumalemana Oscar T. Malielegaoi)
CHIEF EXECUTIVE OFFICER