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# **Critical Success for Public Financial Management in Sierra Leone**

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## Forward

Critical Success Factors (CSFs) are the fundamental determinants of success for individuals, families, departments, institutions, countries, and continents. They represent the key issues that must be addressed effectively to achieve success in terms of effectiveness, economy, and efficiency.

Within the context of Public Financial Management (PFM), Critical Success Factors constitute the essential elements required for the establishment and operation of sound and acceptable public financial management systems. This textbook examines these factors with particular emphasis on the nature, scope, objectives, and relevance of public financial management.

In the case of Sierra Leone, the identified Critical Success Factors encompass all major components of the public financial management system. These include financial planning, the mobilization of financial resources, the allocation of mobilized funds, and the implementation of financial control mechanisms. In contemporary public financial management, financial controls notably include budgetary controls.

Furthermore, this textbook provides comprehensive guidelines for the management of public budgets, economic policy, fiscal policy, and the formulation of sound public financial management policies. It also outlines the roles and responsibilities of key state actors within the public financial management framework, including the Minister of Finance, the Financial Secretary, the Parliament of Sierra Leone, the Audit Service Sierra Leone, the vote controllers, the National Public Procurement Authority (NPPA), internal auditors, heads of budgetary agencies, and other relevant stakeholders.

The textbook also addresses the management of public stores, as well as the powers and functions of the Offices of the Auditor-General and internal auditors. In addition, it examines contemporary issues relating to virements, including the conditions under which virements may be affected, and discusses the sources and uses of government finance in Sierra Leone.

Consequently, this textbook is both timely and invaluable to its intended audience, particularly Ministries, Departments, and Agencies of the Government of Sierra Leone. Researchers, donors, and consultants will also find it to be a valuable resource.

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## About the Authors

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Dr. Dante Allie Bendu, also a Sierra Leonean, holds several distinguished academic qualifications: BSc Economics (Honours in Accounting and Finance); MSc Economics (specializing in Accounting and Finance, including Public Sector Accounting and Financial Controls); MA Marketing and Management; ACCA; CIMA (Diploma, Advanced Diploma, among others); FeICM (UK); and a PhD in Accounting and Finance. He additionally holds multiple certifications, including computer applications training from Bluecrest College in India and IPAM, and has undertaken undergraduate law studies through the University of London (UK).

Dr. Bendu is an experienced senior lecturer in Management Sciences, teaching across Accounting, Finance, Strategic Management, Business Administration, Public Administration, Economic Policy Management, Human Resource Management, and Performance Management. He served as a Sector Expert on Corporate Governance for Sierra Leone within the African Peer Review Mechanism (APRM) from 2009 to 2018. He is also the sole author of the textbook *Corporate Governance and Its Applications to the Republic of Sierra Leone*.

Dr. Bendu previously served as Dean of the Faculty of Social Sciences and Law at Fourah Bay College (2016–2021) and has been an external examiner for major universities in Sierra Leone, including Njala University, Ernest Bai Koroma University of Science & Technology (EBKUST), and the Milton Margai Technical University (MMTU). He is also an active consultant in the Management and Social Sciences, as well as in Economic Policy Management.

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Dr. Abu Kai Kamara is a distinguished Sierra Leonean scholar with extensive academic and professional qualifications. He holds a Bachelor of Science degree in Economics, with Honours in Accounting; a Master of Science in Strategic Planning; a Master of Philosophy in Accounting and Finance; and a Doctor of Philosophy in Accounting and Finance. In addition, he is a Fellow of the Association of Chartered Certified Accountants (FCCA), an Associate Chartered Accountant (ACA), and possesses several other professional certifications, including credentials obtained from the University of Edinburgh, United Kingdom.

Dr. Kamara has considerable experience in the management of projects and institutions that apply contemporary principles of corporate governance, financial management, and strategic planning. Since October 2002, he has served as a lecturer at Fourah Bay College, University of Sierra Leone, as well as at the Institute of Public Administration and Management (IPAM). He has also functioned as an external examiner for Master's degree programmes at Fourah Bay College. His teaching experience spans undergraduate, master's, master of philosophy, and doctoral levels, with academic specialization in the management sciences, particularly Accounting, Finance, Human Resource Management, Financial Management, and Strategic Planning.

In addition to his teaching responsibilities, Dr. Kamara has held the position of Head of the Department of Accounting and Finance at Fourah Bay College, University of Sierra Leone. He currently serves as the Dean of the Faculty of Economics and Development Studies and as the Finance Director of the University of Sierra Leone.

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## Chapter 1

### Nature, Types, and Relevance of Critical Success Factors of Public Financial Management Systems in Sierra Leone Introduction

Critical success factors in Public Financial Management are the essential activities or conditions that an organization must perform well to achieve its financial and strategic objectives. For Public Financial Management, these factors typically involve aspects like strong leadership, political will, transparency, accountability, institutional framework, and a skilled workforce to ensure the efficient and effective use of public resources.

The nature and relevance of critical success factors of the Public Financial Management Systems in Sierra Leone are rooted in a combination of strong governance structures, technical capabilities, and political commitment. The nature of these success factors can be grouped into several interconnected categories:

**Political Will and Leadership:** strong and sustained commitment from political leadership and senior officials is a primary success factor. This leadership is essential for driving complex reforms, managing expectations, and ensuring that Public Financial Management Systems objectives remain a priority without undue political interference.

**Legal and Institutional Framework:** A well-defined, robust legal and regulatory framework (e.g., a comprehensive Public Financial Management Act) provides the foundation for all financial operations. This includes clearly defined mandates and roles for key institutions like the Ministry of Finance, the Central Bank of Sierra Leone, and the Independent Auditor General's office.

**Transparency and Accountability:** An open and honest approach to planning, executing, and reporting on public finances builds trust and investor confidence. Key aspects include public access to budget information, regular publication of government financial statements, and clear codes of conduct to deter corruption.

### Comprehensive Budget Cycle

**Management:** Success requires effective management across the entire budget cycle.

**Policy-Based Budgeting:** Ensuring the budget is prepared with due regard to government policy and strategic plans.

**Predictability and Control in Execution:** Implementing the budget in an orderly manner with strong internal controls to ensure funds are used as intended.

**Accounting and Reporting:** Maintaining accurate, reliable records and producing timely, relevant financial reports (ideally based on international standards like IPAS) for decision making and accountability.

**External Scrutiny and Audit:** Independent review of public finances by the legislature and external auditors, with follow-up on recommendations, provides essential assurance.

**Capacity and Capability:** Having sufficiently skilled and motivated personnel, appropriate information and communication technology (ICT) systems (Such as the web-based Public Financial Management Systems used in some countries), and the ability to manage change effectively are crucial for implementation and sustainability.

**Whole System Approach:** Public Financial Management elements are independent; a successful system ensures that all components (e.g., budgeting, accounting, and procurement) operate in a consistent and mutually-reinforcing way rather than in isolation.

### Critical Success Factors in Public Financial Management Systems in Sierra Leone

We have found that eight key elements are necessary to create a comprehensive and coherent system of PFM. Please note that these eight key elements do not purport to establish best practice or to be a detailed checklist specifying exactly which elements should be in place. They simply aim to stimulate a dialogue that, in turn, may establish the most appropriate choices for different circumstances.

Depending on the stage of PFM development in any given jurisdiction, the focus may be on some elements rather than others. Additionally, certain elements may be considered as a prerequisite to other elements, and certain elements may be regarded as more significant than others in achieving success. The more important elements will vary from jurisdiction to jurisdiction, reflecting each jurisdiction's unique history, circumstances and culture. Accordingly, in the introductory stages, each element must be deemed important. We also note that in jurisdictions with limited PFM systems, a more comprehensive process of reform will be necessary than in other.

### • The Eight Key Factors of Public Financial Management Systems (PFMS) Success

<p><b>The Climate for Reform</b> The first element of PFM success is necessarily the widespread recognition and acknowledgement that change is required, along with a commitment from key stakeholders to effect the necessary reforms.</p>	<p><b>Governance - The Legal and Institutional Framework</b> The second essential element of PFM success is that of a well-defined legal and regulatory framework: one that facilitates the implementation of efficient and effective public-service arrangements. Appropriate institutions must be in place, as well as a set of recognized codes, standards and practices.</p>
<p><b>Governance - The Values System</b> The public entrusts taxpayer funds to the government and expects them to be used appropriately. Yet the appropriate attitudes and behaviors are not always culturally embedded. The third key to PFM success is therefore, an open, honest and responsible approach to the way services are planned, executed and reported, which signifies a strong intent to work in the public interest</p>	<p><b>Capacity and Capability</b> The fourth key to PFM success is ensuring that the appropriate resources are available to support the application of each aspect of PFM, particularly in terms of people and systems. “Without the necessary systems and skilled personnel to implement them, no PFM reform process can be successful.”</p>
<p><b>Fiscal and Policy Framework</b> The main output of PFM systems is the budget, through which public policies are financed.” A credible budget is essential, reflecting the expected financial impact of the government’s policies and its use of resources. As a result, the fifth element of PFM success is that of a clearly defined and comprehensive fiscal and policy framework.</p>	<p><b>Performance Management</b> The sixth key element is the successful implementation of the budget, both in macro terms and at the organisational level. The budget must be well managed, monitored, and reported to achieve the anticipated outcomes, with three things – value for money, the efficient and effective delivery of services, and financial compliance – acting as overriding performance principles.</p>
<p><b>Reporting</b> Empirical evidence is emerging that highlights the positive relationship between the degree of fiscal transparency and measures of fiscal sustainability. Not surprisingly, then, appropriate, transparent reporting against planned outcomes is the seventh key element of PFM success, helping governments be accountable for their fiscal actions.</p>	<p><b>Scrutiny and Assurance</b> Reported information must be reliable, whether for purposes of transparency, accountability or decision making. It must also be capable of withstanding scrutiny from different levels and forms of review. As a result, the eighth key element of PFM success is that of subjecting information to effective scrutiny and assurance, thus generating confidence in its veracity. Confidence is further enhanced by subjecting this information to an external, independent audit.</p>

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## Chapter 2

### Brief Overview

Pursuant to the Accounting Law of the People's Republic of China, the Budget Law of the People's Republic of China, and other relevant laws and regulations, the Ministry of Finance promulgated the Internal Control Standards for Administrative Institutions (Trial) on November 29, 2012, which came into effect on January 1, 2014. The primary objective of these standards is to enhance the internal management capacity of administrative institutions and to standardize internal control practices. With the continuous deepening of reforms and the advancement of public financial management systems, the role and significance of internal controls in public finance have become increasingly prominent.

Sound, efficient, and effective internal control systems are essential to the healthy and sustainable development of the public sector, including in contexts such as Sierra Leone. Strengthening internal controls in public financial management is of critical importance for safeguarding government assets, preventing public sector debt risks, promoting national development and good governance, and ensuring that public resources are mobilized, allocated, and utilized efficiently to deliver high-quality public services.

Public financial management places strong emphasis on maintaining fiscal discipline, enhancing transparency and accountability, promoting economic stability, and achieving key policy objectives such as poverty reduction and equitable wealth distribution. The Internal Control Standards for Financial Management Institutions (Trial) issued by the Ministry of Finance (hereinafter referred to as the Internal Control Standards) provide a standardized framework for the establishment and implementation of internal control systems within the public sector.

According to the definition of internal control provided in the Internal Control Standards, this study defines public sector financial internal control as a comprehensive system of policies, processes, and procedures adopted by government entities to ensure that public funds are managed economically, efficiently, and effectively, in compliance with legal requirements and policy objectives. The system aims to safeguard public assets, mitigate financial risks, and prevent or control risks associated with public sector financial management activities through the formulation of institutional frameworks, the implementation of control measures, and the execution of standardized procedures.

Furthermore, in accordance with the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in September 1992, an internal control system comprises five interrelated components: the internal environment, risk assessment, control activities, information and communication, and internal supervision. Accordingly, public sector entities and government agencies should continuously strengthen the construction and improvement of financial internal control systems in alignment with these five elements.

### Nature, Characteristics, and Relevance of Financial Management and Internal Controls Systems of Universities

Furthermore, in accordance with the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in September 1992, an internal control system comprises five interrelated components: the internal environment, risk assessment, control activities, information and communication, and internal supervision. Adeoye and Adeoye (2014) note that internal control systems have become a critical area of concern in the aftermath of widespread financial reporting frauds and accounting scandals in both developed and developing economies. Broadly defined, internal control encompasses the mechanisms through which risks within an organization are identified, managed, and mitigated. It refers to the processes designed to provide reasonable assurance regarding the achievement of organizational objectives related to operational effectiveness and efficiency, the reliability of financial reporting, and compliance with applicable laws, regulations, and policies [1].

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as a process designed, implemented, and maintained by those charged with governance, management, and other personnel to provide reasonable assurance regarding the achievement of an entity's objectives in the areas of financial reporting reliability, operational effectiveness and efficiency, and compliance with relevant laws and regulations. Similarly, Benjamin (2001) conceptualizes internal control as the comprehensive system of financial and non-financial controls established by management to ensure that organizational activities are conducted in an orderly and efficient manner.

Effective internal control systems are essential for organizations seeking to maximize financial performance and safeguard assets, as they enable the efficient management of business processes. Although the concept of internal control is not new, persistent occurrences of fraud and corporate failures—both historically and in recent times—underscore its continued relevance. High-profile corporate scandals, such as those involving Enron, Parmalat, and Cadbury, illustrate the severe consequences of control failures. These breakdowns have prompted the development and refinement of various governance frameworks, codes, and regulations, including the COSO Internal Control—Integrated Framework (1992), which was subse-

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quently updated in 2013.

Globally, several regulatory frameworks have been introduced to strengthen internal controls and corporate governance, including the Sarbanes–Oxley Act of 2002 in the United States, the Combined Code of Corporate Governance (2003) and the Turnbull Guidance on Internal Control (revised in 2005) in the United Kingdom, and the Securities and Exchange Commission (SEC) Code of Corporate Governance in Nigeria (2003, updated in 2011 and 2014). Despite the existence of these frameworks, challenges associated with internal control failures persist. Empirical studies conducted in Nigeria reveal that many organizations continue to operate with weak, inadequate, or poorly implemented internal control systems, notwithstanding the availability of regulatory guidance [1-8].

The persistence of ineffective internal controls in both the public and private sectors—despite the presence of stringent regulations and standards—poses significant risks, including increased incidence of fraud and corruption, financial misstatements, operational inefficiencies, and deterioration of organizational reputation and market value. In the context of higher education, Al-Atiqi and El-Azma (2007) argue that financial monitoring and accountability remain major concerns across many countries. Supporting this view, Salihu (2015) examined the impact of internal audit on the effectiveness of internal controls in financial institutions in Adamawa State and found that critical components of internal control systems—particularly authorization and approval procedures, supervision, segregation of duties, and personnel controls—were inadequately implemented. Such deficiencies may result in revenue losses and the inefficient utilization of financial resources [6].

In recent years, ongoing reforms in public financial institutions have contributed to notable improvements in efficiency, accountability, and transparency in the management of public funds, thereby supporting broader economic development and enhanced public service delivery. Nevertheless, the success and sustainability of these reforms are contingent upon sustained political commitment and the availability of adequate institutional capacity to effectively design, implement, and monitor internal control systems.

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## Chapter 3

### Introduction: Significance of Accounting Systems and Internal Controls

The need for an Accounting System and Internal Controls emanated from the execution of the stewardship function in accounting and as well as legal requirements. By stewardship, this is a situation where resources are handed over from one party to another to be used in an enterprise and at the end of a specific point in time, the person to whom the resources were entrusted is required to submit a report as to the utilisation of such resources.

The relationship between such parties is that of a fiduciary one (i.e., a relationship of good faith), like that of the one between shareholders and directors, trustee and beneficiary, and insured and insurer.

The report produced and submitted by the user of the resources would only be reliable and hence trustworthy in the eyes of the provider of finance if it is examined by an independent professional known as an auditor.

In limited companies, even if they do not want to maintain accounting records and institute controls upon them, they are bound to do so owing to the statutory obligation placed upon them.

According to the provisions of the Company's Act of 1985, the responsibilities of directors are as follows:

To safeguard the company's assets and prevent fraud and errors in the company.

To ensure that the company keeps proper accounting records (CA 85).

To prepare annual financial statements to show the results of the company at the balance sheet date.

To deliver to the Registrar of Companies a copy of the Company's audited financial Statement within (for a plc) seven months of the end of the accounting year.

For management to execute or discharge its responsibilities stated above, an internal control system needs to be set up [9].

### Conceptual Framework of Administrative and Financial Controls

#### Framework of Financial Internal Control in Colleges and Universities

##### Internal Environment

The internal environment constitutes the foundational basis for the implementation of financial internal control in colleges and universities. It directly influences employees' awareness of control responsibilities and serves as the cornerstone upon which all other elements of internal control are built. A sound internal environment facilitates the effective achievement of financial internal control objectives. Drawing on the COSO framework, the internal environment in higher education institutions primarily encompasses three aspects: the organizational structure and division of responsibilities, internal audit mechanisms, and human resource management policies.

##### Risk Assessment

Risk assessment involves the systematic identification, analysis, and evaluation of uncertainties that may affect the achievement of internal control objectives. This process focuses on determining the nature and magnitude of potential risks and crises, thereby enabling institutions to formulate appropriate risk response strategies. In colleges and universities, key financial risk areas include debt-related risks, capital budgeting risks, and operational risks. Only through comprehensive analysis of financial activities and accurate identification of risk points can institutions implement effective risk mitigation measures and ensure the effectiveness of financial internal control systems.

##### Control Activities

Control activities refer to the specific policies and procedures implemented to ensure that management directives are carried out and that risks are maintained within acceptable limits. In colleges and universities, financial internal control activities are reflected in the management of monetary funds, budgeting processes, revenue and expenditure controls, asset allocation, investment activities, and financing operations. These measures guide staff behavior and help safeguard institutional resources.

##### Information and Communication

Information and communication pertain to the timely and accurate collection, processing, and dissemination of information related to internal control, ensuring effective communication both within the institution and with external stakeholders. Internal control standards emphasize mechanisms for information collection, transmission between internal and external parties, and the utilization of information technology platforms. Internal information includes financial data, personnel changes, and integrated management information, while external information encompasses policies and regulations, socio-cultural developments, and advances in science and technology. Accordingly, colleges and universities should establish efficient, transparent, and open information and communication platforms to facilitate seamless information exchange.

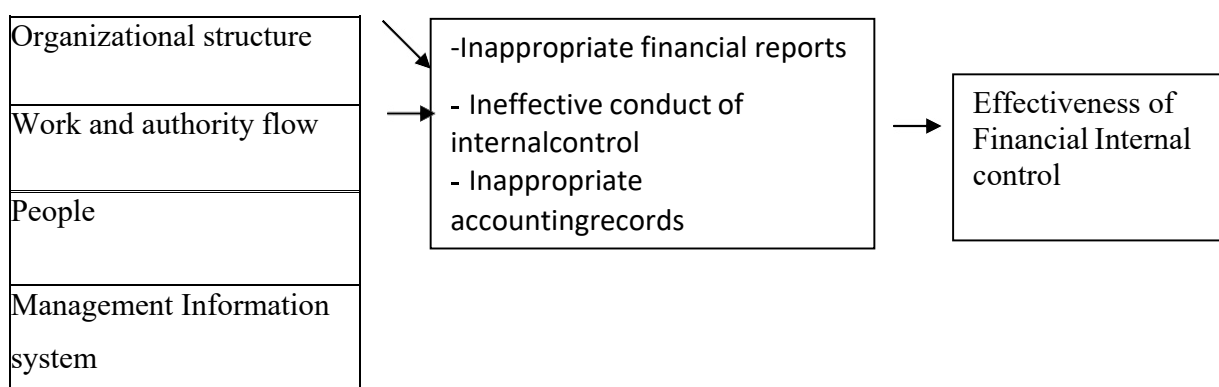
## Internal Supervision

Internal supervision involves continuous oversight of the establishment and implementation of internal control systems, the evaluation of their effectiveness, and the timely identification and correction of deficiencies. Through systematic monitoring and evaluation, institutions can ensure that internal control systems operate effectively over time and adapt to changing conditions.

## Construction of a Financial Internal Control Evaluation Index System for Colleges and Universities

An internal control evaluation index system serves as a critical mechanism for assessing the effectiveness of financial internal controls and monitoring their implementation within colleges and universities. Establishing a scientific and rigorous evaluation framework is not only a fundamental requirement for the effective operation of internal control systems but also a key prerequisite for strengthening financial internal control practices in higher education institutions.

Based on the full lifecycle of internal control—including design, implementation, and operation—the evaluation index system should assess the rationality of control design, the effectiveness of implementation, and the dynamic adaptability of the system. Such a comprehensive evaluation approach enables institutions to identify weaknesses, enhance control effectiveness, and promote the continuous improvement of financial internal control systems [10].



Source: Developed from Literature Review

Figure 1: Independent Variable, Moderating Variable, Dependent Variable

The above figure connotes that the enumerated composites of independent variable which are listed including; organization's structure, work and authority flows, people and management information systems, are very affective of which cause various situations to occur during the conduct of internal control process. The consequence of independent variables results into issues like, inappropriate reporting of financial matters, inappropriate accounting records, and ineffective administrative and financial control, which in turn lead to negatively affected internal control performance.

## Theoretical Framework

This study adopts the stewardship theory. According to Madison (2014), stewardship theory assumes a humanistic model of man whereby the behaviour of the steward is based on serving others and hence behaves in a manner that will align with the interest of the principal. Here, structures are established to enhance the harmonisation of the steward's interest and that of the principal. This study adopts stewardship theory since the management (agent) is charged with the responsibility of establishing internal controls. It is believed that their actions are in the best interest of the owners, and so they are given a reasonable level of autonomy to manage the institutions [11].

Glance (2006) provided that an internal control system refers to "the Institution process and procedure that is established with the aim of objective achievement. The internal control system also serves as a process that guides an organization towards achieving its established objectives. According to International Organization of Supreme Audit Institution (2004), internal control system is a process effected by an entity's board of directors, management and other personnel's, designed to provide reasonable assurance regarding the achievement of the set objectives and the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations and generally the controls are of two types which are preventive and detective controls. According to Church and Schneider (2008), effective internal controls system are fundamental drivers toward earnings quality Salihu (2015) assessed the effect of internal audit on internal controls' effectiveness in tertiary institutions in Nigeria and found that the components of internal control system are not properly put in place by the management of the institutions, especially in the area of authorization and approval, supervision, segregation of duties and personnel controls. Ejoh and Ejom (2014) examined the impact of internal control activities on financial performance of tertiary institutions in Nigeria using Cross River state college of education as

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a case study and found that while there are some measures of controls in place, for example, clear separation of role in the institutions' finance and account department, inadequate training of staff to implement the accounting and financial system is a challenge thus making the internal control less effective [12,6].

### **The Agency Theory**

Agency Theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents. Accordingly, Barlie and Means (1932) posit that in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal. They further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent. This position is also supported by Coarse (1937) who maintains that the contract provides for conflict resolution between the agent and principal, the principal determines the work and agent undertakes the work. He however, proposes that the principal suffers shirking which deprives him or her from benefiting from the work of the agent. Nevertheless, the theory recognizes the incomplete information about the relationship, interests or work performance of the agent described as adverse selection and moral hazard. Coarse (1937) explains that moral hazard and adverse selection affects the output of the agent in two ways; not doing exactly what the agent is appointed to do, and not possessing the requisite knowledge about what should be done. This therefore, affects the overall performance of the relationship as well as the benefits of the principal in form of cash residual.

Other related reviews include; The Sarbanes-Oxley Act of 2002 (SOX) which requires companies to report on the effectiveness of their internal controls over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process.

Asserts that software vendors that market enterprise resource planning (ERP) systems have taken advantage of this new focus on internal controls by emphasizing that a key feature of ERP systems is the use of "built-in" controls that mirror a firm's infrastructure. They emphasize these features in their marketing literature, asserting that these systems will help firms improve the effectiveness of their internal controls as required by SOX [13].

Internal control is one of many mechanisms used in business to address the agency problem. Others include financial reporting, budgeting, audit committees, and external audits. Studies have shown that internal control reduces agency costs, with some even arguing that firms have an economic incentive to report on internal control, even without the requirements of SOX. Their argument assumes that providing this additional information to the principal (shareholder) about the behaviour of the agent (management) reduces information asymmetry and lowers investor risk and, therefore, the cost of equity capital. Other research has found that weaknesses in internal controls are associated with increased levels of earnings management. Earnings management is the agency problem that motivated SOX legislation in the first place, specifically earnings manipulation by Enron, WorldCom, etc. Internal controls have played a major role in moderating the agency problem in corporations for many years. Accordingly, Samson et al. (2006) document several internal control procedures used by the Baltimore and Ohio Railroad as early as 1831 [1-3,8-13].

During the 1980s, several high-profile audit failures led to the creation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), organized for the purpose of redefining internal control and the criteria for determining the effectiveness of an internal control system. They studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies, independent auditors, educational institutions, the Securities Exchange Commission (SEC), and other regulators (COSO 1985). The product of their work is known as the COSO Internal Control Integrated Framework (Simmons 1997). The framework also points out that controls are most effective when they are "built into" the entity's infrastructure (COSO 1992,) and further states that "built in controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions" (COSO 1992)

At the turn of the century, another group of corporate scandals resulted in the enactment of the Sarbanes-Oxley Act of 2002 (SOX), which, among other things, requires a formal report on the effectiveness of internal controls. The COSO framework plays a key role in compliance because Section 404 of the Act requires companies to include in their annual report a separate management report on the company's internal control over financial reporting and an attestation report issued by a registered public accounting firm.

Separates internal controls into those that are general (entity-wide) controls from those that are specific (account-level) controls. He believes that if management were overriding control features in order to manage earnings, then one would expect to find more Internal Control Weaknesses related to general controls, even if the specific (account-level) controls are effective. This type of behaviour should be uncovered during the audit process since this is an area of concern specifically identified in Auditing Standard No. 5, Paragraph 24, which states that "entity-level controls include controls over management override." On the other hand, a stronger argument could be made that if general controls are in place and working, then one would expect to find less Internal Control Weaknesses related to general controls [14-18].

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In their publication Whittington and Pany (2001), attempt to explain the meaning, significance of Internal Controls, and the Components of a Company's internal controls. They also attempt to explain the relevancy of internal controls in large scale business organizations. In their book while borrowing the definition of the Committee of Sponsoring Organizations (COSO); Internal Control- Integrated Framework, Whittington & Pany.2001 define Internal control as "a process effected by the entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations." They emphasize that internal controls is a process and not an end in or of itself. They note that internal controls provide reasonable but not absolute assurance about the attainment of an entity's objectives. Gupta, (2001) also acknowledges that internal controls can only provide reasonable assurance that management objectives will be achieved. This is basically due to the inherent limitations of internal controls.

In the Executive Summary of "Enterprise Risk Management-Integrated Framework" 2004 by the Committee of Sponsoring Organizations (COSO, 2004), of the Treadway Commission, Internal controls have been incorporated into policies, rules, and regulations to help organizations achieve their established objectives. This is in line with Pany, Gupta, and Hayes' assertion that internal controls are meant to help an organization achieve its objectives. The COSO commission was partly instituted in response to a series of high-profile scandals and business failures where stakeholders (particularly Investors) suffered tremendous losses. This study, however, differs in that it is done for an institution that is not ailing, though there are reported incidences of scandals and financial misfeasance. The results should therefore aid the preventive mechanism rather than being reactionary. Entities exist to provide value to their stakeholders but are normally faced with uncertainty. Uncertainty presents risks and opportunities.

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## Chapter 4

### Introduction: Financial Internal Control

Internal control refers to a comprehensive system of policies and procedures implemented by a council or organizational unit to ensure the reliability and completeness of financial and non-financial records, compliance with management policies, and the orderly and efficient conduct of organizational operations. It further serves to ensure the accurate recording, protection, and safeguarding of assets and resources.

The American Institute of Certified Public Accountants (AICPA), in Statement on Auditing Standards (SAS) No. 55, defines an internal control structure as the policies and procedures established to provide reasonable assurance that an entity's specific objectives will be achieved. Consistent with this perspective, internal control is commonly understood to comprise two primary components: internal accounting controls, which focus on the accuracy and reliability of financial records and asset protection, and administrative controls, which are concerned with operational efficiency, adherence to managerial policies, and effective organizational governance.

### Accounting Controls

To complement Internal controls are accounting controls. These are checks, balances, and supervisory controls within and around the accounting system installed to ensure that all financial transactions and events are accurately recorded in the system, completely and promptly; that there are safeguards over the custody and use of assets held; and that the possibility of the occurrence of errors and improper or illegal financial transactions are reduced to the barest minimum.

### Administrative Controls

These deal with the organization's operations rather than its accounting. The legislative body of the organization has a responsibility to ensure internal controls are in place to prevent misuse of funds (including fraud and embezzlement).

According to, Internal Control is defined as a control that comprises the organization's plan and all the coordinated methods and measures adopted within a business to safeguard its assets, check the accuracy, and encourage adherence to prescribed managerial policies.

According to, internal control might be detective or protective. The former is those control which prevent or reduce the chances of fraud and error when they have been occurred or else aid in their discovery so that corrective action may be promptly taken, therefore, we can say that internal control procedure may vary from one organization to another depending on factors regarding the nature of the business and its size, however the same broad principal of internal control system apply to all organizations.

Millichamp (1993) defined internal control as the whole system of controls, financial and otherwise, established by the management to carry on the business of the enterprise in an orderly and efficient manner, ensuring adherence to management policies, safeguarding the assets, and securing as far as possible the completeness and accuracy of the records.

According to Mahushi (1985), "Internal control" comprises the plan of the organization and the related methods and procedures adopted by an entity for the purpose of safeguarding its assets, contributing to efficient operation, facilitating the generation of accurate accounting data, and encouraging adherence to the laid-down managerial policies.

It is a set of systems operated by the council or unit to ensure that financial and other records are reliable and complete, and that they adhere to management policies and are orderly and efficient in the conduct of the council's or units' business, and ensure proper recording and safeguarding of assets and resources [19,20].

### Financial Control System

Financial control systems are defined as mechanisms that relate visions and functions to resources, and where money is involved directly or indirectly. Ultimately, they are based on money, that is to say, widely transferable rights and obligations that presume trust in transferability, and, as media of exchange, make almost all sorts of transactions possible. Control systems, with money as a fundamental element, have a broad and varied character.

### Public Institution

The term public institution refers to an institution whose shares are traded freely on a stock exchange. It is also termed as a kind of institution whose activities are concerned with, or open to, the people as a whole. It is also involved in affairs of the community, especially in government or entertainment.

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## Accounting System

An accounting system is a set of records, procedures, and equipment that routinely deal with the events affecting the financial performance and position of the entity.

The nature of the accounting system is on repetitive, voluminous transactions, which are almost is evaluated using controls that should establish whether the performance is effectively achieved; however, it has been reportedly an experience that it has faced a number of constraints and consequently leaves it inappropriately conducted.

SAS 55 defines the accounting system as the methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities. An effective accounting system will identify and record all valid transactions in the proper time period using appropriate classifications and will present those transactions properly in the financial statement

## Factors

The term factor is likewise termed as a circumstance, fact, or influence that contributes to the result. It is why issues like organization structure, management, and MIS are termed to a large extent as one of the factors affecting financial internal control [21].

## Government Internal Control System

This refers to measures, arrangements, and devices built into the government's financial system to ensure the proper use of public funds.

When looking at the soundness of internal control in the public sector, it is imperative to recognize the context within which public organizations operate and their characteristics. Thus, in evaluating internal control in the public sector, an understanding of the following factors is necessary;

Their focus is on meeting social or political objectives.

Their use of public funds and the importance of the budget cycle.

The complexity of their performance (which calls for a balance between traditional values like legality, integrity, and transparency, and modern, managerial values like efficiency and effectiveness)

The correspondingly broad scope of public accountability [22].

## Key Instrument

A key instrument of the government's internal control system is the Government accounting manuals, otherwise referred to as revised financial regulation, financial instruction. The Revised Financial Regulation 2004 is the accounting manual applicable for the time being.

## Types of Internal Controls

Internal control activities are the policies and procedures, as well as daily activities that occur within an internal control system.

Internal Controls are subdivided into three major types: Detective internal control, Corrective internal control, and Preventive internal control.

## Detective Internal Control

Internal Control is said to be detective simply when it is designed to detect errors or irregularities that may occur during the performance of financial/ accounting activities. It identifies undesirable "occurrences" after the fact. Examples of detective controls are:

**Reviews of Performance:** Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

**Reconciliations:** An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action when necessary.

## Physical Inventories

### Corrective Internal Control

Corrective internal Control is an internal Control that is normally designed to correct errors that have been detected in the previous type

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## **Preventive Internal Control**

Preventive Internal Control is a type of internal control which is all about preventing errors or irregularities from occurring in the first place. Preventive control activities prevent undesirable “activities” from happening, thus requiring well-thought-out processes and risk identification.

## **Internal Control Components**

### **Control Environment**

The control environments originate with the organization director. This set the tone and provided the discipline structure for the organization. Factors affecting the control environment include management philosophy and operating style, organization structure, methods of assigning responsibility, monitoring and supervision procedures, and external influences such as government regulations.

### **Risk Assessment**

Every organization faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is the establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to the achievement of the objectives, forming a basis for determining how the risk should be managed. Because economic, industry, regulatory, and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

### **Information and Communication**

Pertinent information must be identified, captured, and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports containing operational, financial, and compliance-related information that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities, and conditions necessary to informed business decision making and external reporting.

Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have means of communicating significant information upstream. There also needs to be effective communication with external parties such as customers, suppliers, regulators, and shareholders.

### **Monitoring**

Internal control systems need to be monitored process that assesses the quality of the system’s performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management.

### **Control Activities**

Control activities are those policies and procedures developed by management to provide reasonable assurance that the organization’s objectives will be achieved.

Listed below are five categories of control activities. Under each category is a list of specific procedures that may be performed to satisfy that category.

#### **Proper Authorization of the Transaction**

The purchase of goods and services should be requested by one person and approved by another

The organization should adopt a payment authorization procedure; for example, two signatures could be required on all checks greater than a certain amount.

Creating and using a budget is a form of authorization.

Individuals who handle cash should be bonded (fidelity bond).

#### **Segregation of Duties**

This includes assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. The person collecting cash should not be the person who records the cash receipt. If there is enough staff, a rotation of duties can eliminate employee manipulation of records or assets.

The approval of purchases should not be made by the person who has access to the checks. Design and use adequate docu-

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ments and records. This helps to ensure the proper recording of transactions and events.

**Pre-Numbered Checks, Receipts, and Purchase Orders Should be Used, and the Sequence Should be Accounted for**  
Cancelled checks, vouchers, and receipts should be maintained.

Voucher packages (Invoice, Purchase order, Receiving reports) should be cancelled (stamped PAID) after payment to prevent duplicate payments.

The invoice should be matched to purchase orders to ensure that you receive what you ordered and you only pay for what you received.

### **Adequate Safeguards Regarding Access to and Use of Assets and Records**

Access to blank checks, signature plates, and purchase orders should be restricted.

Computers should have passwords to access and change information. Work areas should be visible to supervisors.

Independent checks on performance and proper valuation of recorded amounts. Under this category, bank reconciliations should be performed monthly and should be reviewed periodically by someone other than the preparer. Calculations should be checked for clerical accuracy. Independent personnel should perform periodic cash count of the petty cash account, and there should be supervisory review over daily operations.

### **Journals Should be Kept for All Transactions**

#### **Effectiveness**

Different organizations' internal control systems operate at different levels of effectiveness. Similarly, a particular system may operate differently at different times. When an internal control system meets the following standards, it can be deemed 'effective'. Internal control can be judged effective in each of the three categories, respectively, if management has reasonable assurance that

They understand the extent to which the organization's operational objectives are being achieved.

Published financial statements are being prepared reliably. Applicable laws and regulations are complied with.

While internal control is a process, its effectiveness is a state or condition of the process at a point in time.

Determining whether a particular internal control system is 'effective' is a subjective judgment resulting from an assessment of whether the components are present and functioning effectively. Their effective functioning provides a reasonable assurance regarding the achievement of objectives. Thus, the components are also criteria for effective internal control.

#### **Mitigating Controls**

Mitigating controls are additional control procedures placed in a system to help reduce the risk associated with a failure to adequately segregate incompatible functions. Most mitigating controls consist of detailed reviews of transactions, after-the-fact approvals, and periodic surprise checks.

#### **Limitations of Internal Control**

Internal control has been viewed by some observers as ensuring the organization will not fail –that is, the organization will always achieve its operations, financial reporting, and compliance objectives. In this sense, internal control is sometimes looked upon as a cure-all for all real and potential business ills. This view is misguided. Internal control is not a panacea.

In considering limitations of internal control, two distinct concepts must be recognized;

First, internal control effectively operates at different levels with respect to different objectives. For objectives related to the effectiveness and efficiency of an organization's operation-achievement of its basic mission, profitability goals, and the like, internal control can help to ensure that management is aware of the organization's progress, or lack of it. But it cannot provide even a reasonable assurance that the objectives themselves ought to be achieved [23].

Second, internal control cannot provide absolute assurance with respect to any of the objective categories.

#### **Judgment**

The effectiveness of controls is limited by the realities of human frailty in making decisions. Such decisions must be made with human judgment in the time available, based on information at hand, and under the pressure of the conduct of business. Some decisions based on human judgment may later, with the clairvoyance of hindsight, be found to produce less than desirable results, and may need to be changed.

#### **Breakdowns**

Even if internal controls are well designed can break down. Personnel may misunderstand instructions. They may make

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judgment mistakes, or they may commit errors due to carelessness, distraction, or fatigue. An accounting department supervisor responsible for investigating exceptions might simply forget or fail to pursue the investigation far enough to be able to make appropriate corrections. Temporary personnel executing control duties for vacationing or sick employees might not perform correctly. System change may be implemented before personnel have been trained to react appropriately to signs of incorrect functioning.

### **Management (Override)**

Management override means overruling prescribed policies or procedures for illegitimate purposes with the intent of personal gain or an enhanced presentation of an organization's financial condition or compliance status. A manager of a division or unit might override the control system for many reasons: to increase reported revenue to cover an unanticipated decrease in market share, to enhance reported earnings to meet an unrealistic budget, or to hide a lack of compliance with legal requirements. Override practices include deliberate misrepresentations to bankers, accountants, and vendors, and intentionally issuing false documents such as purchase orders and invoices.

### **Collusion**

The collusive activities of two or more individuals can result in control failure. Individuals acting collectively to perpetrate and conceal an action from detection often can alter financial data or other management information in a manner that cannot be identified by the control system.

For example, there may be collusion between an employee performing an important control function and a customer, supplier, or other employee. On a different level, several layers of sales or divisional management might collude in circumventing controls so that reported results meet budget or incentive targets.

### **Costs Versus Benefits**

Resources always have constraints, and organizations must consider the relative costs and benefits of establishing controls. Cost and benefit measurements for implementing controls are done with different levels of precision. Generally, it is easier to deal with the cost side of the equation, which, in many cases, can be quantified in a fairly precise manner. All direct costs associated with instituting a control, and indirect costs where practically measurable, are usually considered.

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## Chapter 5

### **An Overview Of Financial Management Systems**

This chapter establishes and delves into financial policies and procedures for updating the recognized financial management system, including but not limited to the internal controls, the system functionality, and integration of subsidiary systems. The objective of financial management systems is to generate complete, reliable, consistent, and timely information. Financial Management Systems are comprised of the automated and manual processes; the interfaced and integrated applications; procedures, controls, data hardware, software, and support personnel dedicated to the operation; and the maintenance of the total system. It also includes other applications that are necessary to meet defined data and processing requirements [24-27].

### **Nature, Scope, and Types of Financial Management**

#### **Nature of Financial Management**

According to the Association of Chartered Certified Accountants, F9, 2011, 'Financial management is about planning and controlling the financial affairs of an organization, to ensure that the organization achieves its objectives, particularly its financial objectives'. This involves decisions about:

- Working capital management and long-term capital investment projects. Sources of raising finance, their costs, and the company's capital structure;
- Balance between short and long-term finance, and balance between equity and debt capital.
- Investing short-term cash surpluses
- Ensuring that the providers of finance are suitably rewarded

To summarize, the types of financial management involve three decisions; working capital management, investment and financing decisions. These three areas are key summary of the work of a finance manager. Working capital management involves the management of the day-to-day operations. Investment decisions involve spending money on capital items that will yield returns for the company over a given period of time, and financing decisions involves using the company's own money or raising funds from external sources to pay for different areas of the business activities.

#### **Importance of Financial Management Systems**

The importance of financial management cannot be forgotten if any business has to survive in the long run. According to Kumar (2011), financial management involves the decision of taking funds from different sources and their effective use in different operations of business. If we ignore financial management and use funds without any financial planning, our risk and cost of business will increase. Kumar (2011) states that "Financial management is important for developing a strategy to enhance the efficiency of your business".

The importance of Financial Management can also be explained by the following questions and answers:

#### **Why is Fixed Assets Financed out of Long-Term Funds**

Prudent financial management helps make a sound capital structure. The aim is to reduce the risk of insolvency. With this management, it will buy fixed assets out of long-term funds. Long-term funds have to pay after 10 or 20 years. So, management can easily repay this fund out of our profit. If management finances fixed assets out of short-term funds, it may be risky because if management does not pay this fund on its maturity [28]. The result may come in the form of the insolvency of a business.

#### **Why Do We Invest in Current Assets at the Optimum Level**

Financial management teaches us to invest money in current assets at the optimum level. Both over- and under-investment is harmful. The main reason for this is to reduce cost and increase return on investment. Under and over-investment in current assets will increase the cost and reduce the return. I can explain this issue with the following simple example. With this, you can understand the significance of financial management. Suppose, if a company takes a loan of \$ 100000 @ 10% interest rate and the same amount is invested in inventory. It is not good because it cannot determine the optimum investment in current assets. Some inventory may be scrap; some inventory may be outdated. If the inventory does not sell, we have to suffer carrying costs. So, our overall cost will increase. So, analyse this investment through proper inventory and another current asset management [29,30].

#### **The Usefulness of Good Financial Management Systems**

The usefulness of finance cannot be overemphasized; it is indeed the key to successful business operations. Without proper administration of finance, no business enterprise can reach its full potential for growth and success. Money is a universal lubricant that keeps the enterprise dynamic-develops products, keeps men and machines at work, encourages management

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to make progress, and creates value. According to Collier (2001), the importance of financial administration can be discussed under the following headings: -

**Success of Promotion Depends on Financial Administration:** One of the most important reasons for the failure of business promotions is a defective financial plan. If the plan adopted fails to provide sufficient capital to meet the requirements of fixed and fluctuating capital, and particularly the latter, or it fails to assume the obligations of the corporations without establishing earning power, the business cannot be carried on successfully. Hence sound financial plan is very necessary for the success of a business enterprise.

**Smooth Running of an Enterprise:** Sound financial planning is necessary for the smooth running of an enterprise. Money is to an enterprise what oil is to an engine. As Finance is required at each stage of an enterprise, i.e., promotion, incorporation, development, expansion, and administration of day-to-day working, etc., proper administration of finance is very necessary. Proper financial administration means the study, analysis, and evaluation of all financial problems to be faced by the management and to take proper decisions with reference to the present circumstances in regard to the procurement and utilization of funds.

**Financial Administration Co-ordinates Various Functional Activities:** Financial administration provides complete co-ordination between various functional areas such as marketing, production etc. to achieve the organizational goals. If financial management is defective, the efficiency of all other departments can in no way be maintained. For example, the finance department must provide finance for the purchase of raw materials and meet the other day-to-day expenses for the smooth running of the production unit. If the financial department fails in its obligations, production and sales will suffer, and consequently, the income of the concern and the rate of profit on investment will also suffer. Thus, Financial administration occupies a central place in the business organization, which controls and coordinates all other activities in the concern.

**Focal Point of Decision Making:** Almost every decision in the business is made in light of its profitability. Financial administration provides scientific analysis of all facts and figures through various financial tools, such as different financial statements, budgets, etc., which help in evaluating the profitability of the plan in the given circumstances, so that a proper decision can be taken to minimize the risk involved in the plan [31-36].

**Determinant of Business Success:** It has been recognized, even in India, that the financial manager plays a very important role in the success of a business organization by advising the top management on the solutions of the various financial problems as an expert. They present important facts and figures regarding the financial position and the performance of various functions of the company in a given period before the top management in such a way as to make it easier for the top management to evaluate the progress of the company and to amend the principles and policies of the company. The financial managers assist the top management in its decision-making process by suggesting the best possible alternative out of the various alternatives of the problem. Hence, financial management helps the management at different levels in making financial decisions.

**Measure of Performance:** The performance of the firm can be measured by its financial results, i.e., by its size of earnings. Riskiness and profitability are two major factors that jointly determine the value of the concern. Financial decisions that increase risks will decrease the value of the firm, and on the other hand, financial decisions that increase profitability will increase the value of the firm. Risk and profitability are two essential ingredients of a business concern.

### **Role Of Finance Manager**

In the area of finance and financial management, the finance manager is an important authority. Not only does the finance of the company, but the finance manager also other a lot of work for the company. According to Ezzammel, Wilmott, and Worthington (2004), we can explain his role in the following words.

#### **Role of the Finance Manager for Raising Funds for the Company**

The finance manager checks different sources of the company. He did not get funding from all sources. First, he checks his needs in the short term and in the long term, and after this he selects the best source of funds. He also has the power to change the capital structure of the company to give more benefits to the company.

#### **Role of the Finance Manager for Taking Maximum Benefits from Leverage**

A finance manager uses both operating and financial leverage and tries to use them to take maximum benefit from leverage.

#### **Role of the Finance Manager for International Financial Decision**

Finance manager finds opportunities in international financial decisions. In these opportunities, he does the contracts of credit default swap, interest rate swap, and currency swap.

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### **Role of Finance Manager in Investment Decisions**

The finance manager checks the net present value of each investment project before actual investment in it. Net present value of a project means what net profit that the discount rate company will get if the company invests its money in that project. High NPV project will be accepted. So, due to high responsibility, the role of the finance manager in this regard is very important.

### **Role of Finance Manager in Risk Management**

The finance manager is very serious about risk and its management. He plays an important role in finding new ways to control the risk of the company. Like other parts of management, he estimates all his risks, and he organizes the employees who are responsible for controlling risk. He also calculates risk-adjusted NPV. He meets all risk controlling organizations like insurance companies, rating agencies at a pervasive level. He can convert the company's misfortunes into fortunes. By good estimations of adverse situations, he tries his best to safeguard the money of company.

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## Chapter 6

### Applications of Financial Management for Profit Maximization vs. Wealth Maximization

#### Introduction

We have discussed Chapter Five, which covers the goals of financial management. Now, the question arises about the choice—should the goal of decision making be profit maximization, or should the case be strengthened for wealth maximization as the primary goal of a business enterprise?

Winfred and Rose (2001) argued that in the real world, organizations undoubtedly follow objectives other than the maximization of shareholders' wealth. The return to equity holders will be an important consideration in financial decisions, but it is unlikely to be the only one.

In addition, Grinblatt and Titman (2002) stated that it is important, however, not to overlap the above conflict.

Their objections are:

Profit cannot be ascertained well in advance to express the probability of return, as future is uncertain. It is not possible to maximize what cannot be known.

The executive or the decision maker may not have enough confidence in the estimates of future returns, so he does not attempt to maximize future. It is argued that a firm's goal cannot be to maximize profits but to attain a certain level or rate of profit, holding a certain share of the market, or a certain level of sales. Firms should try to 'satisfy' rather than to 'maximize'.

There must be a balance between expected return and risk. The possibility of higher expected yields is associated with greater risk to recognize such a balance and wealth Maximization is brought into the analysis. In such cases, a higher capitalization rate is involved. Such a combination of expected returns with risk variations and related capitalization rate cannot be considered in the concept of profit maximization.

The goal of maximizing profits is considered to be a narrow outlook. Evidently when profit maximization becomes the basis of financial decisions of the concern, it ignores the interests of the community on the one hand and that of the government, workers and other concerned persons in the enterprise on other hand. Keeping the above objections in view, most of the thinkers on the subject have concluded that the aim of an enterprise should be wealth Maximization and not the profit Maximization. Prof. Solomon of Stanford University has handled the issue very logically. He argues that it is useful to make a distinction between profit and 'profitability'. Maximization of profits with a view to maximizing the wealth of shareholders is clearly an unrealistic motive. On the other hand, profitability Maximization with a view to using resources to yield economic values higher than the joint values of inputs required is a useful goal. Thus, the proper goal of financial management is wealth maximization.

#### Organisation Of The Finance Department

Management is not an art that can be broken down into compartment's each separate and unrelated to the others. Personnel management is not unrelated to marketing management or production management.

Some common problems, such as price, product design, inventory, taxation, etc., affect all divisions of management. So, the financial problems are very important problems that affect the efficiency of all other branches of management. In a very small business, one man may be the proprietor, may make all the management decisions, including financial policies. However, in large businesses, a division of responsibility and the compartmentalization of management are necessary to handle the large volume of work. Finance is one of the most important functions of management, requiring skill and technical expertise knowledge. In big business, a separate department for the purpose is established under the charge of an expert in financial matters known as Finance Manager or Finance Controller, or Director of Finance.

Organization of the finance department means the division and classification of various functions that are to be performed by the finance department. Finance is one of the most important functions of management. Financial decisions affect wage policy, inventory policy, labour policy, and every other area of decision-making. The reverse is also true. Management decisions are made at every level of business organization, from president to foreman, and nearly every management decision involves the finances of the company.

The nature of finance is so peculiar that it may even affect the very existence of the concern, and therefore, the finance function cannot be decentralized like other management functions, such as labour, marketing, etc. The control and administration of finance, therefore, should be made by the top management. Such controlling and administrative powers may vest in the Board of Directors or in the Finance Committee.

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Generally chief financial manager is appointed to look after the activities of the finance department. There are two subordinate officers to the financial manager: the treasurer and the controller of finance. The treasurer's responsibility is to look after the day-to-day working, such as custody of cash and bank accounts, investment portfolio of the corporation, collection of loans, payments of loans, payments of premiums, etc. Cash receipts and disbursements fall within his jurisdiction.

The controller is the chief accounting officer of the company. In a small company, they may have the help of only a few book-keepers, but in a large concern, their authority may extend to several hundred employees organized into departments with such names as Accounts Receivable, Accounts Payable, General Ledger, Internal Audit, Payroll, Tax, Credits and Collections, Budget, etc. Approval of all Payments made by the treasurer is made by the controller to prevent unauthorized payments. He is responsible to the finance committee.

The above forms cannot be said to be ideal. It may change according to the size and the nature of the business. The external factors, such as state intervention in the industrial finance, corporate tax policies, etc., also affect the organizational structure of the department.

### Characteristics of an Organisation

According to Koontz and O'Donnell, "Organization involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments, and the provision of authority, delegation, and coordination."

Organization involves the division of work among people whose efforts must be coordinated to achieve specific objectives and to implement pre-determined strategies.

From the study of the various definitions given by different management experts, the following information about the characteristics or nature of an organization:

**Division of Work:** Division of work is the basis of an organization. In other words, there can be no organization without division of work. Under the division of work, the entire work of the business is divided into many departments. The work of every department is further subdivided into sub-works. In this way, each individual has to do the same work repeatedly, which gradually makes that person an expert.

**Coordination:** Under organizing, different persons are assigned different tasks, but the aim of all these persons happens to be the same - the attainment of the objectives of the enterprise. The organization ensures that the work of all the people depends on each other's work, even though it happens to be different. The work of one person starts from where the work of another person ends. The non-completion of the work of one person affects the work of everybody. Therefore, everybody completes their work in time and does not hinder the work of others. It is thus clear that it is like an organization to establish coordination among different works, departments, and posts in the enterprise.

**Plurality of Persons:** An Organization is a group of many persons who assemble to fulfil a common purpose. A single individual cannot create an organization.

**Common Objectives:** There are various parts of an organization with different functions to perform, but all move in the direction of achieving a general objective.

**Well-defined Authority and Responsibility:** Within the organization, a chain is established between different posts, right from the top to the bottom. It is clearly specified as to what will be the authority and responsibility of every post. In other words, every individual working in the organization is given some authority for efficient work performance, and it is also decided simultaneously as to what will be the responsibility of that individual in case of unsatisfactory work performance.

**Organization is a Structure of Relationship:** The relationship between persons working on different posts in the organization is decided. In other words, it is decided as to who will be the superior and who will be the subordinate. Leaving the top-level post and the lowest-level post, everybody is somebody's superior and somebody's subordinate. The person working on the top-level post has no superior, and the person working on the lowest-level post has no subordinate.

**Organization is a Machine of Management:** Organization is considered to be a machine of management because the efficiency of all the functions depends on an effective organization. In the absence of organization, no function can be performed in a planned manner. It is appropriate to call an organization a machine of management from another point of view. It is a machine in which no part can afford to be ill-fitting or non-functional. In other words, if the division of work is not done properly or posts are not created correctly, the whole system of management collapses.

**Organization is a Universal Process:** Organization is needed both in business and non-business organizations. Not only this, an organization will be needed where two or more than two people work jointly. Therefore, the organization has the

quality of universality.

**Organization is a Dynamic Process:** Organization is related to people, and the knowledge and experience of the people undergo a change. The impact of this change affects the various functions of the organization. Thus, organization is not a process that can be decided for all times to come, but it changes according to the needs. The example in this case can be the creation or abolition of a new post according to need.

**Conceptual Framework of an Organized Institution System**

Any organized institution (or System) is effectively characterised by the following criteria? Existence of an organisational structure (organogram), division of work, coordination, plurality of persons, common objectives, well-defined Authority and Responsibility, organisation is a structure of relationships, organisation is a machine of management, organisation is a universal process, and organisation is a dynamic process. These criteria are independent variables, as they determine the effectiveness of an organized intuition (or system). Figure 1 is a summary of the conceptual framework of an organized institution (or system

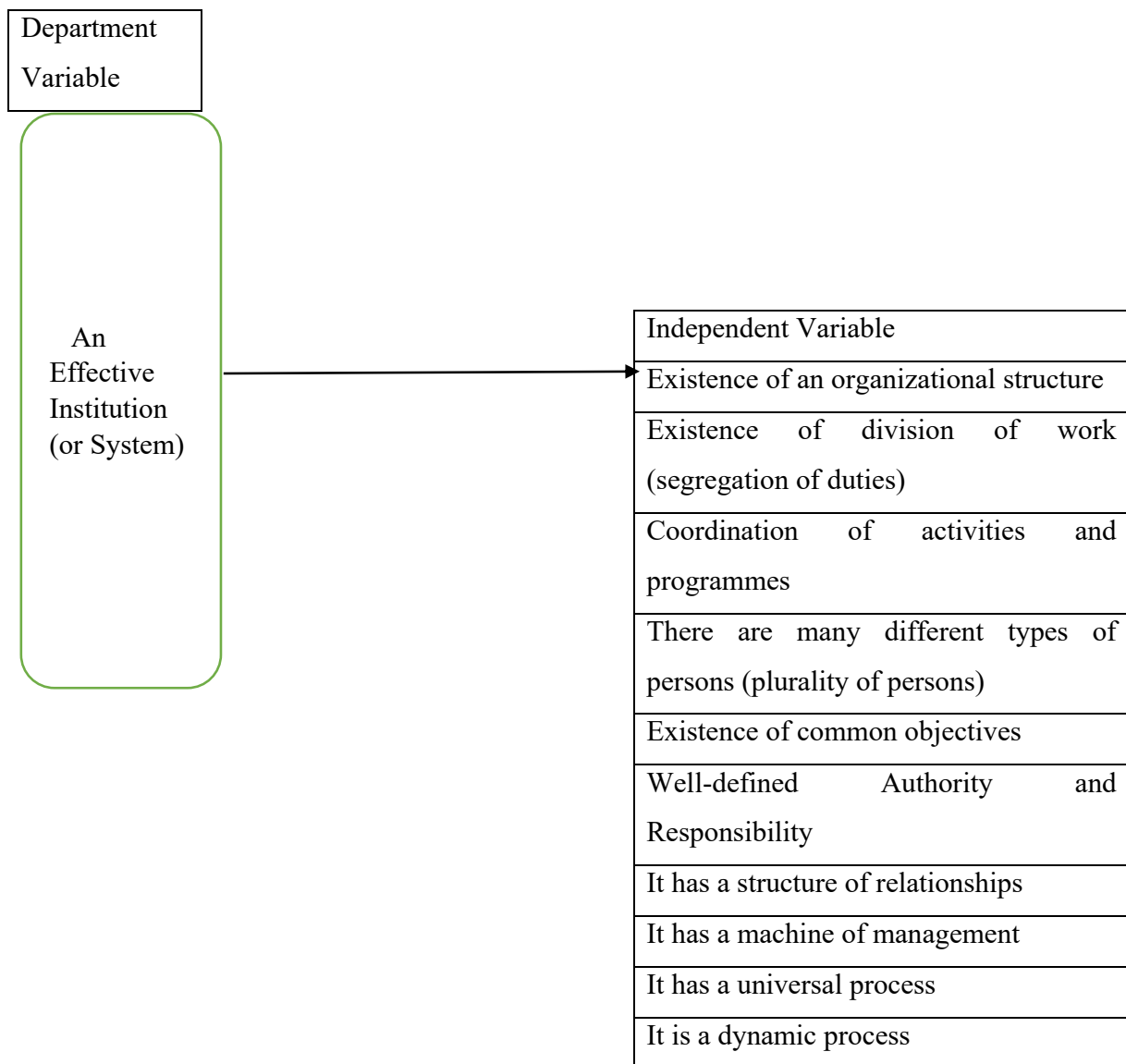


Figure 1

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## Chapter 7

### Composition of Financial Management Systems

According to O' Sullivan, K (2001), financial management systems have the following components: Financial Planning, Financial Decision Making, Expenditure Prioritization, Financial Control, Budgeting.

### Financial Planning

Planning is essential for the smooth operation of the business. A business cannot be carried on without planning. Planning means deciding in advance what is to be done.

Planning is done for each functional area of management. Each functional manager plans for their area of management and acts accordingly. The planning of each area should be linked to the objectives of the organization.

Brigham and Houston (1999) state that "financial management, being one of the branches of management, also needs planning. Financial planning is necessary for the control of inflow and outflow of cash so that necessary funds may be made available as and when they are required. The highest earnings can be assured only through sound financial plans. A faulty financial plan may ruin the business completely. So, sound financial planning is necessary to achieve the long-term and the short-term objectives of the firm and to protect the interests of all parties concerned, i.e., firm, creditors, shareholders, and public".

UN 1999 also reiterates that planning is the first of the financial management subsystems to be considered. Planning and budgeting together refer to four typical and distinct processes, each resulting in a documented output. It is unlikely that all four would be present in any country. Long-term planning—five years or longer, resulting in the production of, for example, a "Five-Year Plan." Such plans rarely contain any financial forecasts other than in very general terms, and are not in any meaningful sense part of the financial management process.

For government and their agencies, Public Investment Plans (PIPs), setting out the capital expenditure plans, typically for three years. These PIPs will normally estimate the capital outflows, but will not link these to other outflows or resources available. PIPs are properly regarded as part of financial management; Three-year rolling plans or budgets. These are for most countries, an innovation, and will generally both embrace and replace the PIP.

A three-year rolling budget (TYRB) is an example; it extends the time frame of the traditional annual budget to a three-year horizon, and includes capital and recurrent expenditure, revenues and financing.

Medium-term financial plans largely replace the need for PIPs, and are again part of the financial management system.

### Financial Management Decision-Making

Financial Management Decisions form part of the financial planning system. According to Zimmerman 2005, 'the Financial Manager makes decisions relating to investment, financing, and dividends. Thus, financial management decisions include investment (acquisition) decisions, financing decisions, and dividend decisions.

### Expenditure Prioritization

A major function of the planning process is to allocate limited resources between competing claims. A specific problem of public financial management is that claims for resources will always tend to exceed resources available, since the cost of such resources has no significant impact on the recipients, e.g., the water sector is very expensive to the community as a whole, but for the individual the extra amount he or she pays is insignificant in relation to the benefits of the utility service received personally.

Therefore, resources need to be allocated according to individual departmental activities and priorities within overall resource ceilings. However, according to Lazaridis (2006), there are a number of factors that make such resource allocations difficult within companies in LDCs.

Particularly within the relatively immature political systems of many LDCs, competing political pressures make it convenient not to articulate policy priorities too clearly;

It is difficult to establish with any degree of reliability the costs and benefits of specific activities and programmes. This is especially so if markets are not open and market prices do not represent opportunity costs. Even without this problem, the benefits of government activities are often difficult to express using common measurement scales.

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In general, there is better information on such costs and benefits at a decentralized level than at the centre.

Donors and official development assistance can distort the process. Donors have their own priorities, and donor funding not only appears free (since it may not easily be interchangeable), but also carries hidden benefits to recipient organizations, e.g., study awards overseas.

The challenge is to incorporate within the company processes and approach to address these problems and provide a consistent methodology for expenditure prioritization which is the best feasible compromise towards consistently optimal resource allocation decisions.

However, according to Modell, S (2001), the following activities typically carried out by companies and systems are in fact part of the financial management process:

Identifying development objectives;

Developing strategies and programmes to achieve objectives;

Assessing resources available;

Prioritizing between objectives and expenditure plans so as to match expenditures to available resources;

Establishing criteria for, and carrying out, project evaluation and selection; and

Monitoring project progress against plans and other criteria.

### **Financial Control**

The control function of the financial manager is relevant for fundraising and expensing. According to financial managers should always bear in mind questions such as: are the various activities of the organization meeting its objectives? Are assets being used efficiently?

In answer to these questions, the finance manager compares data from actual performance to budgeted performance and establishes the variances, which form the basis for the relevant controls, particularly for material variances [37].

### **Budgeting**

Another critical part of a financial management system is the budgeting process of the institution. It is also a control tool. A budget is a plan of action expressed monetarily to be put into action over future periods. A budget provides guidance through which financial resources are apportioned and utilized in an organization.

### **Conceptual Framework of an Acceptable Budget Management System**

According to Horngren (2020), an effective budget management system should possess the following elements:

Existence of a Budget committee

Notice of budget to be prepared for estimates to be sent by the operational (functional departments)

Meetings with departments to plan and compile the estimates

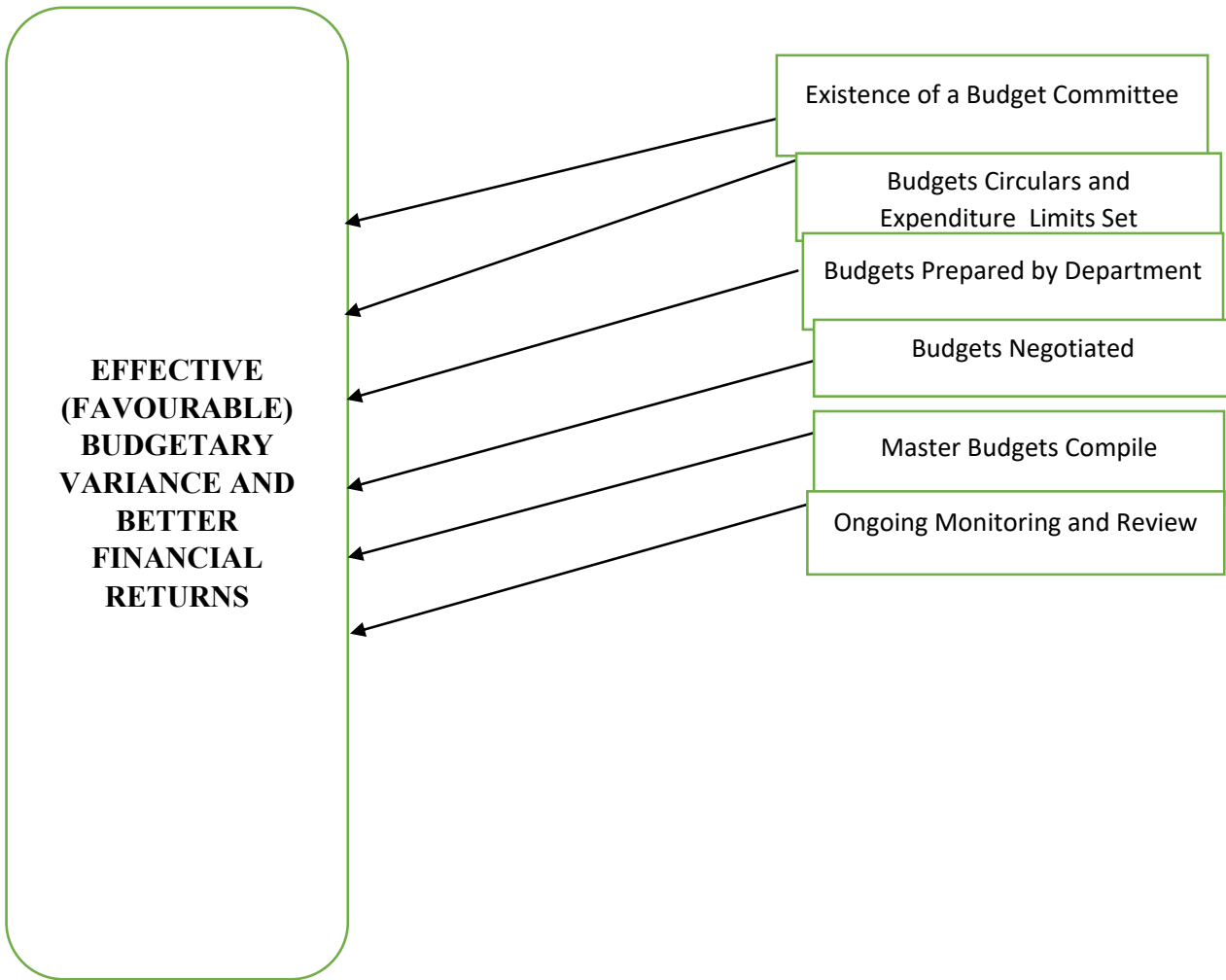
Submission of the budget estimates to the Budget (Division or Department through a budget officer and chairperson)

Submission of the Department budgets to the Budget Committee (Budget Review Committee)

Discussions of the Budgets with the Departmental budget Committee, preview of the budget, finalisation of the budget, and the ongoing monitoring and review of the Budgets, for better favourable budgetary Performance.

**Figure 2** below illustrates the Conceptual Framework of an Acceptable Budget Management system

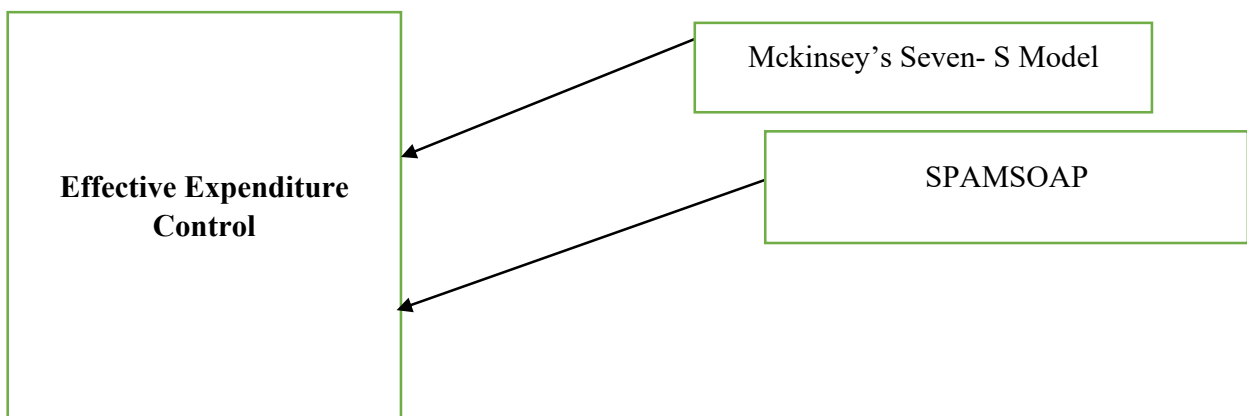
**Figure 3-** Illustration of an Effective Budget Management System



**Conceptual Framework of Effective Expenditure Control Systems**

Any acceptable expenditure Controls should fulfil the requirements of the McKinsey seven (-s) Model, together with Mi-hzhaps, A. H (2024). Internal Control Framework (SPAMSOAP), combining the Seven-S and SPAMSOAP models, the conceptual Framework is as follows: (Seven-S + SPAMSOAP)

**Figure 4:** Conceptual Framework of Effective Expenditure Control Systems



**Financial Management in Specific Areas  
Capital Structure**

According to Myers (1984) "Capital structure of a company refers to the makeup of its capitalization. A company procures funds by issuing various types of securities, i.e., ordinary shares, preference shares, bonds, and debentures. Before issuing

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any of these securities, a company should decide on the kinds of securities to be issued. In what proportion will the various kinds of securities be issued, should also be considered". However, in a broader sense, capital structure includes all the long-term capital resources, including loans, bonds, shares issued, reserves, etc., and the components of the total capital. A company engaged in devising a financial plan will be faced with problems regarding the proportion of funds to be raised, but the issue of its shares and the amount to be raised through borrowings. There is an important difference between these two methods. Funds raised from shareholders require the payment of dividends only out of profits of the company, and the amount will be paid only out of profits, if there are any. A company should maintain a fair balance between these two types of securities- fixed cost-bearing securities (Debentures and preference shares), and Variable cost-bearing securities (ordinary shares). This security mix affects the financial stability of the company. If a company fails in its efforts to maintain the security mix, its capital structure will be imbalanced, which may affect its profitability.

The main idea behind Modigliani and Miller's theory is that a rational investor can create any capital structure on his/her own. Therefore, the firm should not focus much on its capital structure. According to Bystrom (2007 "If the investor is highly indebted, the risk and return of the firm's stock (to the investor) will simply be the same as if the firm were highly levered". This substitution, called homemade leverage and the finding that a more leveraged firm doesn't only yield higher returns to the investor but also a higher risk, is the crux of Modigliani and Miller's theory [38].

There is a theory that states the value of the firm, in a world with corporate taxes, is positively related to its debt. This theory, which is known as the trade-off theory, states that profitable firms will tend to use more debt in order to capture the tax shield offered by debt financing of investments. According to this theory, in an all-equity firm, only shareholders and tax authorities have claims on the firm. The value of the firm is owned by the shareholders, and the portion going to taxes is just a cost. The value of the levered firm has three claimants, namely: the shareholders, debt holders, and tax recipients (Government). Therefore, the value of the levered firm is the sum of the value of the debt and the value of the equity. According to Hillier et al. (2010, in these instances, value is maximized with the structure paying the least in the form of taxes.

Baker and Wurgler (2002) found that firms with low levels of leverage raised capital when their market valuations were high, as measured by the market-to-book ratio, whereas firms with high levels of leverage raised capital when their market valuations were low. This theory is known as the market timing capital structure theory [15].

According to research by Kurshev and Strebulaev (2005), it has been established that large firms in the United States tend to have higher leverage ratios than smaller firms.

One of the most encompassing studies that have been conducted on African markets, including South Africa, found that companies in these markets tend to follow a modified pecking order. Their study looked at five African markets (Ghana, Kenya, Nigeria, South Africa and Zimbabwe) collectively.

Firer et al, 2008 propounded that the capital structure decisions can have important implications for the value of the firm and its cost of capital.

### **Depreciation Policies**

In everyday usage, the term depreciation denotes the decrease in the value of tangible assets due to wear and tear, deterioration, and decay of assets with the passage of time, and damage or destruction. It is treated as an expense and is charged against the profits of the concern. According to statutory provisions, charging of depreciation to the profit and loss account is a must in order to ascertain the net profits available for the distribution of dividends to shareholders. The provision of depreciation is also necessary to have a true and fair view of the fixed assets of the company.

There are so many methods of providing depreciation on fixed assets, and the company is free to adopt any of these methods that suit the needs of the business. But the method once adopted should be followed throughout the life of the asset unless there are some exceptional circumstances. The firm should establish a sound depreciation policy taking into view the general principles of providing depreciation and the statutory provisions relating to depreciation because it considerably affects the profits, profitability, and production capacity of the company. So, it is the responsibility of the financial executives to see whether the provision of adequate and reasonable depreciation is being made or not.

### **Dividend Policies**

Firstly, it is of essential concern to define some different terms that are important during this research. According to Encyclopaedia Britannica, 1911, the word 'dividend' derives from the Latin word "dividend" which literally means „a thing to be divided". Each year, if the firm realizes a profit, the Annual General Meeting of Shareholders of the firm votes for the proposed profit allocation. The dividend policy of the firm can be defined as the firm's position on whether the firm should distribute the free cash flows as dividends or keep the free cash flows in the company. If the firm decides to allocate the profit as divi-

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dends, the dividend policy clarifies when the dividends are issued and, more importantly, how big the dividend payment is. Usually, if the firm has a dividend policy, the company presents a target payout ratio or prefers to have a stable dividend each year. It should be noted that this study calculates the payout ratio by dividing dividends by net earnings. This chapter gives some theories and facts which are related to dividend policy.

Blocks et al (2002) state that dividend is a decision with respect to whether or not to pay the current year's dividend or postpone it to the future. It is a trade-off decision [40].

According to Gitman (2003), equity holders are rewarded for their investment primarily through the appreciation of the value of their common equity and, in some instances, through the receipt of dividends.

As Lease et al. (2000) have argued, the dividend returns are a significant part of the total returns to investors. There is always a problem before the top management or Board of Director to decide how much profits should be transferred to Reserve funds to meet any unforeseen contingencies and how much should be distributed to shareholder, Payment of dividend is desirable because it affects the goodwill of the concern in the market on the one hand, and on the other, shareholders invest their funds in the company in a hope of getting a reasonable return. Retained earnings are the sources of internal finance for the financing of corporate future projects, but the payment of dividends constitutes an outflow of cash to shareholders. Although both expansion and payment of dividends are desirable, these two are in conflict. It is, therefore, one of the important functions of financial management to constitute a dividend policy that can balance these two contradictory viewpoints and allocate a reasonable amount of profits after tax.

### **Management of Inventory**

Inventories are the stocks of the product of a company and components thereof that make up the product. The different forms in which inventories exist are- raw materials, work in process (or semi-finished goods) and finished goods. Raw materials are those inputs that are converted into finished product. Work in progress inventories are semi-finished products. That requires more work before they are ready for sale. Finished goods inventories are those which are completely manufactured products and are ready for sale. Raw materials and semi-finished goods inventories facilitate production while finished goods inventories are required for smooth marketing operations. Thus, inventories serve as a line between the production and the consumption of goods.

Inventories constitute, in every business concern, the most significant part of working capital or current assets. Inventories in Indian industries constitute more than 60% of the current assets. Inventories are significant elements in the cost process. It is, therefore, essential to control the inventories. Inventory control is usually used in two ways-unit or physical control and value control. Purchase and production department officials use this work in terms of unit control because they are concerned only with the physical control of the inventories.

### **Marketing and Underwriting of Securities**

According to Bystrom (2007), one of the important functions of Financial Management is the marketing of securities of a company, i.e., shares and debentures [18]. Marketing is a process that a company resorts to approach the investing public to collect funds for the company. For this purpose, various methods and techniques are used. The problem of marketing securities arises for the first time when the company comes into existence and collects funds by the issue of shares, and again at the time of subsequent issues of shares and debentures. Trading in outstanding or old securities, shares, and debentures is negotiable, and the Stock Exchanges provide a continuous market for the sale and purchase of securities in the process of mobilizing the savings of individuals and institutions. For this purpose, a company has to utilize the services of certain intermediaries, which help the company in selling, transferring, underwriting, and sometimes directly subscribing to the securities of the company. By marketing of securities, here we mean the primary distribution of securities by the company at the time of its formation or at any time after its first issue, either directly or through an underwriting agreement in the stock exchange market.

### **Cash and Liquidity Management**

Cash management should be an important part of financial management. Yet in many companies, the cash management is at a highly aggregated level by the treasury department. There are basically three reasons why a company would wish to hold some of its assets in the form of cash and cash equivalents. These reasons, according to economic theory, are: transaction, precaution, and speculative reasons.

Firer et al (2008) state that the timing and magnitude of cash flows and their associated risk are therefore the key drivers of the firm's share price and the wealth maximization of the owners of the firm.

A firm must be capable of effectively carrying out its purchasing and sales activities, which requires careful management of

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the associated cash inflows and outflows. This process involves analyzing cash movements to ensure that adequate liquidity is maintained. Sufficient working capital must be reserved to meet obligations such as employee wages, the purchase of materials, and other operating expenses. Consequently, effective cash management aims to maintain an appropriate level of cash to ensure that liabilities are settled as they fall due (Association of Chartered Certified Accountants [ACCA], 2017).

### **Collection Cycle**

According to Brayshaw (1999), this consists of the following:

- Receipt of the order
- Credit approval
- Dispatch
- Posting of invoices
- Debtor control
- Enforcement procedures
- Collection and banking of cash

### **Management of Non-Current Assets**

This is a set of tools and organizational procedures designed to support the proficient management of non-current assets. Asset management stresses full life-cycle management from procurement through maintenance to disposal.

Non-current asset is an asset that is not expected to be converted into cash, sold, or exchanged within the normal operating cycle of the entity (one year). Noncurrent assets include land, buildings, and leasehold improvements, machinery and other equipment, motor vehicles, and office furniture.

The objective of this is to manage effectively and efficiently all Non-Current assets of an entity within the framework of the entity's procedures and manual and to develop a capitalization policy for assets classification and usage. Also, According to Lazaridis 2006, fixed assets are managed to ensure that:

Fixed assets are correctly recorded, adequately secured and properly maintained.

Acquisitions and disposals of fixed assets should be properly authorized and maintained by regular inspection.

All capital expenditure should be subject to authorization procedures, which should be evidenced.

All disposals should be subjected to authorization receipts and reasonableness of proceeds should be monitored.

According to Association of Chartered Certified Accountants, an asset can be recognized 'if it is probable that future economic benefits associated with the item will flow to the entity, and that cost of the item can be measured reliably'.

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## Chapter 8

### Key Extracts of The Financial Management Act 2016

#### Macroeconomic and Fiscal Policies

##### Principles of Responsible Financial Management

Any person, institution, or agency responsible for or engaged in the management of public funds shall be guided by the principles of responsible financial management in order to ensure a prudent, efficient, effective, and transparent use of public funds.

Notwithstanding the generality of subsection (1), any person, institution or agency referred to under subsection (1), shall be guided by the following principles of responsible financial management (a) Achieve and maintain prudent levels of outstanding debt of the general government so as not to impose an inequitable burden on future generations; (b) Achieve and maintain an appropriate balance between revenues and expenditures of general government; (c) Provide timely, reliable, and adequate information to the public on fiscal objectives, policies, data, and risks to ensure transparency in the budgetary and financial management of the general government and public enterprises; (d) Manage prudently the fiscal risks faced by Sierra Leone; (e) Formulate and implement fiscal policies to achieve macroeconomic stability; and (f) Manage extractive industries revenues in accordance with Part VI in order to contribute to transformational development and the fiscal responsibility principles specified in this section.

##### Preparation and Approval of Budget

##### Appropriations and Budgetary Principles

**Authority to Spend Public Money:** (1) Public money may not be spent, except as expressly authorized by the Constitution, an Act of Parliament, or an appropriation under an Appropriation Act. (2) The authority to spend public money provided by an appropriation under an Appropriation Act (a) shall be limited to the amount specified for the appropriation under the Appropriation

Act and may not be exceeded; (b) shall be limited to the purpose of the appropriation specified under the Appropriation Act and may not be used for any other purpose; and

(c) Shall lapse at the end of the financial year to which the Appropriation Act relates unless carryover of the appropriation is allowed under this Act.

##### Structure of the State budget

The State budget shall be composed of (a) An Appropriation Act by which Parliament gives statutory authority for the issue of money from the Consolidated Fund to meet the amounts of expenditures voted by Parliament; and (b) the Estimates which provide Parliament with additional information on voted amounts included in the Appropriation Act and are to be approved by Parliament as such after voting on the Appropriation Act.

(2) In accordance with paragraph (a) of subsection (2) of section 112 of the Constitution, an Appropriation Act shall be divided into the heads of the expenditures which (a) specify the amount appropriated per budgetary agency, except where this Act or regulations mentioned in subsection (5) provide otherwise; and (b) are voted by Parliament.

(3) The Estimates shall be divided into the subheads of the expenditures, which (a) provide a breakdown of expenditures within the heads of the expenditures; and (b) further divide the expenditures into major economic categories. (4) Without prejudice to subsection (3), the Estimates may classify the expenditures into programs which group the expenditures into activities to be carried out with a view to achieving one or more specific objectives.

(5) The Minister may make regulations for the implementation of subsections (3) and (4) or any other issue relating to the classification of expenditures and revenues. (6) In accordance with paragraph (b) of subsection (2) of section 112 of the Constitution, the heads of the expenditures in the Estimates and Appropriation Bill shall specify for the information of Parliament, the amount to be charged on the Consolidated Fund under paragraph (a) of subsection (3) of section 111 of the Constitution.

##### State Revenues to be Presented in the Estimates

For the purpose of this Act, State revenues include, without limitation (a) taxes of any kind; (b) current revenues, such as those from goods and services rendered, holding of financial and other assets, fines and other revenues compelled by the law, transfers, and other miscellaneous sources; (c) domestic and external grants; (d) proceeds of sale of financial and other assets and repayment of loans granted; and (e) domestic and external borrowing.

(2) All State revenues to which an Appropriation Act relates shall be presented in the relevant Estimates on a gross basis without being netted with any State expenditure.

(3) An amount received as a refund for an expenditure shall be credited to the appropriation against which the expenditure was charged.

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### **State Expenditures to be Authorized by the Estimates**

For the purpose of this Act, State expenditures include, without limitation (a) personnel expenditures; (b) operating expenditures, including expenditures for acquisition of inventory; (c) capital expenditures, including expenditures for acquisition or development of tangible, intangible, or financial assets or ownership interest; (d) transfers; (e) expenditures for granting loans; and (f) expenditures for interest payments and other debt service charges and repayment of domestic and external borrowing.

(2) State revenues may not be earmarked for a specific State expenditure or retained by a budgetary agency for its expenditure, unless such earmarking or retention is authorized by an Act of Parliament. (3) All State expenditures for which appropriations are to be made under an Appropriation Act shall be presented in the relevant Estimates without being offset by State revenues. (4) The Estimates shall separately present the amount of revenue expected to be raised by each budgetary agency and the external grants that it is likely to receive from donors.

### **Budget Preparation and Approval Medium-Term Budgetary Framework**

For the purpose of this Act, the Ministry of Finance shall establish a medium-term budgetary framework which includes the fiscal objectives to be established by a newly elected Government under section 21; (b) reliable macroeconomic and fiscal forecasts for at least three years underpinning the fiscal planning and the State budget; (c) multiannual ceilings on expenditures for at least three years prescribed in the Fiscal Strategy Statement and budget call circular as a basis of preparation of the State budget for the following years; (d) guidance to budgetary agencies on estimates of the fiscal impact of existing and new policy measures and on policy prioritization with a multiannual perspective; and (e) reconciliation of the macroeconomic forecasts and expenditure ceilings with the outcomes achieved for the relevant indicators. (2) The Minister may by statutory instrument, prescribe rules and procedures for the implementation of subsection (1).

### **Budget Call Circular**

As soon as practicable after the Fiscal Strategy Statement is approved under subsection (1) of section 23, the Financial Secretary shall issue a budget call circular in accordance with the Fiscal Strategy Statement, for the purpose of guiding budgetary agencies in preparing budget proposals. (2) A budget call circular issued by the Financial Secretary under subsection (1), shall State budget for the next three years or more broken down at the level of detail as determined by the Minister; (b) prescribe a budget calendar which sets out the time frame in respect of preparation and approval of the State budget; (c) include instructions to be complied by budget agencies in the course of preparation of budget proposals; and (d) any other matters as may be deemed necessary by the Minister

### **Budget Proposal and Public Consultation**

By such date as specified by a budget call circular, the head of every budgetary agency shall submit to the Financial Secretary a budget proposal which includes (a) estimates of revenues expected to be received under his responsibilities for the next three years at a level of detail as specified by the budget call circular; (b) estimates of expenditures for the next three years at a level of detail as specified by the budget call circular; and (c) any other matters required under this Act. (2) A budget proposal referred to in subsection (1) shall be prepared in accordance with instructions from the Financial Secretary. For the purpose of supporting the preparation of the State budget, the Minister may, by statutory instrument, prescribe procedures for giving stakeholders, including the public, an opportunity to express their views on the budget proposal, including proposal of transformational development projects, and the Government's performance in the delivery of public service

### **Submission of State Budget**

The State budget shall be laid before Parliament by the Minister not later than two months before the beginning of the financial year to which it relates. (2) The Minister shall obtain approval of the Cabinet before laying the State budget before Parliament. (3) On the submission to Parliament under subsection (1) of section 32, the Minister shall publish the State budget documents in the *Gazette* and on the website of the Ministry.

### **State Budget Documents**

The State budget laid before Parliament shall be accompanied by information annexes which include– (a) overview of recent macroeconomic and fiscal developments; (b) updated macroeconomic forecasts for the next three years or more; (c) updated fiscal forecasts, including revenues, expenditures, deficit, and debt, of the State budget for the next three years or more; (d) updated fiscal forecasts of the general government and subsectors for the next three years or more; (e) a reconciliation of the macroeconomic and fiscal forecasts under paragraph (b), (f) paragraphs (c) and (d) with those under the Fiscal Strategy Statement; (g) an explanation of methodologies and assumptions used for the macroeconomic and fiscal forecasts; (h) a comparison of the revenues and expenditures indicated in the main Estimates with the actual revenues and expenditures of the preceding two years and the forecasts of the revenues and expenditures for the next two years; (i) the consolidated budget of the central government, which aggregates budgets of all entities included in the central government at such detail

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as determined by the Minister; (j) a description of main policy objectives and strategies to be achieved and implemented under the State budget, including the policies contained in the budget speech; (k) a statement of transformational development projects referred to in subsection (6) of section 77; estimated amount of waiver of tax to be given during a financial year to which the State budget relates; (m) a Public Investment Programme referred to in subsection (1) of section 35; (n) a list of outstanding guarantees given by the Minister and loans granted from the Consolidated Fund; and (o) any other information as required by this Act or deemed appropriate by the Minister.

### **Public Investment Programme**

The Minister shall annually prepare and submit as part of the State budget documents a Public Investment Programme which includes (a) lists of (i) all ongoing projects which have been included in the State budgets of the present or preceding financial years and the implementation of which are ongoing; (ii) all new projects which are newly included in the State budget of the next financial year; (iii) all ongoing PPP projects, the implementation of which are ongoing; and (iv) all new PPP projects, multiannual commitments to which has been approved by the Minister under subsection (2) of section 60; (b) a list of transformational development projects and their assessment mentioned in paragraphs (a) and (b) of subsection (8) of section 77; and (c) the following information related to all projects and PPP projects included in the lists mentioned in paragraph(a): (i) names, start and completion dates, and summaries of the projects and PPP projects; (ii) financing sources of the projects and PPP projects; (iii) updated projections of annual expenditures for the projects and PPP projects to be spent under the State budget over the entire period of the project implementation; (iv) amount of outstanding commitments to payments to the projects and PPP projects; and (v) any other information as may be deemed appropriate by the Minister.

(2) The Minister may issue regulations and guidelines to prescribe (a) the procedures, criteria, methodologies, and specific information required to qualify a project for inclusion in the State budget; and any other procedures, criteria, methodologies, and requirements in respect of screening, evaluation, and implementation of projects. (3) The screening, evaluation, selection, and implementation of PPP projects shall be made in accordance with the Public-Private Partnership Act (2014).

### **Contingencies Fund.**

Pursuant to section 116 of the Constitution, the Minister shall establish a Contingencies Fund, the amount of which shall not exceed at any time two per cent of the non-EIR presented in the main Estimates of the present financial year. (2) An Appropriation Bill of a financial year shall include an appropriation for replenishment of the Contingencies Fund, the amount of which shall not exceed two per cent of the non-EIR presented in the main Estimates of the financial year.

### **Withdrawal from Contingencies Fund**

(1) The Contingencies Fund may be withdrawn only under this section.

(2) The aggregate amount of withdrawal from the Contingencies Fund during a financial year shall not exceed two percent of the non-EIR presented in the main Estimates of the financial year.

(3) In accordance with subsection (1) of section 116 of the Constitution, the Minister may, on the request of the head of a budgetary agency, withdraw from the Contingencies Fund to meet an expenditure of the budgetary agency, only when (a) the Minister is satisfied that there has arisen in the budgetary agency an urgent and unforeseen need for the expenditure for which no other provision exists under the Estimates; (b) the expenditure may not be met by reallocation under section 43; (c) the expenditure cannot, without serious injury to the public interest, be postponed until provision can be made by a Supplementary Estimate; and (d) the withdrawal does not cause the limit mentioned in subsection (2) to be exceeded. (4) A request under subsection (3) shall be made in such form and manner as may be specified by the Minister.

(5) When withdrawal is made under subsection (3), (a) the amount withdrawn from the Contingencies Fund shall be paid into the Consolidated Fund; (b) as soon as practicable, the Contingencies Fund shall be replenished by the Minister by charging against an appropriation for replenishment mentioned in subsection (2) of section 36; (c) as soon as practicable, in accordance with subsection (2) of 116 of the Constitution, a Supplementary Estimate shall be laid by the Minister before Parliament for its approval to classify the expenditure of the budgetary agency, for which the withdrawn amount is used, into a relevant provision under the Estimates. Every quarter, the Minister shall submit to Parliament a report which includes information about the withdrawal of the Contingencies Fund under subsection (3).

### **Special Warrants of the President**

The President of the Republic may issue a warrant under paragraph (c) of subsection (2) of section 114 of the Constitution only when the aggregate amount of the expenditures authorized by warrants issued under the said Article of the Constitution during a financial year does not exceed one per cent of the non-EIR presented in the main Estimates of the financial year.

(2) An Appropriation Bill of a financial year shall include an appropriation for the issuance of a warrant by the President of the Republic under paragraph (c) of subsection (2) of section 114 of the Constitution, the amount of which shall not exceed one per cent of the non-EIR presented in the main Estimates of the financial year.

(3) As soon as practicable after the President of the Republic has issued a warrant under paragraph (c) of subsection (2) of

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section 114 of the Constitution, the Minister shall lay before Parliament for its approval a Supplementary Estimate to classify the expenditure made under the warrant into a relevant provision under the Estimates.

### **Unallocated Head of Expenditures**

(1) The State budget may include an unallocated head of expenditures to set aside the Consolidated Fund to meet an unspecified need or purpose: Provided that the amount of the unallocated head of expenditures may not exceed one per cent of the non-EIR presented in the main Estimates of the financial year.

(2) The Minister may, on his initiative or at the request of the head of a budgetary agency, issue a warrant authorizing expenditures to be charged against the unallocated head of expenditures mentioned in subsection (1), when the expenditures are necessary for public interest. Parliamentary procedure.

### **Temporary Budget**

(1) When an Appropriation Act of a financial year does not come into force by the beginning of the financial year, pursuant to section 113 of the Constitution, the Minister may, with the approval of Parliament, authorize expenditure from the Consolidated Fund for a period not exceeding four months from the coming into operation of the Appropriation Act or the beginning of the financial year to which that Act relates, whichever is earlier.

(2) The expenditures spent under subsection (1) shall be regarded as forming part of the appropriation for the financial year to which the Appropriation Act relates.

### **In-Year Adjustments**

(1) In accordance with subsection (3) of section 112 of the Constitution, the Minister shall lay before Parliament for its approval a Supplementary Estimate when it intends to (a) increase or decrease an appropriation under the Appropriation Act; (b) create a new appropriation under the Appropriation Act; (c) change the purpose of an appropriation under the Appropriation Act; (d) increase or decrease an amount of a provision for an item of expenditures under the Estimates, if it cannot be increased or decreased through reallocation under section 43; or (e) change the purpose of a provision under the Estimates.

(2) A Supplementary Estimate shall not be laid by the Minister before Parliament (a) before the start of the seventh month of the financial year; and (b) more than twice within a financial year.

(3) Subsection (2) shall not apply if the submission of the Supplementary Estimate is required under paragraph (c) of subsection (5) of section 37, subsection (3) of section 38, or subsection (5) of section 39.

Supplementary estimates and Supplementary Appropriation Bill.

(4) A Supplementary Estimate shall classify the expenditures in the same manner as the main Estimates.

(5) A Supplementary Estimate laid by the Minister before Parliament shall be accompanied by information annexes which include (a) updated forecasts of revenues of, and expenditures from, the State budget; (b) an assessment of the fiscal impact of the Supplementary Estimate; and (c) any other information as may be deemed appropriate by the Minister.

### **Virement**

(1) An amount of a provision under the Estimates may not be reallocated between different heads of expenditures without approval by Parliament through a Supplementary Estimate.

(2) The Minister may, on the request of the head of a budgetary agency, reallocate an amount of a provision for an item of expenditures under the Estimates between different subheads of expenditures but within the same head of expenditures: Provided that the aggregate amount of reallocation between different subheads within the same head may not exceed ten per cent of the total expenditures provided for the head.

(3) The head of a budgetary agency may reallocate an amount of a provision for an item of expenditures under the Estimates within the same subheads of expenditures: Provided that the aggregate amount of reallocation within the same subhead may not exceed ten per cent of the total expenditures provided for the subhead.

(4) When a head of a budgetary agency reallocates a provision under subsection (3), he shall notify the Minister of the reallocation in such form and manner as prescribed by the Minister.

(5) An amount of a provision for an item of expenditures under the Estimates may not be reallocated (a) from capital expenditures to current expenditures; or (b) to increase wages, salaries, emoluments, allowances, or other personnel expenditures.

(6) The Minister shall, by statutory instrument, prescribe prohibitions and other rules necessary for the implementation of this section.

### **Complementary Period**

(1) Payments of expenditures of a budgetary agency on account of a financial year shall be made before January 1st of the following financial year: Provided that the expenditures on account of a financial year shall be committed by the end of the financial year.

(2) Revenues of a budgetary agency on account of a financial year shall be collected before January 1st of the following financial year.

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(3) Expenditures and revenues of a budgetary agency that are paid or collected after the date specified in subsections (1) and (2) shall be treated as revenues and expenditures on account of the following financial year and met by the following financial year's appropriations.

(4) The Minister shall issue regulations necessary for the implementation of this section.

#### **Regulations on Carry-Over**

(1) Carryover of a provision under the State budget shall not be made, except when regulations mentioned in subsection (2) so authorize.

(2) The Minister may, by statutory instrument, prescribe procedures, conditions, limitations, and other requirements in relation to the carryover of a provision under the State budget.

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## Chapter 9

### Control Environment

Whittington and Pany (2001) note that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that the control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees (especially the extent of their independence from management, experience & stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they may take on), and Organizational structure (which may be a well-organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles). Control environment has several factors; however, for purposes of this research, the review will focus on Management philosophy and operating style, the integrity and ethical values of personnel that create and administer controls, and audit committees and the board of directors. For purposes of the study, the board of directors will be represented by the Governing council and the various committees of the council.

Whittington and Pany (2001) also believe that these factors set a basis upon which the other internal control components can be built. They also provide a framework within which the other components operate. However, these assertions have not always held, since management in organizations has always overridden these controls; the lack of mentoring has always led to the collapse of controls. The independence of the audit committee has largely been theoretical in most organizations. Boards of directors have on several occasions had very little time for company affairs, implying that their supervisory role has always been wanting. It is equally worth noting that most of the board members' selection is largely political and a reflection of the political allegiance. They most of the cases lack the experience and exposure to determine the strategic direction of the organization. Board of directors, ought to supervise the management of an entity, but it has always turned out that Board members merely implement recommendations of the management committee of an institution.

The audit committee, as a subcommittee of the board of directors, plays a role in protecting the owners' interests by monitoring management's actions, in terms of financial reporting, risk management, and internal control. On the other hand, an active audit committee could consider the internal audit function as a necessary source of information to execute its monitoring responsibilities, thus the audit committee may push for better-staffed internal audit functions [41-46].

The study by Wallace & Kreutzfeldt (1991) was among the first to demonstrate the importance of the control environment in explaining the existence of an internal audit function. More recently, provided evidence that the existence of an internal audit function is related to the level of commitment to risk management [43]. Recent case studies on internal auditing in Belgium illustrate the importance of the control environment when studying internal auditing practices. Found that certain control environment characteristics (e.g., tone-at-the-top, level of risk and control awareness, extent to which responsibilities related to risk management and internal controls are clearly defined and communicated) are significantly related to the role of the internal audit function within an organization. The tone-at-the-top refers to a company's ethical values, management's philosophy and operating style which are reflected by the company's code of conduct or code of ethics [30].

Based on we assume that when the company pursues integrity and clear ethical values reflected in a formal code of conduct/ethics, the internal audit function will take on greater importance. This is because the internal audit function is often seen as a way of translating and communicating the tone-at-the-top throughout the company [42]. Therefore, management is more likely to invest in a relatively larger internal audit function.

The American Bar Association (ABA) directors' guidebook states that "an important aspect of the board's responsibility, often referred to the audit committee, is oversight of the corporation's policies and procedures regarding compliance with law and significant corporate policies."

Internal control systems not only contribute to managerial effectiveness but are also important duties of corporate boards of directors. Accounting literature likewise emphasizes the importance of an organization's integrity and ethical values in maintaining an effective control system (Verschoor, 1999).

A focus on integrity and ethical values was the principal contribution of the Internal Control— Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (on fraudulent financial reporting)

To trigger independence of auditors, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 78. This statement requires auditors to perform procedures on every audit to enable them to understand their client's control environment, including integrity and ethical values. In other words, au-

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ditors are specifically required to determine whether their clients' ethical controls are operating. SAS No. 78 points out that ethical values and other elements of the control environment permeate the culture of an organization and affect the strength of all other controls [47].

### **Internal Audit and Financial Performance**

Whittington & Pany (2001) suggest that internal auditing is performed as part of the monitoring activity of an organization. It involves investigating and appraising internal controls and the efficiency with which the various units of the organization are performing their assigned functions. An Internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguards cash, inventory & other assets, and cooperates harmoniously with other departments

The internal auditor normally reports to the top management.

Gupta (2001), on the other hand, asserts that "Internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. According to Gupta, "the scope of internal audit is determined by management. This may, however, impair the internal auditor's objectivity and hamper his independence; it is quite hard to report negatively on someone who determines the scope of your work. Although at a Seminar organized by the Institute of Certified Public Accountants of Uganda (ICPAU), Sebbowa, 2009, in his presentation "The role of Internal Audit function in Organizations", states that "Independence is established by organizational and reporting structure" and that objectivity is achieved by an appropriate mindset.

Sebbowa (2009 also defines "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes".

He further mentions the principles of Internal audit to include; Integrity, Objectivity, Confidentiality and Competency. However, given that Internal Auditors are appointed by management, report to management, and are employees of an organizations, their objectivity is usually highly compromised [48].

According to the Institute of Internal Auditors (IIA-UK, 1997), independence applies to all categories of auditors. This means the auditors are granted the opportunity to report directly to the top authority. Woolf (1986) says, although an internal auditor is an employee of the enterprise and cannot therefore be independent of it, he should be able to plan and carryout his work as he wishes and have access to the highest level of management. However, Millichamp (1993) says, effective internal audit should be carried out by independent personnel though they are employees appointed by management, for them to work efficiently, they should have scope to arrange priorities and activities have un restricted access to records, assets and personnel According to Bhatia (2003), Internal Auditing is the review of operations and records sometimes undertaken within the business by especially assigned staff. It's also an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency, and economy of management's control system [19]. Its objective is to reassure management that their internal control systems are adequate for the needs of the organization and are operating satisfactorily [49]. It is a component of the internal control system set up by the management of an enterprise to examine, evaluate, and report operations of accounting and other controls. The quality and effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments, not all of which will relate to accounting areas in which the external auditor is interested. For example, it's common these days for internal audit to undertake the extensive and continuous task of setting management goals and monitoring its performance (Woolf, 1996).

Emasu (2010) notes that "The effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff". It is, however, a bitter reality that internal audit departments are rarely adequately facilitated.

Regarding the size and facilitation of the Internal Audit Function, Gerrit and Mohammad (2010) found evidence in support of the monitoring role of the Internal Audit Function. They specifically found evidence that management ownership is positively related to the relative size of the Internal Audit Function, which is inconsistent with traditional agency theory arguments that predict a negative relationship, but more in line with recent studies on earnings management. This finding suggests that increased management ownership may influence the board of directors to support larger Internal Audit Functions to allow them to closely monitor managers' performance. It is also plausible that management with higher share ownership is motivated to invest in a larger Internal Audit Function for better monitoring of earnings and for signalling to the board of directors that, despite their high stake in earnings, they are convinced that appropriate use of resources has to be assessed regularly.

Gerrit and Mohammad (2010) also believe that the proportion of independent board members has a negative effect on the Internal Audit Function size. This finding may indicate a substitution effect, which means that independent board members

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may be considered as an alternative monitoring mechanism to the Internal Audit Function. They further assert that the control environment has a significant effect on the relative size of the Internal Audit Function. Specifically, a supportive control environment characterized by formalized integrity and clear ethical values, a high level of risk and control awareness, the perception that risk management is important, and the fact that responsibilities with respect to risk management and internal control are clearly defined is associated with a relatively larger Internal Audit Function.

Using a US sample, Wallace & Kreutzfeldt (1991) found that companies with internal audit departments are observed to be significantly larger, more highly regulated, more competitive, more profitable, more liquid, more conservative in their accounting policies, more competent in their management and accounting personnel, and subject to better management controls. Carey et al. (2000) found that agency variables do not explain the voluntary use of internal audit by Australian family firms. More recently, a study by Goodwin-Stewart & Kent (2006), using a sample of Australian listed companies, shows that the existence of an Internal Audit Function is positively associated with firm size and commitment to risk management.

Sarens & De Beelde (2006) also show that the risk and control awareness have an influence on the scope of the Internal Audit Function. These results suggest that when management is aware of risks and control activities, they are more likely to understand the role of the Internal Audit Function in monitoring risk and control activities, thus it is more likely that they will support a relatively larger Internal Audit Function [16, 43-50].

Meigs et al (1988) hold that there must be a strong internal control system and the internal auditor must verify the operations of the system in much the same way as the external auditor. It involves the investigation, recording, identification, and review of compliance tests of control, they also argued that effective internal audit procedures provide sufficient relevant and reliable evidence in order to detect and prevent fraud.

Kochan (1993) considers auditing procedures in one company and describes steps taken in implementing a quality assurance system. She discusses the use of internal audits as an essential part of the ISO 9000 certification process. Boakye-Bonsu (1999) asserts that internal audit procedures are seen as ends in themselves rather than a means towards a specific objective; with such an approach, our rambler would undoubtedly get lost. Internal audit procedure is a form and content manual that includes audit notes and responsibilities, documentation standards, local reporting standards and targets, training requirements and expectations, and performance measures and indicators. Effectiveness is the achievement of goals and objectives using factor measures provided for in determining such achievement. However, it has been traditional in internal auditing that determination of internal auditing effectiveness can be accomplished by evaluating the quality and effectiveness of internal auditing procedures that result in determination by the internal auditors of the character and the quality of effectiveness of the auditee's control operations and if the auditing procedures are effectively carried out, then the evaluative results are positive [20]. Maitin (1994) says efficiency and effectiveness of internal audit procedures is not a simple task; successful operation is governed by the extent to which the elements of internal audit procedures receive attention, which include: expertise, independence, objectivity, and totality. The effectiveness of internal audit procedures is a measure of the ability of the programme to produce a desired effect or a result that can be qualitatively measured argues that there should be effective internal audit procedures to ensure the reliability of financial statements, operational reports, safeguarding corporate assets, and effective organizational controls. Benston (2003) further supplements that perception and ownership, organization and governance framework, legislation, improved professionalism, and resources were identified as functions in the public sector derived from the effectiveness of the internal audit procedures. How far internal audit procedures succeed in their effort of effectiveness is mainly judged by three factors that include; frequency of irregularities committed by the staff in the organization in form of errors or fraud, the promptness with which such irregularities are detected by the authorities and the planning which makes possible repetition of such irregularities in future more difficult. According to Earnest and Young (1995), the work of the internal auditor should appear to be properly planned, controlled, recorded, and reviewed. Examples of due professional care by the internal auditor are the existence of an adequate audit manual, general internal audit plans, procedures for controlling individual assignments, and satisfactory arrangements for reporting and following up.

### **Control Activities**

Ray and Pany (2001) also mention Control activities as another component of Internal controls. They note that control activities are policies and procedures that help ensure that management directives are carried out. Controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end).

The last component of internal control, according to Ray and Pany (2001), is monitoring. This is aimed at ensuring that the internal controls continue to operate as intended. This can be achieved through ongoing monitoring or separate evaluations. Separate evaluations are non-routine monitoring activities, such as period audits by the internal auditors.

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## Financial Performance

According to Stoner (2003), performance refers to the ability to operate efficiently, be profitable, survive, grow, and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) assert that performance is measured by how efficiently the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization, or process (EFQM, 1999).

Hitt et al (1996) believe that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process.

## Measures of Financial Performance

According to Dixon et al (1990), appropriate performance measures are those that enable organizations to direct their actions towards achieving their strategic objectives. Kotey & Meredith (1997) contend that performance is measured by either subjective or objective criteria. Arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with the reliability of such data arising from differences in accounting methods used by firms. Kent (1994) found that objective performance measures include indicators such as profit growth, revenue growth, and return on capital employed.

Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on eight more traditional aspects of financial performance, including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity. Verschoor (1999), however, mentions other financial measures to include the value of long-term investment, financial soundness, and the use of corporate assets. He also talks of non-financial performance measures to include: innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility.

Hitt et al. (1996) mention accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

## Survival

According to Kotler (1992), strong performer firms are those that can stay in business for a good number of years. Dwivedi (2002) also found that the ability of a firm to survive in business is an indicator of good financial performance.

Richardson, Sonny & Suzan (1994) found out that 38 active British businesses went into liquidation in the third quarter of 1992, and in 1991, a total of 21,827 businesses failed compared to 15,051 in 1990. However, in Uganda, about 90% of Ugandan SMEs collapse within 3 years. This is therefore an indicator of poor financial performance.

## Liquidity

Hitt et al (1996) mention the current ratio (current assets/current liabilities) as a standard measure of liquidity in organisations. Baysinger (1989) also emphasized the importance of the current ratio as a measure of an organisation's liquidity. Other measures of Liquidity according to ACCA and Panday (1996), are: Acid test ratio (i.e., Current Assets less Inventory/Current Liabilities).

## Accountability

According to managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers are held accountable for the resources entrusted to them. Emasu (2010) asserts that Accountability can be political, social, or financial accountability [51].

## Reporting

Whittington & Pany (2001) talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations, and compliance with laws and regulations. They further note that "Internal control also includes the program for preparing, verifying, and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization."

They mention internal control devices to include: use of budgetary techniques, production standards, inspection laboratories, employee training, and time & motion studies, among others.

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According to Bakibinga 2001, corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity's objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity.

John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

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## Chapter 10

### Macroeconomic and Fiscal Policies

(1) Any person, institution, or agency responsible for or engaged in the management of public funds shall be guided by the principles of responsible financial management to ensure a prudent, efficient, effective, and transparent use of public funds.

(2) Notwithstanding the generality of subsection (1), any person, institution, or agency referred to under subsection (1) shall be guided by the following principles of responsible financial management

Achieve and maintain prudent levels of outstanding debt of the general government so as not to impose an inequitable burden on future generations;

Achieve and maintain an appropriate balance between revenues and expenditures of general government;

Provide timely, reliable, and adequate information to the public on fiscal objectives, policies, data, and risks to ensure transparency in the budgetary and financial management of the general government and public enterprises, such as:

i. manage prudently the fiscal risks faced by Sierra Leone

ii. formulate and implement fiscal policies to achieve macroeconomic stability; and

iii. manage extractive industries revenues in accordance with Part VI to contribute to transformational development and the fiscal responsibility principles specified in this section

### Fiscal Objectives Set by a Newly Elected Government

When an election to the office of President of the Republic of Sierra Leone has taken place, the new Cabinet shall, based on the principles of responsible financial management, specify in its first Fiscal Strategy Statements, the fiscal objectives to be applied in the next five years.

Where the fiscal objectives have been specified under subsection (1), the Fiscal Strategy Statements of the subsequent five years shall include:

An assessment of progress in achievement of the fiscal objectives; and

A description of adjustments to be made towards the achievement of the fiscal objectives

(3) The fiscal objectives specified under subsection (1) may not be changed during the term of the President of the Republic, unless such change is made through the Fiscal Strategy Statement, which includes an explanation of the reasons for the change.

### Macroeconomic and Fiscal Forecasts

The Minister shall prepare macroeconomic and fiscal forecasts underlying the Fiscal Strategy Statement and State budget documents at a date sufficiently early to meet the deadline of their submission to Parliament.

The macroeconomic and fiscal forecasts underlying the Fiscal Strategy Statement and State budget documents prepared by the Minister under subsection (1) shall be based on assumptions that take full account of domestic and international economic conditions and developments, including conditions of international commodity markets.

The fiscal forecasts shall maintain a comprehensive coverage of the general government.

### Fiscal Strategy Statement

Not later than the end of the seventh month of every financial year, the Minister shall, with the approval of the Cabinet, prepare and lay before Parliament for its information a Fiscal Strategy Statement which contains:

An overview of recent macroeconomic and fiscal developments.

Macroeconomic forecasts for the next three years or more.

Fiscal forecasts, including revenues, expenditures, deficit, and debt, of the State budget for the next three years or more.

A description of the main policy measures which the Government plans to introduce during the next three years and projections of their fiscal impacts.

Fiscal forecasts of the general government and subsectors for the next three years or more fiscal forecasts of the general government

An explanation of methodologies and assumptions used for the macroeconomic and fiscal forecasts.

A comparison of the macroeconomic and fiscal forecasts with those of international organizations and independent bodies, and an explanation of the reasons for significant differences between them, if any.

A comparison of the forecasts of the macroeconomic and fiscal indicators included in the previous Fiscal Strategy Statement with the actual outcomes of these indicators and an explanation of the reasons for significant differences between them, if any.

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A fiscal risk statement.

Ceilings on total expenditures of the central government and on expenditures broken down at such level of detail as deemed appropriate by the Minister for the next three years or more; and any other information as may be deemed appropriate by the Minister.

(2) A Fiscal Strategy Statement laid before Parliament under subsection (1), shall immediately after its submission to Parliament be published in the *Gazette* and on the website of the Ministry.

(3) For the purpose of preparing the Fiscal Strategy Statement, the Minister may require any government entity to submit any information in such manner as determined by the Minister.

### **Policy Costing**

The Minister may require a budgetary agency to submit to him a policy costing in respect of a new policy or a significant change in an existing policy or otherwise involving expenditures from the Estimates or other funds, proposed by the budgetary agency prior to approval of such policy.

The Minister may prescribe methodologies, procedures, and any other matters necessary for the implementation of subsection (1).

### **Fiscal Risk Statement**

The Minister shall identify and analyze risks which may have a material effect on the fiscal outlook (hereinafter called “fiscal risks”) through preparation of a fiscal risk statement to be submitted as part of the Fiscal Strategy Statement under section 23.

A fiscal risk statement shall include:

results of sensitivity analysis based on different assumptions with respect of main macroeconomic and fiscal indicators; information and analysis of existing exposures of entities included in the central government to contingent liabilities, including those arising from guarantees, losses on pending court cases, and any other sources, and to loans and advances; any other information as may be deemed appropriate by the Minister.

For the purpose of this section, the Minister may require any necessary information from any government entity, public enterprise, the Bank of Sierra Leone, and any other persons receiving guarantees, loans, or advances from the State.

### **Preparation and Approval of Budget Appropriations and Budgetary Principles Authority to Spend Public Money**

Public money may not be spent, except as expressly authorized by the Constitution or an Act of Parliament, or an appropriation under an Appropriation Act.

The authority to spend public money provided by an appropriation under an Appropriation Act:

shall be limited to the amount specified for the appropriation under the Appropriation Act and may not be exceeded;

shall be limited to the purpose of the appropriation specified under the Appropriation Act and may not be of any other purpose; and

shall lapse at the end of the financial year to which the Appropriation Act relates unless carryover of the appropriation is allowed under this Act.

### **Structure of State Budget**

1. The State budget shall be composed of:

A) Appropriation Act by which Parliament gives statutory authority for the issue of money from the Consolidated Fund to meet the amounts of expenditures voted by Parliament; and

B) The Estimates, which provide Parliament with additional information on voted amounts included in the Appropriation Act and are to be approved by Parliament as such after voting on the Appropriation Act.

(2) In accordance with paragraph (a) of subsection (2) of section 112 of the Constitution, an Appropriation Act shall be divided into the heads of the expenditures which:

Specify the amount appropriated per budgetary agency, except where this Act or regulations mentioned in subsection (5) provide otherwise; and

Are voted by Parliament.

(3) The Estimates shall be divided into the subheads of the expenditures, which:

provide a breakdown of expenditures within the heads of the expenditures; and

further divide the expenditures into major economic categories.

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(4) Without prejudice to subsection (3), the Estimates may classify the expenditures into programs which group the expenditures into activities to be carried out with a view to achieving one or more specific objectives

(5) The Minister may make regulations for the implementation of subsections (3) and (4) or any other issue relating to the classification of expenditures and revenues.

(6) In accordance with paragraph (b) of subsection (2) of section 112 of the Constitution, the heads of the expenditures in the Estimates and Appropriation Bill shall specify for the information of Parliament, the amount to be charged on the Consolidated Fund under paragraph (a) of subsection (3) of section 111 of the Constitution.

### **State Revenues to be Presented in the Estimates**

For the purpose of this Act, State revenues include, without limitation:

Taxes of any kind;

Current revenues, such as those from goods and services rendered, holding of financial and other assets, fines and other revenues compelled by the law, transfers, and other miscellaneous sources;

Domestic and external grants;

Proceeds of the sale of financial and other assets and repayment of loans granted; and

Domestic and external borrowing

(2) All State revenues to which an Appropriation Act relates shall be presented in the relevant Estimates on a gross basis without being netted with any State expenditure.

(3) An amount received as a refund for an expenditure shall be credited to the appropriation against which the expenditure was charged.

### **State Expenditures to be Authorized by the Estimates**

Personnel expenditures;

Operating expenditures, including expenditures for the acquisition of inventory;

Capital expenditures, including expenditures for acquisition or development of tangible, intangible, or financial assets or ownership interest;

Transfers;

Expenditures for granting loans; and

Expenditures for interest payments, other debt service charges and repayment of domestic and external borrowing.

(2) State revenues may not be earmarked for a specific State expenditure or retained by a budgetary agency for its expenditure, unless such earmarking or retention is authorized by an Act of Parliament.

(3) All State expenditures for which appropriations are to be made under an Appropriation Act shall be presented in the relevant Estimates without being offset by State revenues.

(4) The Estimates shall separately present the amount of revenue expected to be raised by each budgetary agency and the external grants that it is likely to receive from donors.

### **Budget Preparation and Approval**

#### **Medium-Term Budgetary Framework**

(1) For the purpose of this Act, the Ministry of Finance shall establish a medium-term budgetary framework which includes: The fiscal objectives to be established by a newly elected Government under section 21.

Reliable macroeconomic and fiscal forecasts for at least three years underpinning the fiscal planning and the State budget; Multiannual ceilings on expenditures for at least three years are prescribed in the Fiscal Strategy Statement and the budget call circular as a basis for the preparation of the State budget for the following years.

Guidance to budgetary agencies on estimates of the fiscal impact of existing and new policy measures and on policy prioritization with a multiannual perspective; and

Reconciliation of the macroeconomic forecasts and expenditure ceilings with the outcomes achieved for the relevant indicators.

(2) The Minister may, by statutory instrument, prescribe rules and procedures for the implementation of subsection (1)

#### **Budget Call Circular**

(1) As soon as practicable after the Fiscal Strategy Statement is approved under subsection (1) of section 23, the Financial Secretary shall issue a budget call circular in accordance with the Fiscal Strategy Statement, for the purpose of guiding budgetary agencies in preparing budget proposals.

(2) A budget call circular issued by the Financial Secretary under subsection (1) shall –

(a) Prescribe ceilings on expenditures from the State budget for the next three years or more, broken down at the level of detail as determined by the Minister;

(b) Prescribe a budget calendar which sets out the time frame in respect of preparation and approval of the State budget;

(c) Include instructions to be complied by budget agencies in the course of preparation of budget proposals; and

(d) Any other matters as may be deemed necessary by the Minister.

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## Budget Proposal and Public Consultation

By such date as specified by a budget call circular, the head of every budgetary agency shall submit to the Financial Secretary a budget proposal which includes:

- (a) Estimates of revenues expected to be received under his responsibilities for the next three years at a level of detail as specified by the budget call circular;
  - (b) Estimates of expenditures for the next three years at a level of detail as specified by the budget call circular; and (c) any other matters required under this Act.
- (2) A budget proposal referred to in subsection (1) shall be prepared in accordance with instructions from
- (3) For the purpose of supporting the preparation of the State budget, the Minister may, by statutory instrument, prescribe procedures for giving stakeholders, including the public, an opportunity to express their views on the budget proposal, including proposal of transformational development projects, and the Government's performance in the delivery of public services.

## Submission of State Budget

The State budget shall be laid before Parliament by the Minister not later than two months before the beginning of the financial year to which it relates.

The Minister shall obtain approval of the Cabinet before laying the State budget before Parliament.

On the submission to Parliament under subsection (1) of section 32, the Minister shall publish the State budget documents in the *Gazette* and on the website of the Ministry.

## State Budget Documents

The State budget laid before Parliament shall be accompanied by information annexes which include–

Overview of recent macroeconomic and fiscal developments;

Updated macroeconomic forecasts for the next three years or more.

Updated fiscal forecasts, including revenues, expenditures, deficit, and debt, of the State budget for the next three years or more;

Updated fiscal forecasts of the general government and subsectors for the next three years or more;

A reconciliation of the macroeconomic and fiscal forecasts under paragraph (b),

Paragraphs (c) and (d) with those under the Fiscal Strategy Statement;

An explanation of methodologies and assumptions used for the macroeconomic and fiscal forecasts;

A comparison of the revenues and expenditures indicated in the main Estimates with the actual revenues and expenditures of the preceding two years and the forecasts of the revenues and expenditures for the next two years;

The consolidated budget of the central government, which aggregates budgets of all entities included in the central government to such detail as determined by the Minister.

A description of main policy objectives and strategies to be achieved and implemented under the State budget, including the policies contained in the budget speech;

A statement of transformational development projects referred to in subsection (6) of section 77;

The estimated amount of waiver of tax to be given during a financial year to the State

A Public Investment Programme referred to in subsection (1) of section 35;

A list of outstanding guarantees given by the Minister and loans granted from the Consolidated Fund; and

Any other information as required by this Act or deemed appropriate by the Minister.

## Public Investment Programme

The Minister shall annually prepare and submit as part of the State budget documents a Public Investment Programme which includes:

Lists of:

All ongoing projects which have been included in the State budgets of the present or preceding financial years, and the implementation of which are ongoing;

All new projects that are newly included in the State budget of the next financial year;

All ongoing PPP projects, the implementation of which is ongoing; and

All new PPP projects, multiannual commitments to which have been approved by the Minister under subsection (2) of section 60;

A list of transformational development projects and their assessment mentioned in paragraphs (a) and (b) of subsection (8) of section 77; and

The following information related to all projects and PPP projects included in the lists mentioned in paragraph(a):

Names, start and completion dates, and summaries of the projects and PPP projects;

Financing sources of the projects and PPP projects;

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Updated projections of annual expenditures for the projects and PPP projects to be spent under the State budget over the entire period of the project implementation;  
Amount of outstanding commitments to payments to the projects and PPP projects; and  
Any other information as may be deemed appropriate by the Minister.  
The Minister may issue regulations and guidelines to prescribe:  
The procedures, criteria, methodologies, and specific information required to qualify a project for inclusion in the State budget; and  
Any other procedures, criteria, methodologies, and requirements in respect of screening, evaluation, and implementation of projects.  
The screening, evaluation, selection, and implementation of PPP projects shall be made in accordance with the Public-Private Partnership Act (2014).

### **Contingencies Fund**

Pursuant to section 116 of the Constitution, the Minister shall establish a Contingencies Fund, the amount of which shall not exceed at any time two per cent of the non-EIR presented in the main Estimates of the present financial year.

An Appropriation Bill of a financial year shall include an appropriation for replenishment of the Contingencies Fund, the amount of which shall not exceed two per cent of the non-EIR presented in the main Estimates of the financial year.

### **Withdrawal from Contingencies Fund**

The Contingencies Fund may be withdrawn only under this section.

The aggregate amount of withdrawal from the Contingencies Fund during a financial year shall not exceed two per cent of the non-EIR presented in the main Estimates of the financial year.

In accordance with subsection (1) of section 116 of the Constitution, the Minister may, on the request of the head of a budgetary agency, withdraw from the Contingencies Fund to meet an expenditure of the budgetary agency, only when –

The Minister is satisfied that there has arisen in the budgetary agency an urgent and unforeseen need for the expenditure for which no other provision exists under the Estimates.

### **Public Financial Management Act 2016 No. 13 Public 40 Financial Management Act 2016 41**

The expenditure may not be met by reallocation under section 43.

The expenditure cannot, without serious injury to the public interest, be postponed until provision can be made by a Supplementary Estimate; and

the withdrawal does not cause the limit mentioned in subsection (2) to be exceeded.

A request under subsection (3) shall be made in such form and manner as may be specified by the Minister

When withdrawal is made under subsection (3)

the amount withdrawn from the Contingencies Fund shall be paid into the Consolidated Fund;

as soon as practicable, the Contingencies Fund shall be replenished by the Minister by charging against an appropriation for replenishment mentioned in subsection (2) of section 36;

as soon as practicable, in accordance with subsection (2) of 116 of the Constitution, a Supplementary Estimate shall be laid by the Minister before Parliament for its approval to classify the expenditure of the budgetary agency, for which the withdrawn amount is used, into a relevant provision under the Estimates.

(6) Every quarter, the Minister shall submit to Parliament a report which includes information about withdrawal of the Contingencies Fund under subsection (3).

### **Special Warrants of the President**

The President of the Republic may issue a warrant under paragraph (c) of subsection (2) of section 114 of the Constitution only when the aggregate amount of the expenditures authorized by warrants issued under the said Article of the Constitution during a financial year does not exceed one per cent of the non-EIR presented in the main Estimates of the financial year.

An Appropriation Bill of a financial year shall include an appropriation for the issuance of a warrant by the President of the Republic under paragraph (c) of subsection (2) of section 114 of the Constitution, the amount of which shall not exceed one per cent of the non-EIR presented in the main Estimates of the financial year.

As soon as practicable after the President of the Republic has issued a warrant under paragraph (c) of subsection (2) of section 114 of the Constitution, the Minister shall lay before Parliament for its approval a Supplementary Estimate to classify the expenditure made under the warrant into a relevant provision under the Estimates.

### **Unallocated Head of Expenditures**

The State budget may include an unallocated head of expenditures to set aside the Consolidated Fund to meet an unspecified need or purpose: Provided that the amount of the unallocated head of expenditures may not exceed one per cent of the non-EIR presented in the main Estimates of the financial year.

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The Minister may, on his initiative or at the request of the head of a budgetary agency, issue a warrant authorizing expenditure to be charged against the unallocated head of expenditures mentioned in subsection (1), when the expenditures are necessary for public interest

A request under subsection (2) shall be made in such form and manner as may be specified by the Minister.

Every quarter, the Minister shall submit to Parliament a report that includes information about expenditures that have been charged against the unallocated head of expenditures under subsection

As soon as practicable after the Minister issues a warrant to charge an expenditure against the unallocated head of expenditures under subsection (2), a Supplementary Estimate shall be laid by the Minister before Parliament for its approval to classify the expenditure into a relevant provision under the Estimates.

### **Parliamentary Procedure**

Parliament may not alter the State budget laid by the Minister in a way to increase the total expenditures from the Consolidated Fund proposed under the State budget.

The Speaker may, by resolution of Parliament, hire temporarily, or permanently, a small core of technical staff to assist in gathering information, making research and analysis on issues pertinent to its deliberation and resolution on the budget submitted to Parliament by the Minister.

### **Temporary Budget**

When an Appropriation Act of a financial year does not come into force by the beginning of the financial year, pursuant to section 113 of the Constitution, the Minister may, with the approval of Parliament, authorize expenditure from the Consolidated Fund for a period not exceeding four months from the coming into operation of the Appropriation Act or the beginning of the financial year to which that Act relates, whichever is earlier.

The expenditures spent under subsection (1) shall be regarded as forming part of the appropriation for the financial year to which the Appropriation Act relates.

### **In-Year Adjustments**

#### **Supplementary Estimates and Supplementary Appropriation Bill**

Increase or decrease an appropriation under the Appropriation Act;

Create a new appropriation under the Appropriation Act.

Change the purpose of an appropriation under the Appropriation Act;

Increase or decrease the amount of a provision for an item of expenditures under the Estimates, if it cannot be increased or decreased through reallocation under section 43; or

Change the purpose of a provision under the Estimates.

A Supplementary Estimate shall not be laid by the Minister before Parliament :

Before the start of the seventh month of the financial year; and

More than twice within a financial year.

Subsection (2) shall not apply if the submission of

The Supplementary Estimate is required under paragraph (c) of subsection (5) of section 37, subsection (3) of section 38, or subsection (5) of section 39.

A Supplementary Estimate shall classify the expenditures in the same manner as the main Estimates.

A Supplementary Estimate laid by the Minister before Parliament shall be accompanied by information annexes which include –

Updated forecasts of revenues of, and expenditures from, the State budget; (b) an assessment of the fiscal impact of the Supplementary Estimate; and

Any other information as may be deemed appropriate by the Minister.

### **Virement**

An amount of a provision under the Estimates may not be reallocated between different heads of expenditures without approval by Parliament through a Supplementary Estimate.

The Minister may, on the request of the head of a budgetary agency, reallocate an amount of a provision for an item of expenditures under the Estimates between different subheads of expenditures but within the same head of expenditures: Provided that the aggregate amount of reallocation between different subheads within the same head may not exceed ten per cent of the total expenditures provided for the head.

The head of a budgetary agency may reallocate an amount of a provision for an item of expenditures under the Estimates

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within the same subheads of expenditures: Provided that the aggregate amount of reallocation within the same subhead may not exceed ten per cent of the total expenditures provided for the subhead.

When the head of a budgetary agency reallocates a provision under subsection (3), he shall notify the Minister of the reallocation in such form and manner as prescribed by the Minister.

An amount of a provision for an item of expenditure under the Estimates may not be reallocated:

(a) from capital expenditures to current expenditures; or

(b) to increase wages, salaries, emoluments, allowances, or other personnel expenditures.

The Minister shall, by statutory instrument, prescribe prohibitions and other rules necessary for the implementation of this section.

### **Complementary period**

Payments of expenditures of a budgetary agency on account of a financial year shall be made before January 1st of the following financial year: Provided that the expenditures on account of a financial year shall be committed by the end of the financial year.

Revenues of a budgetary agency on account of a financial year shall be collected before January 1st of the following financial year.

Expenditures and revenues of a budgetary agency that are paid or collected after the date specified in subsections (1) and (2) shall be treated as revenues and expenditures on account of the following financial year and met by the following financial year's appropriations.

The Minister shall issue regulations necessary for the implementation of this section.

### **Regulations on Carry Over**

Carryover of a provision under the State budget shall not be made, except when regulations mentioned in subsection (2) so authorize.

The Minister may, by statutory instrument, prescribe procedures, conditions, limitations, and other requirements in relation to the carryover of a provision under the State budget.

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## Chapter 11

### Budget Execution and Treasury Management

#### Public Money

Cash Management Committee

The Minister shall appoint a Cash Management Committee on such terms as he considers appropriate.

A Cash Management Committee appointed by the Minister under subsection (1), shall be responsible for:

(a) Coordinate and make recommendations to the Minister on:

Management of bank accounts by budgetary agencies, sub-vented agencies, and other entities in the central government;

Development and management of the Treasury Single Account; and

Cash flow forecasts and cash management by entities, bank accounts of which are included in the Treasury Single Account; and

(b) Perform any other functions assigned to it by the Minister.

(3) The Minister shall prescribe the composition, appointment, responsibilities, powers, and procedures of the Cash Management Committee.

#### Cash Flow Forecasts and Reports

The Minister may require any budgetary agencies, subvented agencies, and other entities in the central government to prepare and submit forecasts and reports related to the cash flow of the agencies and entities in such form and by such date as determined by the Minister.

The Minister may prescribe procedures, methodologies, forms, and any other matters in respect of cash flow forecasts and reports mentioned in subsection (1).

#### Investment of Public Money

The Bank of Sierra Leone may, in accordance with the guidance of the Minister, invest, whether in Sierra Leone or elsewhere, public money which is held in the Treasury Single Account and not immediately required to be paid to meet any obligation of the Government.

When the amount of public money accounted in the Consolidated Fund is invested under subsection (1), the interest earned from the investment and the principal sum of the investment shall also be accounted in the Consolidated Fund.

Under subsection (1), public money may be invested only:

on deposit with a financial institution in Sierra Leone or a bank elsewhere, approved by the Minister for the purpose;

in securities representing public debt of Sierra Leone; or

such readily-marketable securities as may be approved by the Minister.

In consultation with the Bank of Sierra Leone, the Minister shall prescribe investment guidelines to specify policies and rules on the investment of public money under subsection (1).

#### Receipt and Deposit of Public Money

Every person who collects, receives, or has a custody of, any public money shall promptly deposit it into a bank account in such manner and within such period as prescribed by the Accountant-General, and a person who is not authorized by a head of a budgetary agency to do so may not collect, receive, or have a custody of, any public money.

When a budgetary agency, subvented agency, or other entity in the central government receives money from a person without a just cause, the money shall be returned, repaid, or otherwise dealt with in such manner as may be prescribed by the Accountant-General.

Every person who collects, receives, or has custody of any public moneys shall keep a record of receipts and deposits thereof in such form and manner as the Accountant-General may determine.

#### Budget Execution Process

##### Warrant of the Minister

No payment shall be made pursuant to an appropriation under an Appropriation Act, unless a warrant authorizing expenditure to be charged against the appropriation has been issued by the Minister to a head of a budgetary agency.

A warrant of the Minister issued under subsection (1) has no effect to the extent to which it purports to authorize the payment for which there is no available appropriation under an Appropriation Act.

##### Appropriation Allotments

At the beginning of a financial year, the Minister may require the head of a budgetary agency to submit to him for his approval monthly forecasts under the Estimates for such period of time as specified by the Minister.

An appropriation allotment shall be prepared and submitted in such form and manner and by such date as may be pre-

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scribed by the Minister.

Notwithstanding subsections (1) and (2), the Minister may, by himself, determine and vary an appropriation allotment of a budgetary agency.

When an appropriation allotment of a budgetary agency is determined, approved, or varied by the Minister under subsection (1) or (3), it may not be varied by the budgetary agency without approval of the Minister.

An appropriation under an Appropriation Act or a provision under the Estimates may not be committed in excess of an allotment under an approved appropriation allotment.

An amount of an allotment for a period of time which has not been committed is carried over to the next period, unless otherwise directed by the Minister.

Notwithstanding subsection (6), an amount of an allotment for a period of time which has not been committed may not be carried over to the next financial year.

### **Procurement and Government Contracts**

The bidding process for, and conclusion and administration of, contracts for procurement of goods, works, and services shall be conducted in accordance with this Act and any other enactment regulating public financial management, including public procurement and public-private partnership [51-56].

Subject to this or any other enactment, the Minister may by statutory instrument make regulations or orders with respect to all or any of the following matters:

the conditions under which contracts may be entered into; and

the security to be given in the name of the Government to secure the due performance of contracts.

Where any payment under a contract is withheld to ensure the due performance of the contract, such payment may, subject to this Act or any other enactment, be charged to the appropriation for the contract, and the amount so charged may be placed to the credit of a special account to be paid out in accordance with such contract and in such manner as the Minister may prescribe.

### **Government Stores Regulations**

The Minister shall, by statutory instrument prescribe regulations governing the acquisition, receipt, issue, custody, and control of government stores.

### **Annual Commitments**

A commitment, settlement of which requires expenditures from the Estimates only in the present financial year (hereinafter called "annual commitment"), may be assumed by a budgetary agency, if:

the amount to be paid under the commitment is equal to or less than the available provision.

The legality of expenditures to be made from the Estimates under the commitment has been verified in accordance with any enactment; and

The amount to be paid under the commitment is equal to or less than the available allotment, if any.

### **Verification of Works, Goods, and Services**

No payment shall be made for work done, goods supplied, or services rendered, whether under a contract or not, in connection with any part of the public service, unless, in addition to any other voucher or certificate that is required, the vote controller of the budgetary agency concerned, or any other officer authorized by the vote controller, certifies

That the work has been performed, the goods supplied, or the service rendered, as the case may be, and that the price charged by the contract is reasonable; or

Where payment is to be made before the completion of the work, delivery of the goods, or rendering of the service, as the case may be, the payment is in accordance with the contract.

### **Certification of Payment Vouchers**

A payment voucher for making payments to expenditures of a budgetary agency shall be certified by the vote controller of the budgetary agency or other public officer authorized by him.

The vote controller or other authorized public officer shall not certify a payment voucher under subsection (1) unless:

the underlying commitments of the payment voucher meet the requirements under section 59 or section 60;

if applicable, the certification in respect of the relevant work done, goods supplied, or services rendered has been provided under section 63;

information stated in the payment voucher is correct in light of the evidence of the relevant claim; and

The legality of a proposed payment has been verified in accordance with any enactment.

### **Payments**

Every payment out of the Consolidated Fund shall be made under the direction and control of the Accountant-General by electronic funds transfer or other electronic payment systems, cash, cheque or other payment instrument in such form and authenticated in such manner as the Minister may by statutory instrument prescribe.

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The Accountant-General may not make payments in relation to any payment voucher which:  
Has not been certified by a vote controller or public officer authorized by him under subsection (1) of section 64;

Is not in a proper form.

Is not computed correctly on the facts certified; or

Contravenes this Act or any other enactment or instructions made thereunder.

When a payment out of the Consolidated Fund is made in respect of a claim for settlement, the Accountant-General shall make a reconciliation of the claim with the evidence of the claim and cheques or other payment instruments issued.

The Minister may, after consultation with the Auditor- General, by statutory instrument, make regulations relating to the destruction of cheques or other instruments.

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## Chapter 12

### **Accounting, Financial Reporting, and Auditing** **Accounting Standards of the General Government**

The following financial statements shall be prepared in accordance with such internationally accepted accounting standards as specified by the Accountant-General in consultation with the Institute of Chartered Accountants of Sierra Leone:

The annual financial statements of budgetary agencies, sub-vented agencies, other entities in the central government, local councils, Chiefdom Councils, other entities in the local government, and social security funds;

The annual financial statements of the Consolidated Fund; and

The annual financial statements of the central government.

### **Chart of Accounts of the Central Government**

(1) The Accountant-General shall, in consultation with the Auditor-General, determine and publish in the Gazette or on the website of the Ministry the chart of accounts of the central government.

(2) The classification of revenues, expenditures, and other financial transactions under the chart of accounts of the central government shall be the same as the State budget.

(3) The Minister may, by statutory instrument, prescribe exceptions to subsection (2).

(4) Any accounts of a budgetary agency, subvented agency, and any other entity in the central government shall be structured in accordance with the chart of accounts of the central government determined under subsection (1).

### **Public Sector Internal Audit Standards**

#### **Definition of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Relevant Internal Audit Standard Setters (RIASS)<sup>1</sup> have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompasses the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

Definition of Internal Auditing

Code of Ethics, and

International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

where interpretation is required to achieve consistent application in the UK public sector

where the issue is not addressed or not addressed adequately by the current IIA Standards, or

where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered for each requirement or interpretation being proposed:

materiality

relevance

necessity, and

integrity (the additional commentary does not cause inconsistency elsewhere).

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

#### **The Objectives of the PSIAS are to**

define the nature of internal auditing within the public sector

Set basic principles for carrying out internal audit in the public sector

establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and

establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3).

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The provision of assurance services is the primary role for internal audit in the public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management, and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, to improve governance, risk management, and control, and contribute to the overall opinion.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

Assurance and  
Consulting activities.

### **Key Governance Elements**

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation to the next within the same sector.

It is also necessary for the chief audit executive to understand the role of the Accounting or Accountable Officer, Chief Financial Officer, chief executive, the audit committee, and other key officers or relevant decision-making groups, as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its chart

### **Mission of Internal Audit**

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

### **Core Principles for the Professional Practice of Internal Auditing**

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving the internal audit's mission (see Mission of Internal Audit).

Demonstrates integrity.

Demonstrates competence and due professional care.

Is objective and free from undue influence (independent).

Aligns with the strategies, objectives, and risks of the organisation.

Is appropriately positioned and adequately resourced.

Demonstrates quality and continuous improvement.

Communicates effectively.

Provides risk-based assurance.

Is insightful, proactive, and future-focused.

Promotes organisational improvement.

### **Code of Ethics**

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

#### **Components**

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behavior norms expected of internal auditors. These rules are an aid to interpreting the prin-

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principles into practical applications and are intended to guide the ethical conduct of internal auditors. The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

### **Applicability and Enforcement**

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

### **Public sector interpretation**

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

### **Integrity**

#### **Principle**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

#### **Rules of Conduct**

Internal auditors:

- i. shall perform their work with honesty, diligence, and responsibility.
- ii. shall observe the law and make disclosures expected by the law and the profession.
- iii. shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- iv. shall respect and contribute to the legitimate and ethical objectives of the organisation.

### **Objectivity**

#### **Principle**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

#### **Rules of Conduct**

Internal auditors:

- i. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- ii. Shall not accept anything that may impair or be presumed to impair their professional judgement.
- iii. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### **Confidentiality**

#### **Principle**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

#### **Rules of Conduct**

Internal auditors:

- i. shall be prudent in the use and protection of information acquired in the course of their duties.
- ii. shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

### **Competency**

#### **Principle**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

#### **Rules of Conduct**

Internal auditors:

- i. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- ii. Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- iii. Shall continually improve their proficiency, effectiveness, and quality of their services.

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## Chapter 13

### Internal Controls in Public Financial Management Internal Auditing

Internal auditing is a vital part of the public financial management system. It plays a key role in assessing and improving internal control processes, providing independent evaluations to senior management, and increasing accountability and value for money in government operations. Internal audits can be carried out at different levels within the government, such as central agencies, ministries, departments, or even individual entities. The main goal of an internal audit is to evaluate how well internal controls, risk management, and governance processes work. By spotting weaknesses and recommending improvements, internal auditors help strengthen the overall control environment and ensure resources are used effectively. While internal audits in the public sector focus on evaluating the quality of budgeting, financial, and accounting information and checking if organizations meet their objectives, external auditing is carried out by Supreme Audit Institutions (SAIs). SAIs are independent government bodies responsible for conducting external audits of public sector entities. Their role is to assess the effectiveness and efficiency of financial management, ensure compliance with laws and regulations, and oversee the stewardship of public resources. Although internal auditors and SAIs have different roles and responsibilities, they collaborate to promote good governance, transparency, and accountability in managing public resources. Internal audits serve as the first line of defense by reviewing internal controls and ensuring financial information is accurate. SAIs, meanwhile, have the authority to evaluate the effectiveness of the internal audit function itself, offering an external perspective on the quality and impact of internal auditing within government entities. A strong control system that includes internal controls, risk management, and auditing is essential for good governance, protecting public funds, and maintaining public trust. By adopting a risk-based approach to integrity and implementing targeted controls, governments can assure citizens that public resources are used efficiently and effectively. Working together with citizens, the media, and non-governmental organizations further enhances the effectiveness of the control system [57-60].

According to the International Professional Practices Framework (IPPF), internal auditing is described as an independent and objective activity that provides assurance and consulting services to an organization (International Professional Practices Framework, 2017). In a similar vein Chartered Institute of Internal Auditors, defined internal audit as: “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The primary purpose of internal auditing is to enhance the organization’s operations by adding value and helping it achieve its objectives. This is achieved by employing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditors are responsible for evaluating and assessing the organization’s processes, systems, and controls to identify potential risks, weaknesses, and areas for improvement. They provide objective and reliable information to management and stakeholders, enabling them to make informed decisions and take appropriate actions to address identified issues. Hence, internal auditing plays a vital role in promoting effective risk management, ensuring adequate internal controls, and enhancing overall governance within an organization. Internal auditing is an important component of the public financial management system. It plays a crucial role in evaluating and improving internal control processes, providing independent assessments to senior management, and enhancing accountability and value for money in government operations. Internal audits can be conducted at various levels within the government, such as central agencies, ministries, departments, or even individual entities (OECD, 2014). The primary objective of an internal audit is to assess the effectiveness and efficiency of internal controls, risk management, and governance processes. By identifying weaknesses and suggesting improvements, internal auditors contribute to strengthening the overall control environment and ensuring that resources are utilized efficiently. While internal audit within the public sector focuses on evaluating the quality of budgeting, financial, and accounting information and assessing the extent to which organizations have met their established objectives, the external function of auditing is performed by Supreme Audit Institutions (SAIs); for this textbook, SAIs is synonymous to the Office of the Audit Service Sierra Leone (ASSL)-Office of the Auditor General. SAIs are independent governmental bodies responsible for conducting external audits of public sector entities. Their role is to evaluate the effectiveness and efficiency of financial management, compliance with laws and regulations, and the overall stewardship of public resources. Although internal auditors and SAIs have different roles and responsibilities, they work together to promote good governance, transparency, and accountability in the use of public resources. Internal audit provides the first line of defense by assessing internal controls and ensuring that financial information is reliable. SAIs, on the other hand, have the mandate to evaluate the effectiveness of the internal audit function itself, providing an external perspective on the quality and impact of internal auditing within government entities. It’s worth noting that while internal audit units are part of the organization they reside in, they maintain organizational and functional independence. This independence ensures that internal auditors can perform their duties objectively and without undue influence, thereby enhancing the credibility and effectiveness of their work. The management of public finances in Sierra Leone is guided by the Public Financial Management Act (PFMA, 2016). Hence, the mandate of the Internal Audit functions is implied and described in the PFMA,2016 Act as mentioned in Section 10 Subsection (1) There shall be an Internal Audit Department within the Ministry that shall be responsible for – (a) performing the internal audit

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function of the Ministry; (b) ensuring that an internal audit department, division, or unit or Audit Committee mentioned in subsection (1) of section 75 or subsection (1) of section 76 performs its responsibilities in accordance with internationally accepted standards; and (c) performing any other functions delegated by the Minister. Subsection (2) The Director of the Internal Audit Department referred to in subsection (1) may issue guidelines and instructions to prescribe composition, appointment, functions, powers, and any other matters relating to an internal audit department, division, or unit or an Audit Committee mentioned in subsection (1) of section 75 or subsection (1) of section 76. The roles and the mandate of the internal audit department are clearly articulated in the PFMA,2016 Act

Investors and stakeholders in public and private sector institutions are concerned about the safety of their assets. The separation of ownership from control, where shareholders and stakeholders delegate decision-making authority to managers, can lead to a loss of effective control by shareholders and taxpayers. This situation raises concerns about the safety of investments and the need for good governance and accountable policy practices to safeguard shareholders' assets and maximize wealth. One crucial aspect of good governance and accountable policy practices is the implementation of control measures to detect and prevent fraud within an organization, whether it is a private or public entity. These measures are essential to protect the interests of shareholders and stakeholders. By effectively managing risks and implementing internal controls, organizations can reduce the likelihood of fraudulent activities and promote transparency and accountability. International Public Sector Accounting Standards (IPSAS) are a set of accounting standards developed and issued by the International Public Sector Accounting Standards Board (IPSASB). These standards are designed for use by public sector entities, including national governments, regional governments, local governments, and related entities such as agencies, boards, and commissions. IPSAS is based on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are widely used in the private sector. The objective of IPSAS is to enhance the quality of financial reporting by public sector entities, leading to better-informed decision-making, increased transparency, and accountability in the allocation of resources by governments. The primary focus of IPSAS is on accrual-based accounting, which recognizes and measures economic events and transactions as they occur, rather than when cash is received or paid. This basis of accounting provides a more comprehensive and accurate picture of an entity's financial position, performance, and cash flows. IPSASB develops and maintains IPSAS, providing guidance and support to promote the adoption and implementation of accrual-based accounting in the public sector. However, it's important to note that IPSAS does not apply to government business enterprises, which are typically subject to different accounting standards. The adoption of IPSAS by public sector entities helps to promote consistency and comparability in financial reporting across different countries and facilitates better understanding and analysis of government finances on a global scale (IPSASB Factsheet, 2023). Supreme Audit Institutions (SAIs) are national authorities responsible for auditing government revenues and expenditures. They play a crucial role in ensuring transparency, accountability, and good governance in the public sector. SAIs act as independent external auditors of government entities, assessing the legality, regularity, and financial soundness of public sector operations (Ganga & Andaleeb,2018). The International Organisation of Supreme Audit Institutions (INTOSAI) serves as an international organization that brings together SAIs from around the world. Established in 1953, INTOSAI provides a platform for its 194-member SAIs to exchange expertise, ideas, and best practices in the field of government auditing. INTOSAI acts as a global standard setter for government audit and supports its members in enhancing their audit practices and methodologies. The standard-setting structure of INTOSAI is based on the principles of equality among SAIs and voluntary participation. INTOSAI recognizes the diverse legal mandates and reporting relationships of SAIs, reflecting the variations in governance systems and government policies across countries. The organization fosters collaboration and mutual learning among its members, drawing upon their experiences and knowledge. INTOSAI operates through various subcommittees, working groups, task forces, and project groups. These bodies are composed of experts from member SAIs who voluntarily participate in developing auditing standards and guidance, and sharing their best practices. By leveraging the collective wisdom and expertise of its members, INTOSAI aims to improve government auditing worldwide and contribute to the effectiveness and efficiency of public financial management. The motto of INTOSAI, "Experientia Mutua Omnibus Prodest," emphasizes the importance of mutual experience and collective learning for the benefit of all member SAIs. This collaborative approach helps establish and promote internationally recognized standards and practices in government audit, contributing to stronger accountability and transparency in the public sector globally. The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2011) is a widely recognized framework for internal control, risk management, and fraud prevention. The COSO framework guides the implementation of control measures to enhance the effectiveness and efficiency of an organization's operations, reliability of financial reporting, and compliance with applicable laws and regulations. Some key control measures that organizations can adopt to detect and prevent fraud include:

- a) Segregation of duties: Separating responsibilities and duties among different individuals or departments to prevent a single person from having control over an entire process. This reduces the risk of fraudulent activities going undetected.
- b) Regular internal and external audits: Conduct periodic audits by both internal and external auditors to assess the effectiveness of internal controls, identify potential risks, and detect any fraudulent activities.
- c) Implementing whistleblower mechanisms: Establishing channels for employees, stakeholders, and other parties to report suspicions of fraud confidentially and without fear of retaliation. This encourages the early detection of fraudulent activities.
- d) Code of conduct and ethics policies: Developing and enforcing a code of conduct and ethics policies that clearly outline the

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expected behaviour and ethical standards for employees, managers, and stakeholders. This helps create a culture of integrity and ethical decision-making within the organization.

e) Adequate training and awareness programs: Providing regular training and awareness programs to educate employees and stakeholders about fraud risks, preventive measures, and reporting procedures. This empowers individuals to identify and report potentially fraudulent activities.

f) Effective risk management: Implementing a robust risk management process to identify, assess, and mitigate risks associated with fraud. This involves conducting risk assessments, implementing appropriate controls, and continuously monitoring and evaluating the effectiveness of these measures. By implementing these control measures and adopting a comprehensive approach to governance and accountable policy practices, organizations can enhance their ability to detect and prevent fraud, safeguard shareholders' assets, and work towards the goal of wealth maximization.

### **Internal Control**

The role of internal audit has gained significant importance within organizations, especially in the aftermath of corporate collapses and financial scandals. These events have highlighted the need for effective internal controls and good corporate governance, with internal audits playing a crucial part in achieving these objectives [9-12]. The effectiveness of internal audits is a subject of interest for various stakeholders, including internal auditors themselves, the board of directors, the audit committee, senior management, and external auditors. However, these stakeholders often have different perspectives and expectations regarding the internal audit's role and responsibilities. External auditors and the audit committee primarily focus on obtaining assurance regarding the effectiveness of controls and risk management systems [14-18]. They rely on internal audits to provide independent assessments of the organization's internal controls and their effectiveness. On the other hand, senior management sees value in internal audits beyond assurance alone. They expect internal auditors to offer consulting services and provide insights on improving operational efficiency, identifying process improvements, and enhancing risk management practices [9]. These divergent perspectives have contributed to the lack of consensus among researchers on the factors that influence internal audit effectiveness and the appropriate measures to assess it [11]. The challenge lies in reconciling these different expectations and finding a balance between providing assurance and delivering value-added services. Despite these differences, there are several common factors that contribute to the effectiveness of internal audit. These include the following: a) Independence and objectivity: Internal auditors should maintain independence from the areas they audit and have the freedom to express their opinions objectively.

b) Competence and skills: Internal auditors need to possess the necessary knowledge, expertise, and skills to effectively carry out their duties.

c) Adequate resources: Internal audit functions should have sufficient resources, including budget, staff, and technology, to perform their tasks effectively.

d) Risk-based approach: Internal auditors should prioritize their audit activities based on the organization's risk profile and focus on areas of highest risk.

e) Communication and reporting: Internal auditors should communicate their findings and recommendations clearly and effectively to the relevant stakeholders. While these factors provide a general framework, organizations may need to tailor their internal audit practices to meet the specific expectations of their stakeholders and align with their corporate governance objectives.

The importance of a robust control system in various aspects of governance, including internal control, risk management, and audit, is critical as such a system is essential for better governance, ensuring the proper use of taxpayers' money, and maintaining public trust. The responsibility for implementing and maintaining this control system lies with entities across all branches of government, including ministries, internal audit functions, supreme audit institutions, and the Centre of Government. In addition to these entities, citizens, the media, and non-governmental organizations also play a crucial role as partners in ensuring the effectiveness of the control system.

A risk-based approach to integrity is a key aspect of this control system. By conducting systematic risk assessments, governments can identify potential areas of vulnerability and allocate resources accordingly to address those risks effectively. Implementing targeted controls based on these risk assessments allows governments to demonstrate to citizens that public funds are being utilized in a manner that aligns with principles of efficiency, effectiveness, and value for money. A robust control system that encompasses internal control, risk management, and audit is vital for good governance, safeguarding public funds, and maintaining public trust. By adopting a risk-based approach to integrity and implementing targeted controls, governments can assure citizens that public resources are being used efficiently and effectively. Collaboration with citizens, the media, and non-governmental organizations further strengthens the functioning of the control system. A robust control system that integrates internal control, risk management, and audit is crucial for good governance and ensuring the proper management of public funds. Let's explore some key points related to this topic, and these points are encapsulated as follows:

1. Internal Control: Internal control refers to the policies, procedures, and practices implemented by an organization to achieve its objectives, minimize risks, and ensure compliance with laws and regulations. It involves processes for financial

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management, operational efficiency, and the safeguarding of assets. Effective internal control helps prevent fraud, mismanagement, and errors, promoting transparency and accountability.

2. Risk Management: Risk management involves identifying, assessing, and mitigating risks that could affect an organization's ability to achieve its objectives. By adopting a risk-based approach, governments can prioritize their control efforts by focusing on areas with the highest potential risks. This ensures that limited resources are used efficiently and effectively to address significant vulnerabilities.

3. Audit: Auditing is an independent evaluation of an organization's financial statements, operations, or compliance with laws and regulations. It provides an objective assessment of the effectiveness of internal controls and risk management processes. Audits help identify weaknesses, gaps, or irregularities, allowing corrective actions to be taken. They also enhance transparency and instill confidence in the management of public funds.

4. Safeguarding Public Funds: A robust control system plays a vital role in safeguarding public funds. By implementing effective controls, governments can prevent misappropriation, fraud, and waste of public resources. This ensures that funds are used for their intended purposes and that the public's trust in the government's financial management is maintained.

5. Maintaining Public Trust: Trust is crucial for the functioning of any government. A well-designed control system that encompasses internal control, risk management, and audit demonstrates a commitment to transparency, accountability, and ethical conduct. It reassures citizens that their tax contributions are being used appropriately and that the government is actively managing risks. Collaboration with citizens, the media, and non-governmental organizations helps foster transparency and provides additional oversight.

A robust control system that incorporates internal control, risk management, and audit is essential for good governance, the proper management of public funds, and maintaining public trust. By adopting a risk-based approach and collaborating with relevant stakeholders, governments can ensure the efficient and effective use of public resources while promoting transparency and accountability. Integrity risk management supports decision-making within governments by striking a balance between preventive measures and enforcement, aligning with government objectives, aiding managerial decision-making, and identifying the players involved in creating or perpetuating risks. By effectively managing risks, governments can enhance integrity, transparency, and accountability and ensure the achievement of their objectives. Integrity risk management is crucial for decision-making and the achievement of integrity objectives within government organizations. Here are some key points to further elaborate on this topic:

a) Balancing Preventive Measures and Enforcement: Integrity risk management helps governments strike a balance between preventive measures and enforcement actions. While preventive measures aim to minimize the occurrence of integrity risks, enforcement actions deal with addressing risks that have already materialized. By effectively managing risks, governments can identify areas where preventive measures are needed, and at the same time, determine the appropriate enforcement actions when risks become realities.

b) Alignment with Government Objectives: Effective risk management aligns with the government's objectives, strategies, and priorities. By considering the specific objectives of the government, risk management processes can be tailored to address the risks that are most relevant and critical to achieving those objectives. This alignment ensures that resources and efforts are focused on mitigating risks that are most impactful to the government's mission and goals.

### **The Role of Internal Audit**

The evaluation of Internal Audit (IA) performance typically involves comparing actual performance against predefined objectives, which include measuring effectiveness and efficiency [17-20]. Effectiveness is commonly defined as the capacity to achieve results consistent with the target objectives or the attainment of a desired condition. It can be measured in degrees, indicating the extent to which objectives are met [11]. Efficiency, on the other hand, relates to how well the organization utilizes its resources in producing measurable outputs. It assesses the ratio of inputs to outputs, indicating the extent to which resources are optimized and waste is minimized. Effectiveness is often associated with "doing the right thing," while efficiency is associated with "doing it well" [25]. It is important to measure effectiveness and efficiency separately because it is possible for an audit to be effective but not efficient, and vice versa. An effective audit achieves its objectives and provides valuable outcomes, such as identifying risks, improving controls, and adding value to the organization. On the other hand, efficiency focuses on resource utilization and ensuring that the audit process is streamlined, timely, and cost-effective. While both effectiveness and efficiency are important, effectiveness holds greater significance. The argument is that even if an audit is efficient, meaning it is conducted with optimal resource utilization, it becomes worthless if it fails to be effective in achieving its objectives. Effectiveness is essential for IA to provide meaningful contributions to the auditee's adherence to regulations or standards, thus contributing to the overall effectiveness of the organization. An internal control system is the integration of various elements within an organization, including activities, plans, attitudes, policies, and efforts of people, to provide reasonable assurance that the organization will achieve its objectives and mission. By establishing a sound internal control system, organizations promote efficient and effective business processes, produce quality products or services aligned with their mission, and protect resources against loss due to waste. Additionally, internal control systems ensure compliance with laws, regulations, contracts, and management directives, while also facilitating the development and maintenance of reliable financial and management data through timely reporting. The internal control system consists of five key components, mentioned below:

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i. Control environment: The control environment sets the tone of an organization, influencing the control consciousness of its people and encompasses the overall attitude, awareness, and actions of management and employees regarding internal control and ethical behavior. It includes factors such as management's commitment to integrity and ethical values, the organization's organizational structure, the assignment of authority and responsibility, and the process of attracting, developing, and retaining competent personnel. In addition, Control environment factors include the integrity, ethical values, and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people. The management system refers to a collection of policies and practices that are implemented to establish and maintain internal controls within an organization. According to the COSO (2013), an effective control environment is crucial in setting the tone for the internal control process to operate effectively at all levels of the institution. Numerous reports and studies have explored the impact of the management system on financial performance. Two examples of such studies are those conducted by [60].

ii. Communication: Lewis and Graham (1988) define communication as the process of creating a common meaning with someone or a group. Guo (2009) adds that it involves the transfer of meaning or mutual understanding among at least two individuals to share information and arrive at an agreed-upon meaning. Communication can be simply defined as the process of transmitting information and common understanding from one person to another. However, Communication requires the participation of at least two people. It's not merely about one person talking, but about both parties actively engaging and exchanging information to establish a shared understanding. When communication is ineffective or unclear, it can raise concerns about trust in the performance of internal auditors. To address this, effective communication becomes crucial. Hahn (2008) recommends several approaches to overcome communication problems. These include focusing on and providing only necessary information, giving meaning to the information rather than merely relaying the message, keeping the information clear and simple, and actively seeking feedback from the recipients to ensure understanding. Effective communication ensures that relevant information is identified, captured, and shared across the organization. It involves the dissemination of internal control responsibilities and expectations to employees, as well as the provision of necessary information to external stakeholders. Communication also enables employees to report potential issues or deficiencies in internal control. When communication is inappropriate or complex, it can hinder effective understanding. Hahn (2008) suggests that an excess of information can be as detrimental as a lack of information, as it may overwhelm recipients and prevent them from focusing on the most important messages. The importance of effective communication is seen in establishing shared meaning, preventing information overload, and building trust between parties involved in the communication process. The existence of effective communication between internal auditors themselves, internal auditors and auditees, and internal auditors and organization members, without any doubt, is needed to strengthen the internal audit effectiveness [61].

iii. Risk assessment: Risk assessment involves the identification, analysis, and evaluation of risks that could impact the achievement of an organization's objectives. By understanding and assessing risks, organizations can prioritize and allocate resources to mitigate them effectively. Risk assessment helps in identifying areas where control activities need to be implemented or enhanced. In 2004, the COSO (Committee of Sponsoring Organizations of the Treadway Commission) introduced Enterprise Risk Management (ERM) as a framework to address risks within an organization. This framework builds upon the elements of the internal control framework but also includes elements related to objective setting, incident detection, and threat response. According to Rittenberg and, ERM incorporates the key components of the internal control system and provides a structure for setting objectives, detecting incidents, and responding to threats. COSO (2011) emphasizes the importance of the organization's target environment as a precondition for evaluating risks. It is crucial to define the internal control system within the organization to provide reasonable assurance and achieve the identified objectives, risk recognition, and evaluation. The effectiveness of internal control operations should be assessed in relation to the organization's objectives and associated risks. Internal control should encompass the evaluation of both internal and external indicators of threats faced by the company. One of the primary goals of financial reporting and entity performance is to generate accurate, complete, relevant, timely, and reliable financial information. This information serves to demonstrate and maintain accountability, comply with statutory reporting requirements, and provide stakeholders with an understanding of the organization's financial performance [62]. Highlights the importance of implementing good processes, as they can contribute to an increase in an organization's financial performance. The introduction of ERM by COSO in 2004 aimed to address organizational risks. The framework incorporates elements of internal control, focuses on objective setting, incident detection, and threat response, and emphasizes the importance of evaluating internal and external indicators of risks. Financial reporting and entity performance rely on generating accurate and reliable financial information, while implementing good processes can positively impact an organization's financial performance.

iv. Control activities: Control activities are the policies, procedures, and practices implemented by an organization to ensure that directives are carried out effectively. These activities help mitigate risks and ensure that the organization's objectives are achieved (Elahi, 2013). Examples of control activities include the segregation of duties, authorization and approval processes, physical controls, reconciliations, and documentation of transactions and events. Organizational management tasks include performance reviews, storage of data, physical control, and separation of duties. The various aspects of organization-

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al management tasks and their impact on performance and risk management are summarised as follows:

a) Performance Reviews: Performance reviews involve comparing actual performance with plans and evaluating the output of the previous period. This helps identify any deviations from expectations and provides a basis for improvement and goal-setting.

b) Data Storage: Proper storage of data is important to ensure its reliability, completeness, and authorization for payment.

By maintaining accurate and secure records, organizations can mitigate the risk of errors, theft, and market exploitation. c)

Physical Control: Physical control refers to protecting documents and other assets through measures such as restricted access, surveillance, and security systems. This safeguards valuable resources from unauthorized access and reduces the risk of theft or damage. d) Separation of Duties: The separation of duties involves distributing tasks and responsibilities among different individuals to prevent any single person from having excessive control or authority. This helps minimize the risk of fraud, errors, and abuse of power by creating a system of checks and balances. The effectiveness and costs associated with these management practices were articulated in the following research: Manasseh (2004) suggests that implementing management practices, including performance reviews, data storage, physical control, and separation of duties, can lower the risk of theft, mistakes, and market exploitation. This, in turn, improves operational efficiency and performance. Barra (2010) argues that while monitoring operations and separation of tasks can reduce fraud, they also incur additional costs. The benefits of preventing fraud must outweigh the costs associated with implementing measures such as segregated duties. Propose that effective enterprise risk management (ERM) provides long-term competitive advantages to companies, including banks. By integrating risk management practices, organizations can better manage and monitor risks, which ultimately benefits investors and stakeholders. Emphasize the relevance of good risk control and management practices in enhancing investor confidence and improving overall performance. Overall, the studies suggest that implementing appropriate management practices and risk control measures can positively impact organizational efficiency, performance, and risk management, although the costs and benefits need to be carefully considered.

v. Monitoring: Monitoring involves ongoing assessments of the internal control system's performance to ensure its effectiveness over time. It includes regular evaluations and reviews of internal controls, internal and external audits, and the reporting of any identified weaknesses or deficiencies. Monitoring provides feedback on the performance of the internal control system and enables necessary adjustments and improvements to be made. Monitoring is the process of assessing and evaluating the effectiveness of the internal control system over time. It involves measuring the consistency and reliability of internal control processes to provide reasonable assurance that the organizational goals are being achieved. According to Coffin (2003), a review mechanism should be established to regularly assess and analyze the internal control system to ensure that processes are continuously enforced over an extended period. This ongoing monitoring effort is essential, particularly in complex and dynamic business environments. Monitoring activities can take the form of ongoing surveillance or independent assessments. Ongoing monitoring involves regular checks and evaluations conducted throughout the year, while independent assessments may be conducted periodically by an internal or external audit function. The objective of monitoring is to ensure that internal control processes are functioning as intended and to identify any deficiencies or areas for improvement. By conducting continuous surveillance operations, annual reviews, or a combination of both, organizations can evaluate the quality of their performance over time. Monitoring plays a vital role in providing assurance that the internal control system is effective, reliable, and capable of supporting the achievement of organizational goals. It helps identify potential weaknesses or gaps in the system and enables timely corrective actions to be taken. By incorporating these five components into their internal control systems, organizations can enhance their ability to achieve objectives, minimize risks, and maintain reliable financial and management data. It is important to note that internal control systems should be continuously evaluated and adapted to changes in the organization's operations, risks, and external environment to remain effective and relevant. Internal auditors play a vital role in holding public sector officials accountable and ensuring effective management of public resources. Their independent and objective assessments contribute to improving operations, promoting ethical behaviour, and increasing public trust, and these are further encapsulated as follows:

a) Independent Assessments: Internal auditors provide independent and objective assessments of the management of public resources. They evaluate the effectiveness and efficiency of programs, policies, and operations to determine whether they are achieving the intended results. These assessments offer decisionmakers an unbiased perspective on performance, enabling them to make informed decisions for improvement.

b) Transparency and Ethical Behaviour: Internal auditors focus on the transparency and accuracy of reporting, which encourages ethical behaviour among public sector officials. By ensuring that financial and operational information is reliable and transparent, internal auditors promote accountability and discourage fraudulent or unethical practices. This helps build public trust and confidence in the reported outcomes and the integrity of the public sector.

c) Safeguarding Taxpayers' Money: Internal audit, coupled with a robust internal control system and effective risk management, is fundamental for safeguarding taxpayers' money. Internal auditors assess the adequacy and effectiveness of internal controls to prevent fraud, mismanagement, or wastage of public resources. Their work contributes to ensuring that public funds are used efficiently, effectively, and in compliance with laws and regulations.

c) Accountable Governance and Public Trust: Internal audit plays a critical role in ensuring accountable governance and preserving public trust. By providing independent assurance and recommendations for improvement, internal auditors con-

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tribute to the overall governance framework. Their work enhances transparency, accountability, and integrity in the management of public resources, thereby maintaining and strengthening public trust. In summary, internal auditors play a vital role in holding public sector officials accountable and improving the management of public resources. Their independent assessments focus on transparency and ethical behaviour, and their contribution to safeguarding taxpayers' money is essential for accountable governance, integrity, and preserving public trust. Internal audit, in conjunction with robust internal controls, effective risk management, and external audit, forms a comprehensive control framework for the public sector. The expansion of the internal audit (IA) function's role and value-adding potential in recent years is a response to the evolving business landscape and the need for effective risk management and governance. Traditionally, IA focused on compliance assurance, financial control, and safeguarding assets [9]. However, as organizations face new challenges and risks, IA has adapted to provide a broader range of services and insights. One significant change is the shift from a purely assurance-focused approach to a more consultative and advisory role. IA professionals now work closely with management to identify and mitigate risks, improve operational efficiency, and enhance the overall effectiveness of the organization. By providing proactive recommendations and strategic insights, IA helps management make informed decisions and achieve business objectives. In addition, IA has expanded its scope beyond financial and compliance areas to encompass various aspects of organizational performance. This includes evaluating and improving internal controls, risk management processes, corporate governance practices, and ethical standards. IA may also assess the effectiveness of information technology systems, cybersecurity measures, and data analytics capabilities to address the growing importance of digitalization and technology-driven risks. Furthermore, IA has become increasingly involved in assessing and monitoring emerging risks, such as regulatory changes, sustainability and environmental factors, social responsibility, and emerging technologies. By staying informed about industry trends and best practices, IA professionals can provide valuable insights and recommendations to navigate these complex and rapidly changing landscapes. IA has undergone changes that have resulted in the expansion of its area of involvement and an increase in its value-adding potential [62]. The value-adding potential of IA lies in its ability to provide independent and objective assurance, insights, and recommendations to management and stakeholders. By leveraging their expertise, IA professionals contribute to the improvement of internal processes, risk management practices, and overall governance. Their work helps organizations enhance efficiency, effectiveness, and compliance while minimizing the likelihood and impact of potential risks and vulnerabilities. In summary, IA has evolved from a focus on compliance assurance and financial control to a more comprehensive and value-adding function. The expanded role of IA involves proactive risk management, strategic advisory services, evaluation of emerging risks, and broader assessments of organizational performance. This transformation enables IA to make significant contributions to the governance and operation of organizations in today's dynamic and complex business environment. The increasing regulatory requirements and the emphasis on governance and risk management have indeed heightened the attention given to the added value of the internal audit (IA) function; as a result, the expectations and demands placed on IA by both internal and external stakeholders continue to evolve. The focus has shifted from simply understanding the roles, responsibilities, and contributions of IA to a deeper exploration of how IA can generate value for the organization. Previously, IA's main goals were centered around fulfilling its duties, meeting compliance requirements, and providing assurance to stakeholders. While these aspects remain important, there is now a greater emphasis on how IA can contribute to the organization's success, improve operations, and identify opportunities for value creation. IA is expected to provide insights, recommendations, and advisory services that go beyond the traditional scope of compliance and financial control. Recognizing the value of IA requires effective management and integration within the organization. This entails having a well-defined IA strategy that aligns with the organization's objectives, ensuring the independence and objectivity of the IA function, and establishing clear communication channels with key stakeholders [61]. When IA is effectively managed, it can act as a trusted advisor to management, providing valuable insights, risk assessments, and recommendations that help improve decision-making and drive organizational performance. However, it is important to note that the extent of value added by IA is contingent on various factors. These include the competence and expertise of the IA team, the support and cooperation received from management and other departments, the resources allocated to IA, and the organizational culture that encourages collaboration and openness to IA's findings and recommendations. Effectively managed IA functions have the potential to enhance the organization's governance, risk management, and control processes. They can help identify and mitigate risks, improve operational efficiency, safeguard assets, ensure compliance with regulations, and support the achievement of strategic objectives. By continuously adapting to the changing needs and expectations of stakeholders, IA can maximize its value and make significant contributions to the organization's success.

### **The Role of Supreme Audit Institutions**

Supreme Audit Institutions (SAIs) play a crucial role in a country's accountability framework; in Sierra Leone, the role of the SAIs is likened to the role of the Audit Service Sierra Leone- Office of the Auditor General. While their traditional role involves conducting financial audits and compliance audits, SAIs are evolving to take on a more comprehensive approach to assessing the reliability, effectiveness, efficiency, and economy of policies and programs. While SAIs traditionally focus on financial audits and compliance audits, they are expanding their role to assess the reliability, effectiveness, efficiency, and economy of policies and programs. This evolution enables SAIs to contribute evidence for more informed policy-making. By fulfilling their oversight role effectively, SAIs enhance transparency, accountability, and good governance in the public sector. They have the potential to contribute valuable evidence for informed policy-making, and this can be done through:

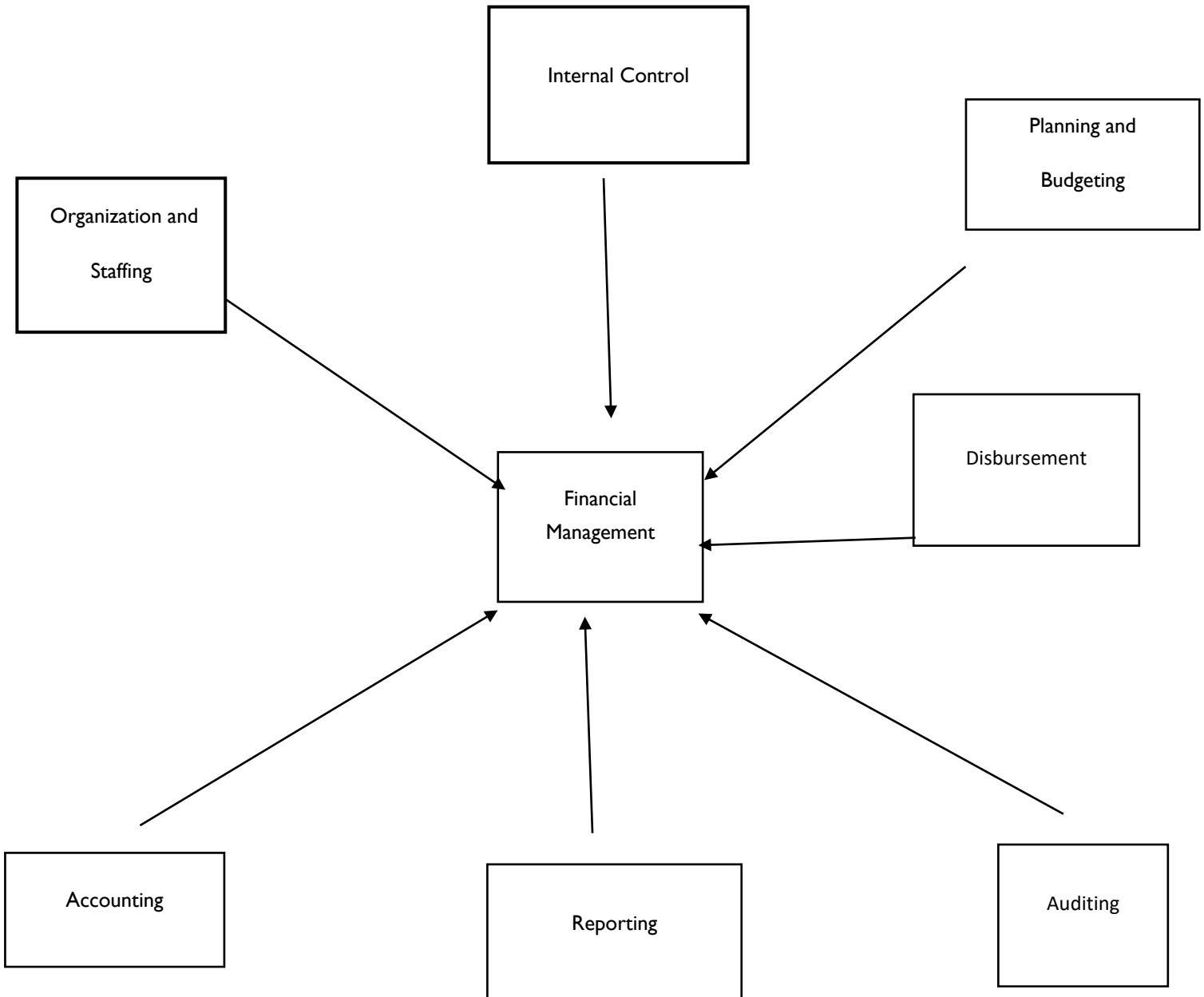
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## Chapter 14: Grants Financial And Administrative Management In Sierraleone

Chapter 14 provides a guide to grant management in Sierra Leone. While grounded in the country's legal and institutional framework, the principles outlined are broadly applicable to other developing economies, with necessary adaptations to reflect country-specific laws and regulations.

### GRANT FINANCIAL MANAGEMENT INTRODUCTION

The financial management system integrates various aspects such as plan, budget, account, report, control, audit, disbursement, and performance. The goal of financial management is to use the GoSL and Donor resources well and meet the donor expectation based on the grant's agreement. The financial management system is illustrated in Figure 1.



**Figure 1: The Financial Management System**

### SUBMISSION OF REQUEST BY PROGRAMME DIRECTOR

The implementing partners' requests will be aligned with the annual work plan, which reflects the grants agreements and annual budget. The technical unit of the organization will evaluate the request and send it to the finance and logistics unit for verification. The verified document will be submitted to the organization head for approval. The approved document will be the basis for the disbursement or procurement process.

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## Reporting

The organization must submit the Financial Management Report/Internal Financial Report (FMR/IFR) to the donors who funded them, following the deadlines in the agreements for each quarter or based on agreeable time lines. The Fiduciary Agent, on behalf of organization, will produce monthly reports that compare the budget and the actual spending for each program. The reports should show the differences between the budget and the actual spending. The Fiduciary Agent (FA) must send these reports by the 15th day of the next month or based on agreed time lines. The FA must make sure that the FMR is correct, complete, and timely. All transactions should be recorded by the end of the month and the system should close the accounting period by the 5th of the next month (or the next Monday if it is a weekend). The FA should not alter or modify the financial data after closing the books for the month or period. The FA should get approval from the Director of Finance and Logistics before doing so.

Every month, the FA and Finance team will meet with the programme managers counterparts to review the financial performance of all grants funded by donors. **They will discuss will include:**

- How much was spent compared to the budget (The report should ideally show the details of each budget line)
- How much money is left for each budget line
- How many advances have not been liquidated
- How well the bank accounts match the records
- How old are the balances and who have not liquidated cash advances

### ➤ Quarterly Financial Reports

The Quarterly Financial Reports, which include:

- How the money was received and spent
- How the money was spent on each project activity
- How much money was withdrawn from the project account
- How the special account balances with the project account
- How much money is expected to be spent in the next period
- A complete list of Fixed Assets bought by implementing partners during the reporting period
- Any other project reports as required by the Grant Agreement.

### ➤ SIGNATORIES TO GRANT ACCOUNT

Depending on the donor's specific signing requirements / grant agreement, each case will be handled individually. The organization should for instance assign four (4) signatories to every bank account they operate. The donors should be notified of the identities of these signers. The signers will be divided into two groups (A & B) The B signatories should also always be the fiduciary agent or fund argent where such agreement exists.

### ➤ DISBURSEMENT PROCEDURE

After the approval of a proposal for carrying out activities, the implementing partner will receive an advance from the PR according to PR's cash policy.

### DISBURSEMENT PROCEDURE FOR ONGOING PROJECTS / ACTIVITIES

After reviewing the previous month's reports on finance and implementation, the Director of Finance / Grant Finance Manager will approve the next payment request and send it to the Donor with the head of the organization consent. The PR will then transfer the requested amount according to the Grant Agreement. The PR and the FA can withhold funds from an Implementing Partner if the partner does not follow the agreed accounting procedures while carrying out its activities. The implementing partner will receive further payments only after submitting, reviewing, and approving satisfactory and relevant documents on expenditure, progress, and disbursement requests, and adhering to the agreement. A sample Disbursement Request Form and financial statement summary, which the Implementing Partner / Directorate needs to fill in, are provided as annexures

## ACCOUNTING SYSTEM AND PROCEDURES

### PREAMBLE

Organization will keep accounting records that follow the accepted accounting practices for projects and programs funded by GoSL and Donors. The organization should make sure that the accounting records and information are accountable, transparent, accurate, and reliable. The staff will value and comprehend the double-entry bookkeeping accrual and cash basis system and welcome any technical advice to enhance the system. The organization should use the International Financial Reporting Standards (IFRS) and the International Public Sector Accounting Standards (IPSAS) for financial reporting and will make sure that fund management reports comply with international best practices and applicable laws.

### ACCOUNTS

#### The Accounts should reveal

- Complete responsibility for all funds for the project

- 
- Sufficient disclosure in the financial statements of accounting principles and policies applied.

### **ACCOUNTING SYSTEM**

**The accounting system should have the following:**

- A system of records or accounts of each transaction,
- General Ledgers.
- A system for transferring and adjusting between accounts (Journals)
- The system should have a backup method
- It must have limited access to only authorized persons
- It should have a way to separate individual donor accounts and GoSL
- The system should also have the ability to add other modules as required

### **CHART OF ACCOUNTS**

The GL Accounts of organization should have at least 5 segments: Account Type, Account Group, Account Category, Account Component, and Account item. Annex 1 shows the coding convention for the GL Accounts. Annexes 2 – 3 explain the Account Type and Account

Group segments. Annex 2 covers the Coding Convention - General Ledger Accounts. Annex 3 is an illustration of the General Ledger Account code and Annex 4 is Account Type. This constitutes a provisional code for the General Ledger. It is subject to modification upon the acquisition and implementation of a consensual Accounting System.

### **BANKING PROCEDURES**

The procedures for managing the bank accounts should be designed to ensure that all transactions are accurately recorded as follows:

- ❖ All payments from the bank account must follow the relevant donor's financing agreements and disbursement requirements
- ❖ All account entries must be substantiated by a valid document/payment voucher. Other bank entries like bank charges also substantiated by the bank statement;
- ❖ Commissions, interest, etc. can be recorded on the receipt of the necessary documents from the bank (bank credit advice, debit advice, b
- ❖ bank statements, etc.).
- ❖ All Payment Vouchers must be pre-numbered in chronological order
- ❖ All supporting documents relating to receipt and payment transactions should be serially numbered and filed for each Bank account. Reference the attached supporting documentation matrix and kept in the archive for up to 5 years as the case maybe with grant agreement and government policy.
- ❖ For each payment, the following details should be recorded:
  - Donor
  - Project Component
  - Budget Code
  - G L Account code
  - Date
  - Amount
  - Currency
  - Beneficiary

### **OPENING FOREIGN CURRENCY BANK ACCOUNTS**

A bank account in foreign currency may be needed for a Grant Agreement. In that case, the Accountant General will open and keep it in the case of Ministries Department and government Agencies (MDA's) until the project is closed or by the PR. The organization will follow the banking guidelines in this section and the donor's financing agreement to manage these foreign currency accounts.

### **OPENING LOCAL CURRENCY BANK ACCOUNTS**

Using approved banking arrangements, the organization will conduct all its financial operations through the banking system. The organization will use local currency bank accounts for its operations, except when donors' rules/regulations for banking and disbursement specify otherwise.

### **Bank Reconciliations**

Monthly Bank Reconciliation

An Accountant who does not process payments prepares the bank reconciliation for all accounts every month. The Director of Finance / Grants manager approves and reviews the bank reconciliation with the accounting system records.

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## Petty Cash Management

The organization needs to have some petty cash on hand to pay for minor expenses. The following rules may apply depending on the organizational agreement:

- The petty cash must be locked up at all times.
- The amount of petty cash in the safe plus the petty cash vouchers must always match the float balance.
- Petty cash float levels are determined in Local and foreign currency.
- When the float balance drops to for instance 20% of the float levels, the custodian must reconcile the petty cash and request a refill.
- A petty cash book must be kept for each petty cash account. It must record all transactions with relevant information (who, why, what, and when). It must also show the account code to be charged.
- The petty cash custodian must make a summary that only shows the total amount to be charged to each account.
- The Director of Finance / Grant Manager or their delegate must approve all petty cash reconciliation reports. This person must not be the one who records the petty cash payments.
- The petty cash book must be updated and balanced with the cash float at all times.
- Original receipts must be attached to the petty cash vouchers as proof of purchase.
- Petty cash payments cannot be used for transactions that are more than the ceiling agreed on.
- All petty cash vouchers must have sequential numbers.
- The Fiduciary Agent / Designated person must do a random cash count and check that the petty cash controls are working. The Finance Unit must note down any balance differences or errors in a petty cash count form (see annex of the manual).
- Two different people must hold the keys to the safe.

## ACCOUNTING ENTRIES FOR PETTY CASH TRANSACTION

Receipts

Debit Petty Cash

Cr Bank (PR)

Payment

Debit Expenditure Account/Category

Credit Petty Cash

## PROCEDURE FOR DISBURSEMENT OF PETTY CASH

Each transaction requires a petty cash voucher with receipts and invoices attached. The voucher must be signed by the applicant's supervisor and approved by the Director of Finance / Grant Finance Manager, who verifies the coding. The petty cashier pays the expense and records the transaction in the petty cash book. Implementing Partners follow the same procedure, except that their Accountant maintains the petty cash and any cheque signatory can approve it.

## PETTY CASH REPLENISHMENT

When the float falls below the amount agreed on, the Finance unit fills out a request for petty cash form and submits it with the payment documents to the Director of Finance / Grant Finance Manager for approval. The request for petty cash replenishment includes these details:

Payment date

P C V No

Amount

Approved by .....

Prepared by: .....

The Director of Finance / Grant Finance Manager reviews and approves the transactions. The Finance Unit PR/SR raises the PCV and the Director of Finance / Grant Finance Manager approves it. The cheque is issued and the Petty Cash Accountant (custodian) updates the Petty Cash Book.

## SUB-RECIPIENTS/IMPLEMENTING PARTNERS RECEIVING FUNDS

When PR approves the proposals from Sub-Recipients/Implementing Partners for funding, it will prepare the appropriate funding contract. The first advance will depend on various factors (as per the Agreement), usually 20%, and no more than 25% of the budget. The applicant's account will be refilled after submitting a comprehensive progress report with a financial statement; all required receipts and a replenishment request. The PR will review the progress report, approve the request for further payment, and disburse the funds. The PR will also monitor the sub-projects through its staff or a sub-contractor based on the size, scope, and location of the Implementing Partner project.

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## Community-Based Organizations / Implementing Local Currency Accounts And Reports

If PR may involve Community – Based Organizations (CBOs) in a project funded by a donor, the CBOs must have a specific bank account in local currency for the project only and use it until the project ends.

To receive disbursement, participating CBOs must submit a physical progress report along with receipts, payment reports, and vouchers. The PR will evaluate the request based on the CBO Coordinator's assessment of the progress and approve the release of funds if appropriate. PR will then deposit the funds into the CBO's bank account, provided that their reports comply with the required conditions. The remittances will depend on the expenditure accountability and the cash flow projections within the approved budget.

Each CBO has a control account that the PR manages. When the PR transfers money to a CBO, it reduces the balance of that CBO's control account. After the PR checks the report of income and expenses, it increases the balance of the CBO's control account by the amount spent. Every month, each CBO needs to send to the PR a bank reconciliation statement and a bank statement along with their report.

### PAYMENTS TO SUPPLIERS

The Account Section of the PR and Implementing Agencies/ SRs perform a crucial task by paying the suppliers. The following categories will be used to sort the invoices they receive: (a) Civil works invoices (b) Goods supply invoices (c) Consultancy services invoices (d) Services invoices (e) Public utility services invoices (f) Imported Goods invoices (g) Other categories defined in Grant Agreements.

### INVOICES FOR CIVIL WORKS

The PR and its Donor Partners have approved guidelines for awarding civil works contracts. The PR will pay the invoices based on the payment certificates issued. Each payment must match the payment certificate and the work done. No consolidated payment certificate for all works will be accepted. The contract may have special provisions for price escalation, delayed payment, or damages for late work completion. These provisions should also be considered when certifying an invoice for payment. The contract value and disbursements should be recorded in the contract accounts in the currencies of disbursement. The contracts ledger should also record the retention amount. Invoices for Supply of Goods

The Accounts section keeps separate files for the copies of these documents:

- (a) Local Purchase Order (LPO)
- (b) Good Received Note (GRN)
- (c) Delivery Note (DN).

The Procurement Unit of the PR, receives all purchase invoices and gives them a serial number and an approval grid stamp. The grid stamp has these details: Date received, Serial number, Budget code, GRN number, LPO number, and GL code. The purchase invoice is then compared to the corresponding purchase order and GRN. The invoice is entered in the invoice Register, which shows these details:

- ❖ Date
- ❖ Serial No.
- ❖ Name of supplier
- ❖ Invoice number
- ❖ Items supplied
- ❖ GRN No.
- ❖ LPO No.
- ❖ Amount invoiced
- ❖ Amount paid and date
- ❖ Cheque No. and date
- ❖ Payment Voucher No. and date

The invoice, along with the LPO and GRN, is then sent to head of the organization for payment approval.

### PAYMENT PROCESSING

The Director of Finance / Grant Manager receives the invoice and supporting documents after they are authorized by the program manager (budget holder) and approved for payment:

- ❖ The Director of Finance / Grant Manager verifies the authorization and approval limits with the authorization/approval matrix for Program Managers (Budget Holders) and authorizes the finance section to prepare the payment voucher (PV) and cheque/bank transfer.
- ❖ The payment voucher has a specific space for the category and nominal code.

- ❖ The authorized signatories sign the payment voucher and cheque/bank transfer.
- ❖ The Director of Finance/ Grant Manager of the finance section to charge the expenditure to the correct General Ledger Account Code.
- ❖ The cheque signatories only sign cheques/bank transfers that have the GL Account Code for the payment on the PV.

### **CHEQUE/BANK TRANSFER RECORDING**

After signing the cheque, the payment stamp is used to mark the invoice. Then, the Finance Team records the cheque payment details in the Invoice Register

### **CHEQUE COLLECTION**

The Finance Department issues cheques to suppliers/vendors, who sign the Cheque Collections Register (CCR) to confirm they received the cheque. The CCR records the Supplier's name, Cheque Number, Cheque Amount, Received date, and Recipient's signature. If the payment is done by bank transfer, the supplier/vendor gets a copy of the transfer, which the Finance Team stamps as a 'copy', and gives a receipt.

The Finance Team will then input into the system the details of the payment.

DR	Funding Category	x	
	CR	Bank	x

### **INVOICES FOR PROFESSIONAL SERVICES**

This is the fee for consultants who offer professional services as individuals or firms, such as audits and training. The hiring of consultants, whether local or international, must follow the procurement guidelines that are approved. The Director of Finance / Finance Manager should have access to all the contracts of the consultants to check the invoices before paying them. The Fiduciary Agent / Finance Unit will keep a Register of contracts that records the key details and the payment terms for reference. The contract documents will be used to confirm the invoices for these services, and the head of the organization will authorize the payment.

### **INVOICES FOR SERVICES**

The main expenses for these payments are related to fixing the office, office stationary, equipment, and vehicles. Only approved dealers will service the equipment and vehicles. The invoice will go to the procurement section, where it will be stamped with the approval grid, registered, and sent to the finance section. The finance section will verify the invoice with the person responsible for the equipment or vehicle. The finance section will also check the rates and the LPO, if applicable, and submit the invoice to the head of the organization for approval. The Fiduciary Agent / Finance Unit will examine all the invoices and supporting documents for the service delivery before making the payments.

### **INVOICES FOR PUBLIC SERVICES**

This refers to the payments for water, electricity, and phone services bills. The public utility company sets the rates for these services. The finance section will get the invoice, record it in the purchase register, and mark the invoice with the payment stamp. Then, the finance section will use the approved invoice to make payment vouchers and cheque/bank transfers.

### **INVOICES FOR IMPORTED GOODS**

Payments for imported goods are arranged in any one of the following two methods:

- ❖ Direct payment to the suppliers on the receipt of shipping documents.
- ❖ Payment by a Letter of Credit

### **DIRECT PAYMENT**

The PR can pay directly through the PR Foreign Currency Account or by sending money to the bank with a Withdrawal Application. The contract document should clearly show how the PR will pay, how long it will take, and what shipping documents the PR needs. The Accounts department has a copy of all contracts and can show them to the Director of Finance / Finance Manager for checking anytime. The PR will try to use the same clauses for payment terms and documents in all contracts.

### **PAYMENT BY LETTER OF CREDIT**

To pay for imports, the most common method is using a Letter of Credit (L/C). A bank in Sierra Leone will set up a confirmed irrevocable L/C, which is what most foreign sellers want. For contracts worth more than for instance US\$50,000, The PR will fill out the required form and send it to the Donor to get a Special Commitment (SC). The Donor will give the SC to the sellers' bank and also send a copy to the PR.

### **PAYROLL ACCOUNTING**

The payroll function involves calculating and disbursing the compensation and benefits of the contract staff and consultants. The finance team will manage the payroll and the Fiduciary Agent will review it. The Fiduciary Agent / Finance Unit will have

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access to these records:

- ❖ A copy of each employee's appointment letter.
- ❖ A copy of all the Board of Directors instructions regarding the adjustment of benefits.

The Accountant / Fiduciary Agent will ensure that these controls are followed:

- ❖ All the details of the employees/consultants are kept on the payroll master file, which shows information such as start date, contract amount, current salary, allowances, and salary review.
- ❖ The payroll must be approved by the appropriate authority before payment. All changes to the payroll master file must be authorized and recorded before entry.
- ❖ All the deductions from the payroll for staff contributions to pension schemes, income tax, and withholding tax must be promptly paid to the relevant institutions.
- ❖ Temporary workers may be paid with petty cash. The entries (like any other petty cash payment) are then classified into the corresponding General Ledger Account codes.
- ❖ The Accountant should do a reconciliation between the total gross salary including benefits of the previous month and the current month, with all the supporting documents.
- ❖ Each consultant/employee will receive a pay slip when they get a monthly salary from the payroll system.
- ❖ All the signed pay slips will be stored in the Office of the Fiduciary Agent as proof of payment of the salary.

### **PAYROLL REPORTS**

A payroll register displays these details for each employee:

- ❖ Name
- ❖ Employee number
- ❖ Base pay/Contract pay
- ❖ Allowances (optional)
- ❖ Total Earnings
- ❖ Deductions:
  - Income tax (if applicable)
  - Withholding Tax (if applicable)
  - Pension fund (optional)
  - Other deductions (optional)
- Total Deductions
- Net Pay [total earnings minus total deductions]

The pay slip shows the same information as the payroll register, so staff members can see their earnings and deductions.

### **STAFF COSTS**

All contract staff, such as specialists, support staff, secretaries, drivers, cleaners, and security, will be paid from the grant funding provided it provided for in the budget. Government employees will receive civil service performance incentive payments if they are eligible for them under the official government policy that covers all donor-funded project.

### **INCREMENTAL OPERATING COSTS**

This would cover program implementation-related expenditures such as international travel and in country travel that requires vehicle rental, office supplies, office rentals, utilities, communication costs, and the like to be financed by the from donor funds and/or GOSL sources and procured using the Public Procurement guidelines where appropriate.

### **FIXED ASSETS MANAGEMENT**

The cost of Fixed Assets is the amount paid to acquire them. This includes the purchase price and any additional expenses to make the asset ready for use in its specific location. Fixed Assets are assets that have a value of at least \$1,000 per unit and a useful life of more than one accounting year. A Fixed Asset Register (FAR) is necessary to keep track of fixed assets. The organization head must approve all purchases of fixed assets and all fixed asset procurement should follow all procurement processes. The asset records should have enough details to identify each asset by its location.

The following information is required for the FAR:

- Where the asset is located
- The number assigned to the asset
- The type of asset (e.g. equipment, furniture, etc.)
- When the asset was purchased
- When the asset was first used
- When the asset was disposed of
- How the asset was used

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- The code given to the asset

The FAR should be matched with the nominal ledger regularly. The donor project component and the expenditure category are also recorded for each fixed asset purchase.

### **PURCHASE OF FIXED ASSETS**

When buying fixed assets, the PR and its donors have certain procurement standards that must be met. The serial numbers of fixed assets must be shown on the invoice from the supplier and the notes of the goods received. The payment for fixed assets is the same as the bank payment methods described earlier in this manual.

### **MANAGEMENT AND INVENTORY OF FIXED ASSETS**

The organization must keep its business assets in a secure place. Each asset must have a tag and an identification number that matches the number in the Fixed Asset Register.

### **ACCESS AND USE OF ASSETS**

The condition of use of all fixed assets depends on their insurance against theft, fire, accident, and other possible damages. The Finance team or authorized personnel will perform regular physical checks of fixed assets and update the Fixed Assets Register at the end of each year. The Fixed Asset Accountant will report to Management Team with clear comments and recommendations on the following aspects after every year-end physical check: conditions of use, maintenance and repairs status, insurance policies review, Fixed Assets Register adjustments (including assets to be disposed of), and requests for additions. The fixed asset register must show the unit and staff member who has each fixed asset and where it is located. The PR Implementing Partners will either follow the Fixed Assets Register guidelines in this section or create their own if they have PR-funded asset(s). They will ask for a detailed report with a list of all Fixed Assets bought with PR funds and their planned use after the project ends during the close-out phase with Implementing Partners.

### **FOREIGN CURRENCY ACCOUNTING PROCEDURE**

Income and Expenditure items in foreign currencies are converted to US \$ at the rates ruling at the transaction dates. Assets and Liabilities expressed in foreign currencies are converted to US \$ at the rates ruling at the balance sheet date and gains or losses on such conversions are credited or charged to reserve in the period in which they arise.

### **STAFF ALLOWANCE / PER DIEMS**

#### **INTERNAL TRAVELLING / MONITORING PER DIEM**

Depending on their positions, the staff members of the PR receive different amounts of allowances. These allowances cover the expenses for lodging, food, and other things.

#### **International Travelling Per Diem**

The international travel will be bench-mark in accordance with United Nations rates or may as agreed with the donor during proposal development and grant negotiations and agreed on.

### **WEEKLY VEHICLE FUEL**

The weekly fuel allowances for different positions will should be negotiated and agreed on during grant negotiations and should be reflected in the grant budget.

### **ELECTRICITY BILL / WATER BILL**

The monthly Electricity should be agreed on with the donor.

### **MONTHLY AIRTIME**

Monthly mobile airtime for different positions should be negotiated and agreed on with the donor.

### **PR QUARTERLY REPORTS**

Every quarter, the PR must prepare an Interim Financial Report for all projects within 45 days. This report must include a Budget Report that shows the quarterly and cumulative expenditures and compares them with the budgeted amounts. The report must also state the deviations between the budget and the actual spending, both in absolute and percentage terms. The PR must emphasize any significant variances in the Interim Financial Reports, and send them to the Partners every quarter. The PR must examine the causes of the significant variances and provide explanations in their reports (Interim Financial Statements), which they must send to the Donors every quarter. In addition, the Programmatic Monitoring and Evaluation Reports will be submitted alongside the Financial Report to Partners.

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## **FISCAL AGENTS**

The PR should state and agree with the donor the number of years, a Fiscal Agent (FA) will manage the PR financial management and build the capacity of the PR Finance Team. The FA will set up strong financial systems, review financial reports from sub-recipients (as needed), train staff where needed, check the Financial Manual regularly to follow international best practices, and act as the financial link between PR and the donors when the Grant Agreement requires it. The FA's main financial management duties are:

- ❖ The FA will work with the PR to make sure that all requests to use funds and/or make payments for the grant implementation:
  - (a) have complete and correct supporting documents;
  - (b) are based on the approved budget and work plans, the Procurement and Supply Management Plan, and the Monitoring & Evaluation Plan;
  - (c) have the right authorization, and
  - (d) the expense is allowed.
- ❖ The FA will do the needed due diligence checks to confirm that the documents for all PR / sub-recipient costs are genuine and the activity matches the approved budget and work plan.
- ❖ The FA will do regular checks to make sure that financial transactions are recorded properly in the accounting system, that financial reporting is precise, on time, and in the right format, and that all supporting documents are filed and stored correctly according to the local law and the Grant Agreement.
- ❖ The FA will do a post-review of transactions to make sure that they follow the Grant Agreement.
- ❖ At the start of the FA role, they will do the basic accounting work until the PR Team is working well. The FA will be a co-signer on all PR bank accounts and all payment instructions and cheques.

## **BUDGETING AND BUDGETARY CONTROLS**

### **INTRODUCTION**

The annual work plan of the PR will be generated from its annual budget based on its current funded projects. Each technical director will send their budget proposals and Annual Work Programs to the finance and logistics unit. These will have detailed breakdowns of each spending category. The finance and logistics unit will merge all the Annual Work Plans and budgets into a single annual work program and budget for the PR. Each directorate will implement the approved annual plans and send quarterly reports to the finance and logistics unit as part of the Project Management Report. The consolidated annual budget is subject to the approval of the Donors / Board of Directors.

According to the Project / Program documents, the grants are assigned to specific components and activities that have clear and expected outputs. These outputs should be accomplished within the project/program periods. Hence, annual budgets should be made for the periods to use the grants as per the allocations in the Project / Program documents.

### **Objectives**

The Annual Budgets will serve the following purposes:

- ❖ It will determine for each year the detailed Plan of Action set in both quantitative and financial terms for the activities of the Project / Program.
- ❖ It will provide the basis for determining the fund requirements of each component of the Project / Program for a given year.
- ❖ It will provide the implementing units within each Project / Program the results they are expected to achieve each year.
- ❖ It will provide the basis for monitoring performance during the year.

### **Responsibility for Annual Budget Preparation**

Preparing Annual Work Plans for the PR Projects / Program is the duty of the Directors /Program Managers, and the PR Finance unit will collate the final Annual Budget in both physical and financial terms.

### **ANNUAL WORK PLANS (RESPONSIBILITY, TIMING, AND APPROVAL)**

The implementing units of the PR shall prepare annual action plans based on their Project / Program components and activity and send them to the head of the organization or PR designated person --technical by 30 November each year or the date set in the Project/Program Implementation Plan (PIP). These action plans shall be merged into the Project's / Program's yearly work plan for the next year by the accountant.

### **Basis for the Annual Work Plans**

The trends and assumptions in the Strategic Plan / Project Implementation Plan, the Projects' Technical Annexure /and the Project Authorization Document, especially the Project Cost Table, will guide the annual work plans.

The work plans will include:

- ❖ The specific goals

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- ❖ Yearly targets for each component and activity
  - ❖ Material inputs, requirements, or resources to reach those targets
  - ❖ Performance indicators
  - ❖ Plan for the next year
  - ❖ The strategies and methods to achieve those goals

### **Consultants' Forecast for Civil Works**

Consultants who provide services for civil works programs must make cash flow projections for the whole period of the civil works agreements. The yearly work plan should include the consultants' action plan and predictions for the next year.

### **ANNUAL WORK PLAN REVIEW**

Directors / Programme Managers must send the Annual Work Plans / Budget to the head of the organization or designated person for review and approval by 1st December. If a donor needs an annual work plan, it should be submitted to the donor for approval. After the organization head / Donors approve the Work Plans, they are sent to the Finance Unit to create the annual budgets.

The yearly Work Plan that has been approved will guide the creation of an annual budget and a deadline-driven financial plan for every Project / Activity by the PR. The PR will get price quotes for materials and other inputs needed from market sources and suppliers' databases.

### **BUDGET COMPONENTS**

Budget Components For each Project / Program, the budget at minimum should include:

- ❖ ongoing operational costs,
- ❖ Capital or development spending,
- ❖ Needed consultancy services,
- ❖ Training expenses of the relevant Projects.
- ❖ Fund sources and uses
- ❖ Schedule and deadlines

### **THE BUDGET SUBCOMMITTEE**

The budget coordination will be done by a Budget subcommittee, which will have the organization head as the Chairperson, Deputy Executive Directors, Director of Finance and Logistics, Directors, and the PR Accountant / Fiduciary Agent as the Secretary. The Secretary's duties will include: Giving clear guidance for making each year's budgets; making sure that other units follow the deadlines for budget preparation; and checking that the budget procedures and formats are properly used. He/she will also handle the consolidation of the estimates. To finish the annual estimates on time, the Budget Instruction will set a strict schedule for each budget stage and specify the final date for each step.

### **BUDGETARY CONTROL**

To ensure that expenditure and revenue are controlled properly, the Budget will use budget monitoring tools like monthly variance analysis. After the Annual Budget is approved, a budgetary control mechanism will be set up to monitor the activities of the Project's different components. The PR will keep separate variance analysis reports for each Project and update the Uses and Sources of Funds with the Expenditures. The Uses and Sources of Funds will be added to the computerized financial ledger and monthly reports will be made for review with the Director/ Programme Manager and implementing agencies. To make sure that funds are requested within the yearly budget limit, Directors / Programme Managers and Implementing Partners must check the correct budget line. The Finance Unit will not approve payment if the allocated amounts are used up. The Finance Unit will also verify that all eligible requests for funds have the necessary documents and follow the annual work plan. The PR will only authorize an expenditure or LPO commitment if it matches the approved budget. But emergencies will be handled with care.

### **PROCUREMENT AND DISPOSAL**

#### **INTRODUCTION**

The Sierra Leone Public Procurement Act of 2004 and the Donors' most recent procedure guidelines govern the acquisition of Goods, including health and non-health products, Works, and Consultants' Services. If there is a discrepancy between the procedure and guidelines, the donor partner's policy will take precedence. The PR and its IPs/SRs, Directors/Program Managers must follow the policies, guidelines, and procedures in this manual. The goal is to ensure efficiency and economy, as well as fairness, reliability, transparency, and timeliness.

#### **PROCUREMENT MANAGEMENT**

The Procurement unit at PR is responsible for the procurement process. A Procurement Specialist will lead a Technical

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Support Team (TST) that will gather the procurement needs from the Directors / Programme Managers and implementing partners. The Procurement Management Structure is as follows: The Director of Finance and Logistics oversees all procurement activities and works with the TST to coordinate and execute the procurement process. With the assistance of the Director of Finance and Logistics the head of the organization has the following responsibilities: (a) Setting up a Procurement Committee (b) Setting up an Evaluation Committee (c) helping to create a Procurement and Disposal Unit. (d) Verifying the availability of funds for the procurement activities; (e) Looking into complaints; (f) Sending a copy of any complaints and reports of the findings to the PR Executive Committee. (g) Make sure that the awarded contract is implemented according to the terms and conditions of the award.

## **PROCUREMENT PROCESS**

### **PROCUREMENT PLANNING**

The TST will prepare a detailed procurement plan to track the procurement activities. The procurement plan for each project will match the donor's needs. The procurement activities will use standard procurement documents.

### **PROCUREMENT PACKAGING**

To get lower prices for buying more goods and placing large orders, procurement packaging should be used. It should also account for the timely delivery of the goods to where they are needed.

### **PROCUREMENT COMMITTEE**

At each key stage of procurement, the Procurement Committee will oversee the process. The organization head will choose the members of the Procurement Committee. The Committee will invite the Procurement Specialist from the TST to advise them. The members of the committee will be selected based on their technical skills and abilities needed for their roles.

#### **The Procurement Committee shall consist of:**

- A Chairperson
- A Secretary; and
- A maximum of three members appointed by the organization head
- Fiduciary Agent

#### **14.17.2.4. FUNCTIONS OF THE PROCUREMENT COMMITTEE.**

##### **The Procurement Committee (PC) shall be responsible for:**

The Procurement Committee (PC) has the following responsibilities: (a) Reviewing and awarding the suggestions from the Evaluation Committee; (b) Giving approval to the documents for bidding and contracts; (c) Giving approval to the procedures for procurement and disposal; (d) Making sure that the TST follows the best practices for procurement; and (e) Making sure that the GOSL and Donor Partner Procurement Guidelines are met.

The Procurement Committee has the following additional functions:

- (a) It approves; The procurement method and process
  - i. The documents for solicitation before they are issued
  - ii. The evaluation of technical, financial, or combined aspects
  - iii. The contract documents based on the approved evaluation report
  - iv. Any changes to an existing contract
- (b) It suggests when a procurement function should be delegated by FMS/PS if needed; and
- (c) It grants contracts following the established procurement procedure

#### **14.17.3. PROCUREMENT AND DISPOSAL UNIT**

The Procurement and Logistics Unit of the PR will be the Technical Support Team (TST). The TST will have the following duties:

- ❖ Suggest the members of the Evaluation Committee for the Procurement Committee's approval;
- ❖ Handle bid proposals and pre-qualification applications and advise the Procurement Committee on them;
- ❖ Accept bids and give bid explanations; and
- ❖ Follow the approved procurement guidelines and best practices.

#### **14.17.4. EVALUATION COMMITTEE**

The organization head will establish an Evaluation Committee (EC) to perform and report all evaluations to the TST. The Technical officer will suggest the EC members and the organizational head will approve them. The number and qualifications of the EC members will vary based on the procurement requirement's value and complexity, but there will always be at least three members. The EC may include external members if the PR lacks the relevant expertise or if the internal members are unavailable or have a conflict of interest.

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A member of the Procurement Committee shall not be a member of an Evaluation Committee. Members shall select a chairperson from among their membership, who shall supervise and coordinate the team members during the evaluation process but shall not direct members in decisions relating to the evaluation or canvas them on any issue for a specific outcome.

#### **14.17.5. ROLE OF TST IN PROCUREMENT**

**The TST's procurement duties include:**

- ❖ Creating and revising Procurement Plans.
- ❖ Developing Bid/RFP Documents.
- ❖ Announcing Procurement Opportunities.
- ❖ Conducting Bid Opening.
- ❖ Writing Evaluation Reports.
- ❖ Drafting Contract Documents.
- ❖ Addressing Bidder complaints.
- ❖ Publishing contract awards.
- ❖ Overseeing and Managing Contracts.
- ❖ Obtaining the necessary approvals from donors
- ❖ Collecting all procurement data
- ❖ Performing any other procurement-related task

#### **14.17.6. PROCUREMENT & SUPPLY MANAGEMENT (PSM) PLANNING**

PSM Planning is an essential tool for managing and overseeing the procurement and supply of goods and services; it is vital for the success of project implementation. The PR and its IPs/SRs must work together to consolidate all procurement needs, develop a comprehensive PSM Plan, and get the required approvals from funding sources before carrying out PSM activities. The Plan must be based on the Annual Work Plans and Budgets of all IPs/SRs. In other words, all procurement needs must match the activities in the Annual Work Plans and budgets of IPs/SRs. The plan must be revised and approved by donor partners every year and integrated into the PSM Plan if required.

The PSM plan should include the following information:

- The types of contracts (Goods, Works, and Services) and their estimated costs;
- The procurement methods, such as International Competitive Bidding, National Competitive Bidding, and Shopping; and the selection methods, such as Quality and Cost-Based Selection, Quality Based Selection, Fixed Budget Selection, Least Cost Selection, and Selection of Individual Consultants;
- The applicability of prequalification;
- The deadlines for each key processing step, considering the lead time - the duration of each activity and the whole process from preparing and issuing bid documents to final delivery; and
- Any other key processing steps that the donor agency requires.

The PSM Plan is a tool to track the process. It has planned and actual rows for each activity in a column, so that the actual progress can be compared with the planned targets. The plan is updated regularly, whenever an activity happens. The expected dates for the next activities are changed based on the actual dates of the previous activities; the actual and target dates are then matched.

#### **PROCUREMENT & SUPPLY MANAGEMENT IMPLEMENTATION ARRANGEMENTS**

The PR is in charge of managing procurement; it will use open bidding or a UN Agency for major procurement needs when needed. However, the PR will also assign some minor/small-value procurement tasks to IPs/SRs after training them on basic procurement. These minor or small-value procurements are usually within the national shopping financial limits and will follow the national shopping methods. The PR Procurement Committee will have the power to process and award contracts based on the Technical Support Committee's advice. The Committee will, among other things, approve all procurements that are within its approval power and follow the Donor Partners and NPPA 2004 Procurement Rules.

A Procurement Specialist, with the help of trained and knowledgeable staff, will lead the PR Procurement Unit.

The Procurement Unit is responsible for:

- Planning and updating procurement activities annually
- Notifying potential bidders and consultants of contract opportunities
- Preparing bidding documents, expressions of interest, requests for proposals
- Receiving, safeguarding, and opening bids/proposals for goods, works, and consultants' services procurement
- Providing secretarial services to the Procurement Committee and helping it appoint Technical Evaluation Committees to evaluate bids and proposals and choose suppliers, contractors, and consultants
- Managing and overseeing contract implementation until works are completed or goods and services are delivered
- Evaluating the quality of goods, works, and services procured

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- Creating and maintaining a database of suppliers, contractors, and consultants
  - Offering technical support and training to IPs/SRs

### **PROCUREMENT THRESHOLD FOR GOODS, WORKS, AND NON-CONSULTING SERVICES**

The threshold for procurement of Goods, Works, and Non-consulting Services shall be agreed upon with donors and the manual updated according. However, in the absence of an agreed-upon threshold with donors, the PR will use the NPPU threshold.

#### **Procurement of Goods, Works, and Non-Consulting Services**

The TST is in charge of procuring the Goods and Non-Consulting services as specified in the Procurement Plan. The TST will draft a document that fully describes the goods to be procured, including:

- The expected delivery and completion dates;
- The types and amounts of supplies/goods, along with any related services; and
- The specifications -the specifications should clearly and accurately define the goods needed and, if feasible, - the extent and nature of the intended purchase; - the aims and outcomes of the intended purchase.

### **BIDDING DOCUMENTS FOR GOODS AND NON-CONSULTING**

The procurement of goods under International Competitive Bidding (ICB) and National Competitive Bidding (NCB) shall follow the World Bank's Standard Bidding Document (SBD), with suitable adjustments. The bidding documents shall define the goods needed, the bidding methods, and the contract conditions. The bidding documents may differ according to the contract size, but they shall contain the following elements when needed:

- ❖ Instructions to Bidders (ITB) - informs bidders about the format, process, and timing of bidding.
- ❖ Bid Data Sheet (BDS)- determines the specifics of the ITB for the specific procurement, such as source of funds, eligibility criteria, clarification procedure, bid preparation form, number of copies, bid language, pricing and currencies and currency conversion method, instructions on changing and withdrawing bids, bid submission process, deadline, bid validity period, bid opening and evaluation, and contract award process, method for correcting arithmetic errors in bids, purchaser's right to accept any bid and reject any or all bids; award criteria; award notification and contract signing procedures.
- ❖ General Conditions of Contract- establishes the general terms of the contract between the PR and the successful bidder;
- ❖ Special Conditions of Contract- supplements the General Conditions of Contract for the specific procurement;
- ❖ Schedule of Requirements- indicates the quantities, delivery dates, and locations for the goods/items needed by the purchaser;
- ❖ Technical Specifications- describes the features of the technologies and technical services needed (and for goods/equipment, specifies the standard format in which bidders must submit their materials, including a technical responsiveness cross-reference form);
- ❖ Bidding Form and Price Schedule- these consist of forms
  - Bid Security and Contract Form;
  - Performance Security;
  - Bank Guarantee Form for Advanced Payment.

### **PROCUREMENT METHODS FOR GOODS, WORKS, AND NON-CONSULTING SERVICES**

The TST will decide the procurement method and the Procurement Committee will approve it. The Donors will also approve the procurement methods according to the World Bank's or agreed Procurement Guidelines for hiring consulting services and as specified in the project documents. The procurement method will be based on:

- i. What kind of Goods are needed;
- ii. How much is the procurement costs (Procurement Thresholds)?
- iii. How likely foreign bidders are to participate, depends on the local supply and price of goods;
- iv. How urgent the delivery is; and
- v. How clear and fair the procedures are.

### **GOODS**

The NPR may purchase various goods, such as: (a) Pharmaceuticals Products - medicines and other drugs (b) Health Products and Commodities - items for testing and diagnosis, such as equipment, test kits, reagents, and supplies (c) Medical supplies - protective gear and other supplies. (d) Non-Medical Equipment and Vehicles - transportation and office equipment, such as vehicles, motorcycles, and office equipment (e) Materials and Supplies - materials for office work, education, and communication, such as office supplies and stationery, Information Education Communication (IEC)/ Behavioural Change Communication (BCC) Promotion Materials, Training materials, etc.

### **WORKS**

The NPR may procure works contracts for the following activities: Building and renovating labs etc.

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## Services

The PR will procure consultants' services contracts that cover: financial- Fiduciary Agents, auditing, MOUs with SRs/IPs, and so on

Procurement Methods for Goods and Non-Consulting Services

The following are the procurement methods for Goods and Non-Consulting Services:

- ❖ International Competitive Bidding (ICB),
- ❖ National Competitive Bidding (NCB), Shopping, and
- ❖ Direct Contracting.

Goods and Non-Consulting Services will be procured using the following methods: Shopping, Direct Contracting, International Competitive Bidding (ICB), and National Competitive Bidding (NCB). Shopping, Direct Contracting, International Competitive Bidding (ICB), and National Competitive Bidding (NCB) are the procurement methods for Goods and Non-Consulting Services.

The following sections describe the procurement processes for each of the methods mentioned above.

### **(a) International Competitive Bidding**

ICB is a way of buying goods or works from different providers around the world. It aims to get the best quality and price by letting everyone eligible and qualified to bid for the contracts. ICB also informs the bidders about what TST needs and gives them a fair chance to compete. ICB is the preferred way of buying things when local providers cannot do the job. But sometimes, ICB may not be suitable, and TST can use other ways of buying things with the donor partner's approval. The steps for ICB are:

- Ask for goods or works.
- Check and advertise the bidders' qualifications.
- Receive and review the bidders' qualifications.
- Prepare or get the list of requirements and technical details for goods or works from Sub-Recipients/Implementing Partners.
- Prepare the bidding documents.
- Advertise or invite the bids (depending on whether the qualifications were checked or not).
- Open the bids publicly.
- Evaluate the bids.
- Approve the contract award by the Procurement Committee [as per the procedures].
- Get the donor's approval [if needed].
- Notify the contract award.
- Sign the contract.
- Carry out the contract.
- Supervise the contract.

### **(b) National Competitive Bidding (NCB)**

NCB is a common way of buying goods with public funds in the Recipient's country. It is suitable for goods that do not have much foreign interest because (a) they are cheap, (b) they can be found locally at lower prices than abroad and (c) the costs and hassles of ICB are more than the benefits. Bidders can use and sign contracts in the local currency. The process must be fair, competitive, transparent, and open to foreign bidders. The ads are only in national newspapers that many people read. Other ways of inviting bidders are also possible, such as putting notices on boards or sending them directly. The invitation to bidders will be in English. Bidders will have at least four (4) weeks from the ad date to prepare and submit their bids. No preference will be given to local bidders in the evaluation. The invitation will show the date, time, and place for opening the bids publicly (the same date as the deadline for submission). The evaluation and award method will be decided and announced (in the bid document) before the event and not changed randomly. For donor-funded procurement, these procedures must be checked and adjusted if needed to ensure they are economical, efficient, clear, and mostly follow the Guidelines.

### **The following steps are involved in NCB for Goods and Works:**

- Directors / Programme Managers, Sub-Recipients/Implementing Partners submit requests for Goods or development works.
- Pre-qualification and advertisements are done.
- Pre-qualification responses are received and evaluated.
- Schedule of requirements and technical specifications for goods procurement, and specifications, Bills of Quantities, and drawings for works procurement are prepared or submitted by Sub-Recipients/Implementing Partners.
- Bidding documents are prepared.
- Bids are advertised (if no pre-qualification) or invited (if pre-qualification).
- Bids are opened publicly.
- Bids are evaluated.

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- Contract award is approved by PR Procurement Committee [as per procedures].
  - No objection from donors is obtained [if needed].
  - Contract award is notified.
  - Contract is signed.
  - Contract is performed.
  - Contract is supervised.

ICB differs from National Competitive Bidding in these ways: (i) Bidders can choose any currency to bid in. There is no limitation on the bidding currency. (ii) The Invitation for Bid (IFB)/ Specific Procurement Notice (SPN) will be posted in the UN Development Business (UNDB) for international exposure. It will also appear in the local and regional newspapers. (iii) The donor will review the procurements before they are finalized. (iv) The Bidding Documents of the World Bank will be the standard ones for ICB. (v) The UN Development Business (UNDB) will announce the contract award within two weeks of getting the No Objection.

### **c) Shopping**

Shopping is a method of buying off-the-shelf or standard goods that are easily available and have low value. This method does not need formal bidding documents and involves asking for written quotations from several local or contractors, typically, at least, three sources with taxes included to get the best prices. The quotations should have:

- ❖ the name and amount of the goods; and
- ❖ the expected delivery (or completion) date, time and place.

The Shopping method requires comparing quotations from bidders based on price and delivery capacity for simple purchases. The Local Purchase Order (L.P.O) should reflect the terms of the chosen offer. The following conditions apply:

- ❖ At least three firms that can provide the goods needed.
- ❖ Invitation to bid that contains:
  - Detailed description of goods needed
  - Amount of goods
  - Delivery location and deadline within 14 days maximum
  - Warranty, installation, or service as required
  - Payment terms
- ❖ Bid request sent to each of the selected firms.
- ❖ Bids assessed according to a short evaluation report
- ❖ Bidders must not alter their offers or disrupt the evaluation process.
- ❖ The award goes to the responsive bidder with the highest technical and financial evaluation score.
- ❖ All records will be stored for future review.
- ❖ Only online or email quotations are acceptable, not telephone or verbal ones.

### **d) Direct Contracting (DC)**

Direct Contracting is a Single Source procurement method that does not involve any competition. It can only be used in exceptional situations, where the TST can prove that competitive bidding is not feasible. The Procurement Committee or the donor agency must approve its use beforehand. Direct Contracting can be applied in the following cases: a) An existing contract can be extended for more goods or non-consulting services of the same kind. The TST must ensure that further competition would not offer any benefit and that the prices on the extended contract are fair. b) Compatibility of equipment or Spare parts with existing equipment may require additional purchases from the same Supplier. c) The needed equipment /goods are exclusive and only available from one source. d) Urgent cases, such as natural disasters and emergencies declared by the PR and acknowledged by the Donors.

Direct contracting should only hire contractors or suppliers who can deliver the goods or non-consulting services according to the schedule, standards, and specific needs of the sole source contract. They should also comply with the usual performance security and warranty terms that would be expected in a competitive bidding scenario.

### **14.18. Procurement by Communities (Community Participation)**

PR should promote community involvement and fair contest for tasks like building or improving community centres. This is suitable for some projects that need long-term benefits or have certain social goals.

The following criteria apply: (a) projects are small and hard to get competitive bids for because they are in remote or isolated areas; (b) beneficiary communities can manage the project directly and may be willing to help with the sub-project; (c) the project will enable communities to take part in the local development process; (d) the project relies on a unit cost database. (e) the project design involves local communities and/or Non-Governmental Organizations (NGOs) in providing services, (f) the project will make use of local expertise and materials, (g) the project will adopt labor-intensive and suitable technologies.

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To reflect these considerations, the Procurement Committee must approve this method of adapting the procurement processes, specifications, and contract packaging. The MOUs or Contract Agreements with SRs/IPs will specify the procedures and the project components that communities will implement.

#### **14.19. Procurement of Consultancy and Services and Selection Methods**

When PR needs technical assistance to manage the project and perform technical and administrative tasks, project funds will pay for Technical Assistance following the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” from January 2011 and revised in July 2014. For the Project, “Consultants” means private and public entities, such as consulting firms, financial auditors, and individuals. The selection methods are

- (i) Quality and Cost-Based Selection (QCBS) according to section II of the consultants’ Guidelines for all major contracts under the project.
- (ii) Least Cost Selection (LCS) for standard and routine assignments like auditing and engineering services that are not complex.
- (iii) Consultants Qualifications (CQ) for assignments that cost less than US\$800,000 and do not need competitive proposals.
- (iv) Single-Source Selection for contracts only in emergencies following paragraphs 3.9 to 3.11 of the Guidelines for the Selection and Employment of Consultants for firms; and section
- (v) Selection of Individual Consultants following paragraphs 5.1 to 5.3 of the Guidelines.
- (vi) Individual Consultants. Services for assignments that meet the requirements in the first sentence of paragraph 5.1 of the Consultant Guidelines can be procured under contracts given to individual consultants following paragraphs 5.2 to 5.3 of the Consultant Guidelines. In the situations described in paragraph 5.4 of the Consultant Guidelines, such contracts can be given to individual consultants on a sole-source basis.

#### **14.20. Quality and Cost Based Selection (QCBS)**

This is the usual method for the selection of consultant firms. It is a competitive process among short-listed firms taking into account the quality of proposals and costs of the services, that is to say, quality is paramount but cost as a selection factor should be used judiciously.

Before evaluating financial proposals, technical proposals are assessed and the Technical Evaluation Report and its recommendations are approved. The Procurement Unit informs the bidder or bidders whose financial proposals will be opened about the date and location of the financial opening. International bidders must be notified at least 2 weeks in advance and national bidders at least 1 week in advance. Bidders who failed the technical evaluation are told that they are not eligible for financial evaluation. Evaluators must not see the costs until the technical evaluation is done.

The selection method is QCBS, which means that the Consultant with the highest combined score of technical and financial proposals is chosen. The financial proposals are only opened and evaluated after the technical proposals have passed the quality threshold specified in the bidding document. The costs should cover fees and be reimbursable, but not local taxes, unless the donor agreements state otherwise. The selection process consists of these steps:

- (i) Writing the Terms of Reference (TOR);
- (ii) Estimating the cost and the budget;
- (iii) Publishing the Expressions of Interest (EOI);
- (iv) Making the short list of consultants;
- (v) Preparing the Request for Proposals (RFP) and indicating that QCBS is the selection method;
- (vi) Sending and Receiving proposals;
- (vii) Assessing the technical proposals: checking the quality, and selecting the firms that meet or exceed the minimum points
- (viii) Getting approval of the technical evaluation report from the Procurement Committee or the Donor institution, if needed, based on the cost thresholds.
- (ix) Opening the financial proposals publicly, and announcing the technical scores of the qualified firms, followed by reading out their financial proposals
- (x) Scoring the financial proposal using the criteria;
- (xi) Final evaluation of quality and cost; and identification of successful consultant;
- (xii) Negotiations and submission of the combined technical and financial evaluation report, negotiation minutes, and draft contract for no-objection from the Procurement Committee and the Donor if required and depending on cost thresholds,
- (xiii) Award of the contract to the selected firm.

This method is appropriate for complicated tasks that lack well-defined TOR. The PR/IP can request either technical or both technical and financial proposals, using a two-envelope system. The QCBS method is used to assess the technical proposals. The consultant with the best technical proposal can present its detailed financial proposal after the Procurement Committee and the Donor (if required) approve the technical evaluation report. If the PR/IP requires both technical and financial proposals, the financial ones are kept safe until the technical evaluation is authorized and agreed upon by the relevant authority. The Evaluation Committee recommends opening only the financial proposal of the bidder with the highest technical score;

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the others are returned unopened after the negotiations with the successful firm are completed. The TOR of tasks under QBS is often unclear due to the task's complexity and the potential for different approaches. As a result, the contract negotiations with the successful firm on both the technical and financial proposals can be lengthy and complicated, and require experts.

### **Fixed Budget Selection**

This selection method is appropriate for simple and well-defined tasks that have a fixed budget, usually more than US\$100,000 or equivalent. The Procurement Committee and Donor institution need to approve this in advance. The bidders know the budget. The selection process steps are the same as QCBS's steps (i) to (ix) above, plus: (i) Rejecting proposals that exceed the budget and (ii) Identifying and selecting the firm with the highest technical score among those who bid within the budget

### **Least Cost Selection (LCS)**

This method is suitable for standard or routine tasks of low value, such as financial audits. The Procurement Committee and the Donor institution will review the process beforehand. Bidders need to achieve a minimum technical score to be eligible for consideration. The selection process steps are the same as (i) to (ix) for the QCBS above, plus the following:

- (i) Identify and select the firm that offered the lowest price, from those that met the minimum qualifying points.
- (ii) Negotiate and submit the joint technical and financial evaluation report, negotiation minutes, and draft contract for approval from the Procurement Committee and the donor, if needed and depending on cost thresholds.
- (iii) Grant the contract to the chosen firm. This method sets a "minimum" quality threshold so that only the "cost" of the proposals above the minimum matters. The Bid Data Sheet of the Request for Proposals (RFP) will state the minimum qualifying points, which must be at least 70%. Consultants Qualifications (CQS) are usually used for very small tasks that cost less than \$20,000 or equivalent.

The Procurement Committee will review the process before, but the Donor institution will review it after. Expressions of Interest are based on terms of references and the most suitable firms are chosen to submit technical and financial proposals. The steps are:

- (i) Make Terms of Reference (TOR);
- (ii) Make a cost estimate and the budget;
- (iii) Publish EOI; (iv) Make the short list of firms;
- (iv) Choose the firm with the best qualifications and references
- (v) Ask the chosen firm to submit a joint technical and financial proposal;
- (vi) Negotiate the contract with the chosen firm.
- (vii) Get the Procurement Committee to approve the negotiation minutes and the draft contract, and seek the donor institution's consent if necessary and based on cost limits,
- (viii) Select the firm and sign the contract.

The CQS method is designed to save money and time in hiring a consultant. However, it does not compromise on quality, as some minor tasks are very critical and need highly qualified consultants.

### **Single Source Selection**

Single-source selection of individual consultants/firms does not provide the benefits of competition regarding quality and cost; it lacks transparency in selection and could encourage unacceptable practices. Therefore, single-source selection shall be used only in exceptional cases. The method may be appropriate only if it presents a clear advantage over the competition:

- (a) for tasks that represent a natural continuation of previous work carried out by the firm, (b) in emergency cases, such as in response to disasters and for consulting services required during the period immediately following the emergency, (c) for very small assignments, or (d) when only one firm is qualified or has experience of exceptional worth for the assignment. For these reasons, all Single-Source Selection services are subject to No-Objection by the National Public Procurement Authority (NPPA) and a concurrent one from the Donor institution if required

### **Individual Consultants Selection**

The selection of these consultants is based on their suitability for the task. The following steps are involved;

- (i) Develop the Terms of Reference (TOR);
- (ii) Estimate the cost and the budget;
- (iii) There is no need to advertise for EOI; however, the Client may opt to advertise for its benefit. (iv) Find at least 3 (three) individual consultants who have shown interest in the task or have been contacted by the PR/IP; The individual consultants are not required to provide proposals
- (iv) Evaluate the qualifications (CVs) of the individual consultants
- (v) Choose the most qualified individual consultant who meets the minimum relevant criteria, and is fully able to perform the task (i.e. educational background, experience, familiarity with local conditions, etc.)
- (vi) Discuss the financial offers and the contract.

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(vii) Obtain approval from the Procurement Committee as mandated by the Public Procurement Act, and/or also from the donor institution if needed, depending on the cost limit. (x) Grant contract to the chosen individual.

### **Evaluation of Bids/Proposals/Quotations**

The Evaluation Committee should open the bids right after the deadline. They should send back any late bids without opening them. The bid evaluation starts as soon as the bids are opened and it should finish before the bid validity period ends. The evaluation aims to get the best value for money and to assess the bids based on the criteria in the bidding document. For consultants, the team reviews the technical bids first and then opens the financial bids of only those who meet the technical standards and expectations.

### **Other Services other than Consultants Services**

As part of the overall capacity-building program and activities, training workshops and study tours will enhance the skills of the staff of the PR, and IPs/SRs. The PR and the relevant donors will approve the yearly training plans and these activities will be funded based on reasonable actual costs. The staff of the PR, and IPs/SRs will receive training through workshops and study tours and possibly partner with international organizations in areas such as M&E, IEC/BCC, Programming, Policy and Regulations, Procurement and Supply Management, Logistics, and Finance.

### **Use of Donor and NPPA Standard Documents and Formats**

The procurement of ICB Works and Goods under the PR programs will follow the donor guidelines and the national laws on public procurement using the National Public Procurement Act 2004 and Public Procurement Regulations 2020. The same guidelines and laws will apply to the selection of consultants for all assignments. The standard documents for bidding, pre-qualification, evaluation, and contracting from the donors or the national authorities will be used as well. This procurement implementation manual is based on the principles in the donor guidelines and the national public procurement law. However, if there is any inconsistency between the donor rules and the national law, the donor rules will prevail.

### **Procurement Contract Register**

The Project's Contract (Procurement) Register, maintained by the TST, will list all contracts with Suppliers/Contractors. A Procurement Report based on this register will be produced quarterly, showing the remaining obligations for that quarter. The Contract Register will include the contract description, the approval, the No Objection details (number and date) if relevant, the Supplier/Consultant name, the Contract document/LPO number, the total contract amount, any changes or modifications, the amount paid so far, and other comments, such as the status.

### **Publishing Procurement Notices**

The TST determines the scope for publishing procurement notices.

- ❖ It is the TST's responsibility to publish or display a Procurement notice that follows the specified format, uses the suitable media, and meets the required timing and duration.
- ❖ Publishing or displaying a Procurement notice in the appropriate media and for the right time and period, using the prescribed format, is the duty of the TST.
- ❖ The TST must follow the specified format and use the suitable media and timing and duration when publishing or displaying a Procurement notice.

### **General Procurement Notice (GPN)**

A General Procurement Notice (GPN) is required for procurements that involve major procurement packages in a project funded by the Donor Partner. The GPN informs potential suppliers, contractors, and consultants about the project and the upcoming procurement opportunities. The GPN should be sent to the donor partner for review and posting on UNDB online at least 8 weeks before the public can access any prequalification or tender documents for ICB contracts under the project. The GPN should also be updated when there are significant changes in the project. The GPN should include a project description and a list of contracts for works and goods to be procured under ICB, as well as consultants' services worth more than US\$100,000. (See Appendix 3: GPN Template) The GPN will be published online on dgMarket (an online platform for government tenders) and UN-Development Business, as well as in two or more local or regional newspapers with a wide readership. Additionally, a GPN for Expressions of Interest (EOI) for suppliers, contractors, and consultants will be published in two or more local or regional newspapers, and online on dgMarket for consulting services above US\$100,000. Copies of the publications will be stored on procurement files and attached to evaluation reports.

### **Specific Procurement Notices (SPNs)**

A Specific Procurement Notice (SPN) announces a specific contract opportunity or an Invitation for Bids (IFB) under a project. It can be used as a public call for Pre-qualification or when there is no pre-qualification. The SPN should inform potential bidders about the contract details and the procurement method used. The SPN should be published in these ways: in at least two national or regional newspapers with wide circulation in Sierra Leone; and on the PR Website.

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The SPN should include the following information: a) the name of the Recipient/Agency responsible for procurement; b) the name of the project and the title of the contract; c) the items to be procured; d) the contact information for getting the tendering documents; e) the price of the tendering documents; f) the location and deadline for submitting the tender; g) the amount and form of the tender security required; h) the location, date and time of the tender opening; i) the minimum qualifications that bidders must have. An invitation for prequalification has similar information plus the location and deadline for applying to prequalify; and j) the information on how the contracts will be awarded (by lot, by package, etc.) if the supplies are split into lots.

### **Post Procurement Review**

As per the Grant Agreement, the TST will conduct a yearly Procurement Post Review (PPR) of contracts below the prior review threshold, starting from the project effectiveness date. The PPR will review a 20% sample of contracts to evaluate the PR's procurement performance and suggest improvements if needed.

The TST or entity's office must have the following documents ready for the review (depending on the contract type): Copies of Invitation for Bids/Quotations/EOI; No Objections for TOR (Consulting Services); No Objections for less competitive method; Bidding Documents/RFQ/RFP; Firm clarifications requested and issued; Bidding document RFP/RFP addenda; Bid/quotation/proposal opening minutes; Bids/quotations/proposals received; Firm clarifications requested and received; Bid/quotation/proposal Evaluation Report; Complaints and responses; Award Notification/Letter of Acceptance/LPO; Signed Contract; Securities (Mobilization/Performance); Payment certificates/Invoices; Goods received note/Delivery notes; Inspection/Acceptance/Completion Certificates; Progress Reports; and Contract award publication (for NCB and consultants) if applicable; Withdrawal Applications /(SoEs).

### **Fraud and Corruption**

The World Bank's anti-fraud and anti-corruption guidelines must be followed for all procurement activities in the project. The World Bank's anti-fraud and anti-corruption guidelines can be accessed at: [ProcurementRegulations.pdf](#) (worldbank.org). The National Laws on procurement are equally applicable.

### **Record Keeping**

The Procurement staff will be responsible for record keeping. For each of the contract(s) entered into a dossier shall be maintained as a record of all procurement activities. The file shall contain all the documents on the procurement processes by donor requirements and GoSL Procurement Act and kept at the PR premises for future reference and also for auditing purposes. The documents to be filed and maintained include the following:

- ❖ Complete records of all procurement processes and contracts for goods, works, and services.
- ❖ Copies of all Adverts, e.g. General Procurement Notice, Specific Procurement Notice, local and international adverts, etc.
- ❖ Records on all selection and bidding procurement events shall be kept in a unique file.
- ❖ A file for each approved procurement package for goods, works and services shall be kept.

### **Records on Selection of Consultants**

The file should include the following data: a) The scope of work (SOW) b) The approval of the PR and IPs & SRs Procurement Committee and the consent of the Donors (If required) to the SOW c) The submissions of interest d) The analysis and selection of the submissions e) The agreement of the Donor to the selection, if needed, f) The invitation for proposal (IFP) g) The clearance of the Donor for the IFP, if needed h) The minutes of the bid opening, which should contain the bid opening record, the attendance records, and so on i) The report of the technical assessment j) The confirmation from the Procurement Committee and/or the Donor to the technical assessment k) The record of the opening of the financial offers l) The final report of the combined technical and financial evaluation, the draft contract, and the minutes of the negotiations m) The approvals from the Procurement Committee and/or the Donor institution for the final evaluation report and the minutes of the negotiation n) The letter of award o) The signed contract p) The initial reports q) The preliminary report r) The final reports s) The certificate of acceptance t) The copies of all the payment receipts

The following documents must be included in the files that record the issues that occurred during the bidding processes for works and goods:

- ❖ Prequalification documents (if applicable)
- ❖ No-objection letters from the donor (when required)
- ❖ Bidding document and any amendments
- ❖ Approval from the procurement committee and/or no objection from the donor
- ❖ Bid invitations - specific procurement notice
- ❖ Minutes of pre-bid meetings (if any)
- ❖ Minutes of bid opening
- ❖ Bid evaluation report, with contract award recommendations to the successful bidders
- ❖ Approval from the procurement committee and/or no-objection letters from the donor on the bid evaluation report

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- ❖ Notification of award letters
  - ❖ Any appeals against the procedures or the award recommendations
  - ❖ Signed contracts
  - ❖ Performance security copies
  - ❖ Certificate of provisional inspection and handing over
  - ❖ Contractors certificates and payment vouchers, and other contract management records
  - ❖ Contract completion/acceptance certificate

### **Records on Bidding for Works & Goods**

The following documents should be organized and filed properly: a) Technical Specifications b) Solicitation letter copies c) Supplier quotations d) Quotation comparison/Evaluation report copy e) Selected supplier identification f) Purchase order or contract award copy g) Waybills/Delivery notes copies h) Stores receipt voucher copies i) Contractors/Suppliers invoices and payment vouchers copies

### **Other Contract Administration Records**

The records that shall be maintained are:

- a) All contractual notices issued by contractors or the PR/IP;
- b) Records of all changes or variation orders issued affecting the scope, quantities, timing, and price of the contract;
- c) Records of claims and disputes and their outcome

### **Contract Management**

The Procurement Plan needs formal contracts for everything. Both parties should sign the contracts and agree on what they have to do. For consulting services, the PR or SR/IP should make sure that the consultant follows the deadlines and sends good reports. The PR or SR/IP should also give feedback and pay on time. For goods, inspection is hard, especially for many items from other countries. The PR can check the goods before they leave or hire an agent to do it. The PR should also use the Inspection Agents at the ports to check the goods when they arrive. The PR should do a final check at the final destination/warehouse and accept the goods. The contract should have clear rules for performance and warranty and a good inspection system. Payment for goods from other countries is usually done by letter of credit when they leave, and the rest when they arrive and are accepted. If the goods are late, there is a penalty. So, the PR will track the supplier's performance and apply penalties if needed.

The PR will use the services of an independent civil engineering firm or the technical department of the Ministry of Works and Housing that usually oversees the contract administration for civil works. They monitor the work done by the chosen contractor and make sure it follows the technical standards at every important stage of the construction. They also check and approve the bills and payments, and prepare all the necessary reports. Regular coordination meetings with all the stakeholders are recommended to assess the consultants' performance.

### **Discharge of Duties**

The contract document specifies the extent to which the supplier/consultant/Implementing Partner (IP) must execute and complete the contract with due care and diligence. The IP must also ensure the adequacy, stability, and safety of all site operations and construction methods, especially for the small works contract. The TST and the user departments will work together to:

- ❖ Monitor the quality compliance regularly and in line with the agreement terms and conditions;
- ❖ Verify that the quantity delivered matches the contract specifications and price;
- ❖ Notify the supplier/consultant/IP in writing of any deviation from the contract obligations as soon as possible;
- ❖ Evaluate the performance of the supplier/consultant/IP and negotiate solutions to any emerging problem within the contract terms and conditions. All communication and agreements must be in writing and follow the contract provisions;
- ❖ Coordinate with the users' technical departments that are experts in the item or works involved during the monitoring and evaluation process;
- ❖ Make sure that the tender dossier and the tender contract documents include all the procedures and schedules for monitoring and evaluation;
- ❖ Conduct quarterly procurement reviews to measure the performance against the specified standards and take corrective action as needed to prevent any deviations.

### **Contract Completion**

The contract will be considered fulfilled when TST:

- (a) Gets all the goods/services as per the contract document.
- (b) Gets final reports with the approval of the relevant technical monitoring teams after verifying that the services/training or works meet the contract specifications. (c) Receives a satisfactory contract completion certificate in every situation.

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## Complaints

If bidders have any complaints about the procurement process or decisions, they can first contact the PR. The PR will reply to the complaints in a timely manner (no later than 14 calendar days). If the bidders are not happy with the PR response, they can appeal to the Independent Procurement Review Panel (IPRP) within 10 days of the PR decision. The IPRP is an independent body that will examine the case carefully and give a verdict within 30 calendar days of receiving the complaint. If the bidders still disagree with the IPRP's decision, they can take the case to the court system.

## Procurement Plan

The PR (Procurement Specialist) creates and reviews a procurement plan bi-annually as part of the Annual Work Plan. The PR follows the annual procurement plan approved by the donors. Before negotiation, the project makes a procurement plan that the donors review and include in the Project Appraisal Document (PAD). The PAD shows the procurements for the project duration. The project updates the procurement plan yearly or bi-yearly as needed. The donors check and approve the procurement plan and any changes. The project identifies the needs and the way to get the inputs (contracts) for the project. The project team and different experts work together to make the procurement plan. They discuss and plan the project delivery strategy and the contracts to get the inputs for the project.

### Each activity in the procurement plan and its subsequent updates and changes should have at least these details:

- A serial number
- The Project component that the activity is related to;
- A title or a short description of the goods, works, non-consulting, and consulting services needed;
- The estimated cost of the activity;
- The chosen method of procurement;
- A timeline showing the steps to be done for the activity's procurement.

## Financial and Procurement Audits, Contract Management & Expenditure Reports

To ensure fiduciary compliance, annual financial and procurement audits may be conducted. Within six months of each financial year's end, the PR will provide donors with financial and procurement audit reports (if needed by the donor as a grant condition) prepared by consultants chosen following the guidelines for consultant selection. The PR will also establish, within six months of the effective date, arrangements that meet the donors' expectations, such as hiring independent financial and procurement auditors who have the qualifications, experience, and terms of reference approved by the donor to review the procurement of goods, works and consultants' services funded by the Project, as well as the financial and procurement processes and procedures. The PR will also submit, within six months of each fiscal year's end or a later date agreed by the donor, an audit report on the procurement of goods, works and consultants' services done under the project, prepared by the same independent procurement auditors.

## Publication of Award of Contract

The NPPA website will display the following information for Services Contracts worth US\$200,000 or more: (i) the names of all the Consultants who applied; (ii) the technical scores given to each Consultant; (iii) the prices quoted by each Consultant; (iv) the final ranking of the Consultants based on their scores; (v) the name, price, duration and brief description of the contract of the winning Consultant. All the Consultants who applied will receive the same information. For contracts awarded based on Consultants' Qualifications (CQS), only the name, price, duration, and description of the contract of the selected consultant will be published. Grants Awards will follow the donor's specific requirements for posting.

## Procedures on Receipt, Issue, and Disposal of Stores

### Receiving Goods

The Internal Auditor / Fiduciary Agent / Senior Accountant will inspect the quality and quantity of the stores against the purchase order when they arrive. Internal Auditor / Fiduciary Agent or stockholder approves, the Stores Manager will enter the information in the Stores Receipt Voucher (SRV). The Stores Accountant / Fiduciary Agent will also collect the supplier's invoice and waybill for the goods delivered and send them with copies of the SRV as follows:

- a) The original to the Finance unit for payment processing.
- b) The second copy to the head of the user agency/department with a report on the state of the goods delivered to help the agency complete its procurement file.
- c) The third copy to the Procurement unit.
- d) The last copy to the Stores Accountant for their records. If there is any non-delivery, damage, shortage, or excess deliveries, the Stores Accountant will write a report.

## Accounting for Goods

❖ The proper handling, storage, and utilization of health products, medical supplies, and equipment from the moment they are acquired until they are used or discarded as per these procedures is the responsibility of the PR Technical Directors /

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Heads of Agencies.

- ❖ From acquisition to usage or disposal following these procedures, the PR Technical Directors / Heads of Agencies are in charge of the appropriate care, custody, and use of health products, medical supplies, and equipment.
- ❖ The PR Technical Directors / Heads of Agencies must ensure the suitable care, custody, and use of health products, medical supplies, and equipment from when they are obtained until they are used or disposed of according to these procedures.

### Issuing Goods Out

Before issuing goods for public use, the Stores Accountant must ensure:

- ❖ The requisition is signed by an authorized officer;
- ❖ The requisition meets the normal supply limit, meaning:
  - The supplies are not for creating excess stock at the operating level.
  - The quantities match the original supply program or have been agreed upon beforehand. The Stores Accountant can adjust the requisition or suggest other options or give feedback, if he/she finds the requisition unsatisfactory, or if the requisition would exhaust his stock he can postpone the issue until he gets more supplies.

### Disposal of Goods

The following steps should be followed to dispose of stock that is no longer needed, useful, or functional in an organized and efficient manner.

- ❖ A good disposal policy promotes openness in the process, prevents the organization from potential fraud or waste, and frees up both storage space and funds that are tied up in the stock for further use.
- ❖ Directors / Programme Managers and Heads of agencies should conduct regular surveys, every six (6) months, of all the stock and equipment that their departments have to determine if any item is surplus, obsolete, or unserviceable.
- ❖ Equipment that is permanently unserviceable or cannot be used safely or economically should be removed from use and stored securely.
- ❖ The survey should be carried out by a team consisting of the following; (a) A representative from the Agency's Administration/Finance department. (b) A representative from the donor (If required) The Stores Accountant or Stockholder. (d) A Senior Officer from any public or private institution with expertise in the items to be surveyed should be invited to serve as a technical person to the board.

The technical person should check the goods or equipment for serviceability and consider these reasons:

- ❖ Explain why any item is surplus, obsolete, or unserviceable and suggest how to dispose of it.
- ❖ Send the survey report to the organisation head or designated focal person
- ❖ After getting the survey report, the organisation head or designated focal person should tell the Procurement Unit/TST to dispose of or oversee the disposal of the equipment(s) or supplies as the survey team recommended.
- ❖ The Procurement unit should dispose of them in any of these ways; (a) Move to other government departments with or without payment as directed. (b) Negotiate a return price with a supplier. (c) Sell by Public tender (d) Sell by Public Auction (e) Disassemble and use as spares for other government properties. (f) Dump and destroy

## PHARMACEUTICAL, DIAGNOSTIC, AND OTHER MEDICAL PRODUCTS- QUALITY ASSURANCE - STANDARD OPERATING PROCEDURES

### Procedures for Selection

The purpose of these procedures is to ensure that the pharmaceutical, diagnostics, and other medical products PR chooses are in line with the national treatment guidelines. The Product Selection Committee, led by the Technical Deputy Executive Director, is responsible for following these procedures. The policy is that the products PR selects must meet the standards of recognized pharmacopeias.

The steps for selecting a product are:

**Objective:** To select or recommend the best supplier based on their ability and performance.

**Responsibility:** Technical Evaluation Committee or TST, with the technical guidance of the Pharmacist.

**Policy:** The selected or recommended supplier must comply with the PR standards for quality, price, and delivery.

Procedure:

- ❖ Solicit bids or request quotations from potential suppliers.
- ❖ Evaluate the suppliers based on the WHO certification scheme and the Pharmacy Board of Sierra Leone registration.
- ❖ Assess the suppliers' history and reputation on quality, price, and delivery time.
- ❖ Verify the suppliers' dependability and trustworthiness.
- ❖ Give priority to the generic products that follow the national treatment guidelines.

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## Procedures for Handling Goods Received including Shipment Inspection

### Objective

The objective of these procedures is to ensure that the pharmaceutical products received from the supplier(s) are handled according to correct procedures to avoid any errors.

### Responsibility

The Emergency Stores Manager are responsible for overseeing and implementing these procedures.

### Policy

All goods received must be checked for container integrity, as well as any form of spillage, contamination, etc. The Pharmacist and or Stores Manager must decide on the fate of the goods based on the inspection results.

### Procedures

- i. Identify the product that needs to be inspected.
- ii. Sort the product by batches and record their numbers.
- iii. Check the carton condition. Make sure they are in good shape, sturdy enough for rough handling, and have proper labels or markings.
- iv. Open the carton and check the inner packaging for the conditions of the boxes and primary containers.
- v. Check the label for the following information: product name, dosage form, strength, contents, batch number, expiry date, storage condition, and manufacturer's address. The label must have all these details.
- vi. Check the condition of the contents. Depending on the type of product, look for the following signs of quality issues:
- vii. For tablets: discoloration, chips, excess powders, and smell.
- viii. For fluids and liquids: discoloration, foreign particles, precipitation, and seal tightness.
- ix. For syrups: discoloration, smell, and foreign particles.
- x. For dry syrup and salts: caking.
- xi. Check for any special storage requirements and follow them accordingly.

## Medical and Diagnostic Equipment & Supplies Selection Process

**Objective:** To select medical and diagnostic equipment and supplies that match the MOHS list of essential items.

**Responsibility:** Procurement Specialist, Logistics Manager.

**Policy:** The products must meet international standards and be approved by the Internal Audit Specialist and TST.

### Process:

- ❖ Choose the product based on the recommended standards.
- ❖ Verify the technical specification, product stability, packaging specification, and storage requirements.
- ❖ Ensure the product has the right dimensions for specific needs, such as castor size, length, height, width, scissors size, forceps size, or mesh size.
- ❖ Pick a product with packaging that can handle rough transportation and high temperature and humidity.

## Procedure for Supplier Selection or Recommendation for Contract Award

### Objective

To ensure that only qualified and competent suppliers are selected or recommended for contract award.

### Responsibility

Procurement Specialist

### Policy

The recommended supplier must meet the following criteria:

- ❖ Comply with the PR requirements for quality, price and delivery.
- ❖ Fulfill the WHO certification scheme and have their product registered by the Pharmacy Board of Sierra Leone.
- ❖ Have a good reputation and track record on quality, price and delivery time.
- ❖ Be reliable and trustworthy.
- ❖ Provide batches that are suitable for the PR handling and storage.

### Procedure

- i. Solicit bids or request quotations from potential suppliers.
- ii. Evaluate the bids or quotations based on the criteria above.
- iii. Recommend the best supplier for contract award or selection.

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## Procedure for Handling Goods Received Including Shipment Inspection

### Objective

To ensure that the medical equipment and supplies received from the supplier(s) are handled properly and safely.

### Responsibility

Procurement Specialist and PR Technical Directorate

### Policy

- ❖ Goods received must be inspected for container integrity, spillage, contamination or any other damage. The QAM (Quality Assurance Management) must decide the fate of the damaged goods.
- ❖ Goods received must be handled with care and caution.
- ❖ Goods received must be relocated according to the appropriate storage and distribution plan.

### Procedure

- ❖ Identify the product to be inspected.
- ❖ Verify the documents accompanying the consignment, such as Delivery Note, Packing List, and Certificate of Analysis.
- ❖ Examine the carton condition and check for any signs of damage, tampering, labeling, or marking errors.
- ❖ Sort the consignment by batches and record the batch numbers and quantities.
- ❖ Open the carton and inspect the primary packaging. Check the condition, labeling, and description of the product, including the dosage form and strength.
- ❖ Verify the manufacturer's name and address on both the primary and secondary packaging of medical disposables. Also, look for the expiry dates, batch numbers, and any other distinctive signs.
- ❖ Examine the surgical instruments for any signs of damage or corrosion and check the markings that indicate the items and suppliers, such as logos or numbers.
- ❖ Ensure the equipment has serial numbers and operational manuals

## Diagnostic Supplies Selection Process

### Diagnostic Supplies Selection Process

#### Objective

The objective of this process is to ensure that the diagnostic supplies chosen are in line with the national standards and the quantification guidelines for Laboratory, Radiology, Dental, and Health care equipment and supplies.

#### Responsibility

The Procurement Specialist is responsible for this process.

#### Policy

The products selected should meet international quality standards and be approved by the PR representatives in charge of diagnostic supplies.

#### Procedure

- Follow the national requirements and the quantification manual to select the product.
- Verify the product description and specification.
- Examine the technical specification, product stability, packaging specification, and storage requirements of the product.
- Choose a product with packaging that can endure harsh transportation, high temperature, and high humidity.

## Procedures for Handling Goods Received including Shipment Inspection

**Objective:** The purpose of this policy is to ensure that the product meets the Technical specifications as defined in the manual of Diagnostic Supplies.

**Responsibility:** This policy applies to the Procurement Specialist and the PR Pharmacist, who are responsible for verifying and handling the product. Policy:

- The Procurement Specialist and the PR Pharmacist must inspect the goods received for any damage, leakage, contamination, or other defects. They must report any issues to the head of the organization through the technical officer and decide on the appropriate action to take.
- The Procurement Specialist and the PR Pharmacist must handle the goods received with care and follow the safety guidelines.
- The Procurement Specialist and the PR Pharmacist must relocate the goods received to the designated storage area in an orderly manner.

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### Procedures for inspecting products

- Identify the product type and name.
- Verify the documents that come with the consignment, such as a delivery note, packing list, and certificate of analysis (if applicable).
- Examine the carton condition. Look for any signs of damage, weakness, markings, or labels.
- Separate the consignment by batches or serial numbers (for equipment). Record the number and quantity of each batch.
- Open the carton and inspect the primary packaging. Check the quality of the packs, the labels and the product description.
- Confirm that the manufacturer's name and address are on the label. Check the batch numbers, expiry dates and storage requirements. Follow these guidelines for storage:
  - Store products below 30°C in the main warehouse.
  - Store products below 25°C or in a cool place in the chilled room.
  - Store products between 2°C and 8°C in the cold room.
- Check the condition of the products inside the packs. Look for any defects, damages, or discrepancies.

### Procedures for Sampling – All items

**Objective:** To verify the consistency of quantities supplied with the delivery note and packing list.

**Responsibility:** Procurement Specialist and PR Pharmacist

**Policy:** Sample all products to check the pack size, quantity, and quality of contents. Submit samples for internal or external analysis as needed.

Procedures for Distribution – Items not requiring cold chain

**Objective:** To record the batch numbers or serial numbers of instruments and equipment.

**Responsibility:** Warehouse staff and Logistics staff

**Policy:** Record the batch numbers or serial numbers of all products.

**Procedure:**

- Record the batch number or serial number of each product for each customer.
- Ensure the secondary packaging is adequate for handling.

### Procedures for Sampling – All items

**Objective:** To verify the consistency of quantities supplied with the delivery note and packing list.

**Responsibility:** Procurement Specialist and ART Pharmacist

**Policy:** Sample all products to check the pack size, quantity, and quality of contents. Submit samples for internal or external analysis as needed.

### Procedures for Distribution – Items not requiring cold chain

**Objective:** To record the batch numbers or serial numbers of instruments and equipment.

**Responsibility:** Warehouse staff and Logistics staff

**Policy:** Record the batch numbers or serial numbers of all products

**Procedure:**

- Record the batch number or serial number of each product for each customer.
- Ensure the secondary packaging is adequate for handling.

### Procedures for Distribution – Cold chain items

Cold Chain Items Distribution Procedures

**Objective:** To keep cold chain items within the appropriate temperature range during the entire distribution process.

**Responsibility:** Warehouse staff and Logistics staff

**Policy:** All products must have their batch numbers recorded and must stay in the cold chain until they reach the customer.

**Procedure:** Follow these steps:

- Record the batch number of the product for each customer
- Do not interrupt the cold chain
- Pack the products in cool boxes and add ice packs to keep the required temperature
- Use PR Cold Van or rent a cold van if needed to transport cold chain items to provincial, district and some peripheral levels

### How to Handle Products Returned to PR

**Objective:** To make sure that PR deals with returned products in the right way

**Responsibility:** Distribution staff and Logistics and PR Pharmacist:

❖ The Pharmacist and Store staff will check the returned products and decide what to do with them. The Procurement Specialist, Stores Manager, and Pharmacist will make the final decision for returns.

Products that are damaged, contaminated or not meeting the specifications can be sent back to the supplier(s). The Procurement Specialist, Stores Manager and Pharmacist will make the final decision for returns. Procedure:

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- ❖ The Stores Manager and Pharmacist will keep a record of the products returned to PR in a register.
  - ❖ The products will be stored in a marked location until their fate is decided.
  - ❖ The Stores Manager and Pharmacist will inspect the products before they are sent back to the supplier.
  - ❖ The reason for rejecting the products must be clear and confirmed by the Procurement Specialist.
  - ❖ If the decision is to destroy the products, this must follow the operating procedures for unserviceable products.
  - ❖ If the decision is to return the products to the supplier, the following steps must be taken: Issuing a Purchase return approved by the Stores Manager :
    - ✓ Getting a credit note from the supplier or any document that shows that the supplier received the returned products and signed it.
    - ✓ Keeping a record of the returns in a register with the details of the follow-up and the date of the replacement at reference GRN Informing the Procurement and Inventory Control of the details of the returned products.

### **Procedure**

- ❖ Keep a record of the goods that the PR sends back in a register, which the store manager and Pharmacist should maintain.
- ❖ Store the goods in a designated area until their final disposition is determined.
- ❖ The store manager and Pharmacist should examine the goods before they are shipped back to the supplier.
- ❖ The Procurement Specialist should confirm the reason for the refusal and state it clearly.
- ❖ If the goods are to be disposed of, the PR follows the operating procedures for unserviceable goods.
- ❖ If the goods are to be returned to the supplier, PR follows these steps:
  - ❖ Get the store manager's approval for the Purchase return
  - ❖ Get a credit note from the supplier or any document that shows they received the returned goods and signed it
  - ❖ Keep a record of the returns in a register with the details of the follow up and the date of the replacement at reference GRN
  - ❖ Inform Procurement and Inventory Control of the details of the returned goods.

### **Procedures for Handling Unserviceable Goods**

**Objective:** To make sure that we handle goods that are not usable in the right way

**Responsibility:** Staff who work in distribution, dispatch, PR pharmacy and other areas

**Policy:**

- We must take out goods that are expired or damaged from the stocks that we can sell and put them in a different place. We must handle all goods as explained in step 5 below.
- We must record these details for each good: item number, description, batch number, quantity, unit cost, value and why it is not usable

**Procedures:**

- Every month, the Stores Accountant finds out which goods are expiring and makes a list of goods that are not usable
- The Pharmacist and the Logistics Coordinator check the goods in person
- They both agree to move the goods that are not usable to a separate place permanently
- The Stores Accountant is in charge of the goods that are not usable until we destroy them
- Goods that are expired from other regions or districts must be sent back to the PR and stored for the Pharmacist and the Pharmacy Board to check. They must have signed lists of goods that are not usable with them
- The Pharmacist will make the information as the Government Financial Regulations need and send it to the ED every three months
- The Executive Director will give approval to destroy the goods
- When the approval is given the goods are destroyed.

### **Procedures for Medicines Recall**

**Objective:** This procedure aims to ensure that any unwanted medicines are removed from the stores / market quickly and safely and that the Pharmacy Board of Sierra Leone and PR are notified of the recall.

**Responsibility:** The Pharmacist is in charge of this procedure and works with the Pharmacy Board and other relevant parties to carry out the recall.

**Policy:** The Pharmacy Board is responsible for overseeing the recall process and verifying that the recalled products are no longer distributed. The Pharmacist makes the final decision on whether to recall a medicine, based on the advice of the Pharmacy Board. A medicine recall is necessary when any of these situations occur:

- A batch of medicine causes an adverse drug reaction in a patient
- A medicine shows signs of deterioration or instability during testing
- A medicine has defects in labeling, packaging, or quality
- The Pharmacy Board or PR orders the withdrawal of a medicine

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**Procedures:**

- ❖ The Pharmacist receives and records all complaints about medicines.
- ❖ The Pharmacist evaluates the complaints and consults with the Pharmacy Board and other experts to determine if a recall is needed.
- ❖ The Pharmacist collects the following information about the medicine to be recalled: name, manufacturer or supplier, strength, pack size, batch or lot number, and any other identifiers.
- ❖ The Pharmacist informs the Pharmacy Board and the PR of the recall and the reasons for it.
- ❖ The Pharmacist follows the instructions of the Pharmacy Board and the PR on how to notify the customers, distributors, and healthcare providers of the recall and how to return or dispose of the recalled products.
- ❖ The Pharmacist writes a report on the recall and sends it to the Pharmacy Board and the PR.
- ❖ The Pharmacist keeps track of the batch numbers of all medicines distributed and invoices them accordingly to enable traceability in case of a recall

**PROJECT MONITORING, EVALUATION & LEARNING****Introduction**

Monitoring Evaluation and Learning (MEAL) stands for monitoring, evaluation, and learning. It involves collecting and analyzing data to check if the projects are meeting their goals, finding gaps, and suggesting improvements. The MEAL system supports continuous learning and feedback during all phases of the projects. The MEAL unit at the PR works to enhance the quality and accuracy of monitoring, evaluation, and reporting for donor funded projects. The unit collaborates with Directors / Programme Managers and Implementing Partners to achieve the M&E outcomes agreed with the donors and to use the lessons learned from the projects to guide future planning. The unit tracks, measures, and reviews the progress and performance of the projects, and promotes feedback and learning among the stakeholders. The unit also helps all sub-recipients / CBO's to set and follow a common set of standards and targets for their projects, using tools like checklists or performance tracking tables.

Before receiving funds, PR and its sub-recipients or third parties must obtain ethical approval for any research involving human subjects. They must also submit a research protocol that explains the rationale, objectives, design, methods, organization, management, quality assurance, safety, analysis, reporting, dissemination, and potential challenges of the project. The Institutional Review Board clearance certificate should be attached to the protocol. A steering committee of key stakeholders should oversee each research or evaluation project carried out by an Implementing Partner/Sub-Recipient with Consultant(s). The committee should meet regularly to review the terms of reference, inception report, fieldwork, and final report of the project, and to provide feedback to the evaluator or researcher. This will foster ownership and learning. For every survey research done by the PR or a sub-recipient, data quality should be ensured by conducting back checks of data collection. This means that independent data collectors, who were not part of the original data collection team, should use a shorter version of the questionnaire to revisit 10% of the households that were surveyed. The questions in the shorter version should be those that are unlikely to change over time.

For each training workshop, seminar, or retreat, the organizer should prepare and provide a training manual or workshop materials. These can be PowerPoint presentations, word documents, or other teaching aids. The organizer should also submit the training or workshop materials and a report to the Finance unit for funding approval, with a copy to the MEAL Unit. The report should include the contact details (e.g. mobile phone numbers and email addresses) of the participants, who will be audited periodically. For each training program, the organizer should conduct a reaction or learning evaluation to get feedback from the trainer and the participants on the training's design, relevance, delivery, timing, and organization, or to measure the participants' skill improvement before and after the training. The learning evaluation can be done before, or sometime after the training, depending on when the participants can apply the skills learned.

All implementing partners and sub-receipts funded by the PR will have joint program reviews at least twice a year to assess program performance, exchange information, get feedback and promote continuous improvement. Data collection for periodic grant reporting will be done through basic routine monitoring and evaluation of program implementation. This can be done either jointly by the MEAL unit and programs or separately to monitor and track program activities. A checklist plan or protocol that specifies the issues to be monitored must guide monitoring and supervision visits, whether done jointly or separately. A mentoring plan that explains how the expected training need identified will be addressed must accompany every supportive supervision visit, in addition to the monitoring checklist. The monitoring or supervision report must be written and must contain contact details of people monitored or supervised during the visit. The report must not only describe the problems or issues identified but also the actions taken, the recommended follow-up actions, the person in charge, and the suitable timelines. The report must be sent to the Finance unit and a copy to the MEAL unit as part of the funds' liquidation process.

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The MEAL unit will do the following things to improve accountability and learning:

- ❖ Regularly check how the beneficiaries feel about the program, and how well the activities meet the minimum standards, and share the results with the people involved and the programs.
- ❖ When needed, evaluate how the program is doing or what impact it has.
- ❖ Every six months, review the data quality of each sub-recipient's data system and compare it with the indicators for the work plan and the donors.

### **Results Framework and Monitoring Arrangements**

Each project has a Results Framework that guides its M & E. This framework defines the indicators to track, their initial and desired values, how often to monitor them, and what data to use and how to collect it.

## **ADMINISTRATIVE PROCEDURES**

### **Introduction**

All employment/consultancy conditions and terms are in the PR staff/consultant Consulting Agreement/Appointment Letter. The Board Chairman or authorized personnel must sign a formal and written contract for services/employment for every staff member/consultant.

### **Terms of Reference and Scope of Service/ Job Descriptions**

All hired consultants, contract staff, and employees will get a copy of their Job Description, Terms of Reference, and Scope of Services for their role. They must read and sign their Job Description, Terms of Reference, and Scope of Services, and follow the terms agreed upon in their consultancy agreements or employment offer when providing their professional services.

### **Remuneration/Contract Ceiling**

The appointment letter specifies the full compensation for each consultant, contractor, and employee. Staff members are entitled to benefits or payments beyond the agreed amount, if necessary, from the PR.

### **Payment of Salary/Remuneration**

Remuneration is paid for services rendered in United States Dollars or its equivalent in Leones every month not later than one week by direct debit into staff members/consultants' bank accounts. Every consultant/staff of the PR is, therefore, requested to open a bank account. Timesheets shall be submitted one week in advance in the case of consultants to ensure timely payment. All employees/consultants shall receive remuneration advice each month at the time of payment showing the pay and deductions details for that month. Remuneration payments in cash are not permitted under the PR financial and administrative procedures.

### **Immediate Supervisor**

A direct supervisor will be assigned to every PR staff member/consultant. The individual agreement/contract of employment specifies the name of the immediate supervisor for each employee/consultant. The immediate supervisor has the duty of carrying out the appraisal process with the staff members/consultants under their supervision.

## **WORKING HOURS**

The suggested normal workdays are Monday to Friday, from 8:00 a.m. to 5:00 p.m. A one-hour lunch break is allowed for consultants and staff. In case of emergencies, staff members may have to work extra hours with special arrangements.

### **Annual Leave**

Non-civil servants can take 2 days of annual leave for each month they work fully. They should use their leave during their contract and only save it for later with their supervisor's permission. The number of leave days for each consultant/staff/employee is stated in their agreement or letter. In the case of civil servants, the terms and conditions for leave apply.

### **SICK LEAVE**

Every month, each Consultant/Staff earns up to 0.5 days of sick leave. If they are too ill to work, they have to inform their immediate supervisor about their condition. They will still get their full salary if they miss work because of sickness. The length of time they can get paid while absent depends on their contract.

### **Family Responsibility Leave**

Employee /Consultant/Staff may take time off for important personal matters (such as funerals, weddings, or urgent legal issues). Employees/Consultants/Staff can apply for casual leave through the head of the organization. However, this will reduce the yearly leave allowance.

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## **Public Holidays**

The Sierra Leonean Government Public Holidays apply to all consultants and employees.

## **Resignation and Termination**

A written notice of fifteen (15) working days is mandatory for a consultant/employee who wants to quit or end their contract. The PR reserves the right to terminate a contract/employment with a similar notice if the contract terms are violated.

## **Maternity Leave**

An expectant mother who is a PR employee is entitled to unlimited visits to her prenatal care provider. She can also enjoy a three-month maternity leave regardless of her length of service. A new father can also take a two-week paternity leave to care for the newborn

## **Study Leave**

The head of the institution will discuss and approve the study that staff members want to pursue on study leave. Staff members on study leave must work for the project for at least two years before they can resign from the PR. The approval of the study will depend on how it can enhance the staff member's contribution to the PR goal.

## **Time Sheets**

A monthly Time Sheet is mandatory for all Consultants to report the distribution of their working hours among various PR project activities.

## **Use of Office Equipment/facilities**

The PR' assets are for official purposes only and consultants/employees must use them with care and responsibility.

## **Vehicle Usage**

The vehicles of the PR are for official use only, unless the head of the head of the organization permits an individual officer to use them for personal reasons. The head of the organization will allocate vehicles and drivers assigned to them. The logbook will keep track of any personal use of the assigned vehicles.

For each vehicle, a logbook must be maintained to document every trip with the following information:

- When the vehicle was used (date and time)
- Where the journey began and ended
- The kilometre reading at the start and finish of the trip
- The total distance covered in KM
- The mileage when the vehicle was refueled

## **Overtime**

Consultants/employees will not receive overtime pay from the PR. They should try to complete their work within the regular hours or do it at home. If they have to work extra hours, they need the head of the organization permission before and after the overtime. They also need to submit the approved leave request to their personnel file with other documents.

## **Medical and Insurance**

Staff members are responsible for their own medical and health insurance expenses. PR may not cover them. The PR consultants/employees should arrange their own insurance plans for health care and other needs. The yearly salary that the employees receive includes all other benefits.

## **General Conduct**

As consultants/employees of the PR, you must always do your work as instructed, diligently and professionally. If you fail to do so, you may face disciplinary action or dismissal. The PR considers the following actions as serious offences:

- Stealing or having any property that belongs to the PR or any employee without permission.
- Lying on reports, accounts, expense claims or self-certification forms.
- Bringing illegal drugs to the office.
- Harassing another employee based on their sex, race or any other factor.
- Being extremely careless or incompetent.
- Not keeping time or taking time off without approval. These are examples of misconduct.

## **Recruitment and Selection**

The PR should aim to hire the most competent and qualified staff/consultant who can contribute to its goals. The PR should target or headhunt experience and efficient staff to work effectively with donors and government in its context. To achieve

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this, the PR should :

- Follow the Government of Sierra Leone and donor rules on recruitment and selection.
- Respect the rights of all candidates and not discriminate against anyone based on age, gender, ethnicity, beliefs or disability.
- Ensure that the recruitment, selection, and hiring processes are: (a) fair, open, and transparent. (b) competitive (c) respectful and dignified for all involved (d) confidential and secure for personal information (e) systematic and consistent (f) well-documented and compliant with donor and legal requirements
- Use the procurement procedures in the manual for hiring international consultants.
- Use effective sourcing methods to find qualified candidates proactively.

### **Performance Appraisal and Deliverables**

The PR achievement of vision, mission, and strategy depends on the performance of each staff member. Performance management helps each person to enhance and expand their role with their supervisor(s)' guidance. The PR should value the recognition of staff /consultants' achievements and the assistance of those who need to improve.

The Terms of Reference in the Consulting Agreement define the services that each Consultant/Contract staff must perform. The consultant's immediate supervisor will conduct quarterly and annual assessments, with the second level supervisor giving additional feedback. The contract may be renewed based on the performance of the assignment and the availability of funding. This will follow a documented performance management process that will include:

- ❖ The PR will make sure that all employees (including consultants) who are hired and paid with donor money have clear and updated performance goals/outcomes set and recorded in a deliverables agreement template every year or more often.
- ❖ All employees (including consultants) who are hired and paid with donor money will be involved and cooperate in setting their performance goals/outcomes.
- ❖ All senior employees (including consultants) who are hired and paid with donor money will provide progress reports every three months that show how well they met their agreed goals/outcomes to justify their work.

Feedback and Review of Performance/Deliverables

- ❖ and Heads of Programmes must make sure that every staff/consultant gets quarterly feedback on their performance/deliverables from their supervisor(s), based on a comprehensive evaluation from colleagues, external partners, etc.
- ❖ Supervisors must deal with poor performance as soon as possible, must tell staff what they need to improve on, and must offer necessary assistance for improvement.
- ❖ Supervisors must use the feedback on performance/deliverables to talk about the performance and behavior of staff/consultants in relation to the role expectations.

### **Matrix Working Relationships**

When different managers or supervisors share responsibility for an employee's performance, they should work together and communicate well to manage the employee. This is called a matrix working relationship.

### **Procedures for the management of Grants**

As the fund manager for the GoSL and the donors, PR is responsible for reporting to them. The PR tasks include drafting and finalizing grant documents, signing all Grant Agreements, and receiving funds from GoSL and donor disbursements.

The NPA handles all the contracts of Grant Agreements with GoSL, donors, or development partners. It also works with other partners such as sub-recipients /CBOs and other partners who implement the PRs' activities. The PR oversees these partners/sub-recipients by evaluating, selecting, and signing agreements with them, setting implementation rules (partner/SR Management manual), and monitoring, verifying, and sanctioning them as needed.

The selection process of the Implementing Partners/SRs must be transparent and documented, and the PR submits a proposal of them to the relevant donors. The selection also adheres to the specific requirements of each donor for choosing implementing partners/sub-recipients.

The PR must assess the ability of the IPs/SRs to carry out planned activities and to determine the requirements for their capacity development. The PR is fully accountable for the contract with all donors. The contract with the IPs/SRs does not imply a shift of responsibility. The contract with the IPs/SRs must have the same conditions as the contract with the corresponding donor. Hence:

- ❖ IPs/SRs have the same duties to the PR as the PR has to the donors
- ❖ IPs/SRs must be aware of the legal framework
- ❖ The PR must have the legal means to safeguard itself

Before entering into a contract with an IP/SR, the PR should evaluate:

- ❖ How well the IP/SR has managed and delivered other donors' funds in the past – both in terms of financial and programmatic outcomes and reporting. What kind of reports/assessments/audits have been done for the IP/SR's previous activities?

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What were the results?

- ❖ Whether the IP/SR has the skills and competencies that match the donor's core functional areas.
- ❖ Whether the IP/SR's proposal/work plan aligns with the proposal and/or the approved work plan/budget. Whether the IP/SR has the ability and resources to implement its proposed plan.

Once the contract with IP/SR is signed, the PR has to:

- Ensure that all IP/SR activities are well-coordinated and coherent, and avoid any overlap or duplication of efforts.
- Evaluate the capacity of IP/SR on an ongoing basis and provide appropriate guidance and support as needed.
- Keep track of and monitor the programmatic and financial aspects of IP/SR activities.
- Examine and analyze the budget and line items throughout the grant period.
- Provide the formats for programmatic and financial reporting and train IP/SR on how to use them.
- Implement corrective measures or sanctions in case of IP/SR mismanagement.
- Maintain regular communication with IP/SR on any issues that may impact the grant implementation.
- Follow up on the recommendations from previous audits.

As per Donor Grant Agreements, IPs/SRs may be required to provide the PR with a report on their programmatic and financial activities.

- ❖ The PR may request more regular reporting in some situations.
- ❖ The PR will check the quality of the programmatic data.
- ❖ All invoices and related documents must be archived correctly.
- ❖ IPs/SRs have to report.

### Programmatic Reporting and Financial Reports

#### **a. Data Quality:**

- ❖ The data collection process, which is part of the MEAL plan, should be agreed upon by the PR and IPs/SRs and specified in the IP/SR contract.
- ❖ The PR is responsible for checking the data quality and writing down any significant feedback.
- ❖ The contract may be cancelled if the problems are not resolved.

#### **b. Timeliness of the reporting:**

Reporting late may have adverse effects on the grant implementation. It is preferable to submit reports with incomplete data on time rather than postponing the reporting process.

#### **c. Financial Reporting:**

- ❖ The documents submitted by the IPs/SRs should be eligible; and all ineligible expenses should be refunded to the PR designated account.
- ❖ IPs/SRs should follow clear procedures and provide evidence of these procedures (procurement, contracting).
- ❖ The contract with IPs/SRs should state that IPs/SRs will cover the costs of ineligible expenditures.
- ❖ Every expenditure should be justified.
- ❖ Workshops, training, and per diems should be given extra attention.

### **Disbursements**

The IPs/SRs will sign a contract that specifies that they will only receive new disbursements after they have used up and reported on at least 75% of the previous advance. The Agreement may also include other criteria for disbursements, such as Performance Based Funding (PBF), which links disbursements to performance. The PR will adhere to this contract and also comply with any disbursement criteria set by the donors if necessary.

### **AUDITS AND ASSET MANAGEMENT**

The IPs/SRs are subject to annual audits by the PR, and the PR is responsible for monitoring the audit results. The IPs/SRs do not own the assets that they use for any Grant project. The assets belong to the donors after the grant period is over. The assets must have clear labels for identification. The IPs/SRs must obtain written permission before relocating any asset, and they must ensure that every asset is covered by insurance.

### **Conflict of Interest**

No employee or consultant of the PR may:

- Be involved in choosing, awarding or managing any contract, grant or other benefit or transaction that is funded by any Grant, if they or their close relatives, business partners, or organizations that they control or have a significant stake in, stand to gain financially from it;
- Deal with organizations or entities that they are seeking or have agreed to work for in the future;

- 
- Offer, give or receive, directly or indirectly, any bribes, favors, gifts or anything else of value to sway the decision of anyone involved in the procurement process or contract execution;
  - Lie about or hide facts to influence the procurement process or the execution of a contract;
  - Collude with two or more bidders, with or without the knowledge of the Principal Recipient or sub-recipient, to fix bid prices at artificial, non-competitive levels; or
  - Engage in any other practices that are or could be seen as illegal or corrupt in the country.

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## Chapter 15 International Financial Reporting Standards, International Public Sector Accounting Standards, and Identification – Preparation – Appraisal – Selection – Supervision

Chapter 15 examines the accounting standards applicable to the management of public funds and donor grants. It serves as a guide to selecting appropriate standards for both government and donor-funded resources, while recognizing that their application must be aligned with the specific legal and regulatory frameworks of each country.

### 1. International Financial Reporting Standards

IFRS are global accounting standards developed by the International Accounting Standards Board for private sector entities.

Use in the Public Sector

Although IFRS is not designed for governments, it is used in:

- State-Owned Enterprises (SOEs)
- Government-owned corporations (e.g., utilities, banks)
- Public-private partnerships

#### Types / Key IFRS Standards (Examples)

- **IFRS 9** – Financial Instruments
- **IFRS 15** – Revenue from Contracts with Customers
- **IFRS 16** – Leases
- **IAS 1** – Presentation of Financial Statements

#### Key Features

- Focus on profit, financial position, and investor information
- Accrual-based accounting
- Emphasis on fair value and market-based measurement

#### Limitations for Public Sector

- Not designed for non-profit objectives
- Does not capture service delivery outcomes
- Limited relevance for taxation and transfers

### 2. IPSAS (International Public Sector Accounting Standards)

IPSAS are developed by the International Public Sector Accounting Standards Board specifically for governments and public sector entities.

Purpose

- Improve transparency and accountability
- Standardize government financial reporting
- Support better public financial management (PFM)

#### Types of IPSAS Accounting

##### A. Cash Basis IPSAS

###### Description

- Records transactions only when cash is received or paid

###### Key Features

- Simple and easy to implement
- Focus on cash flows and budget execution

###### Use

- Common in developing countries transitioning to stronger systems
- Often used as a starting point for reforms

###### Limitations

- Does not show liabilities (e.g., debt, arrears)
- Limited picture of financial position

##### B. Accrual Basis IPSAS

###### Description

- Records transactions when they occur, not when cash moves

###### Key Features

- Recognizes:
  - Assets (infrastructure, equipment)

- Liabilities (debt, pensions)
- Revenues and expenses

### Examples of IPSAS Standards

- IPSAS 1 – Presentation of Financial Statements
- IPSAS 17 – Property, Plant and Equipment
- IPSAS 23 – Revenue from Non-Exchange Transactions (e.g., taxes, grants)

### Advantages

- Provides a complete financial picture
- Supports long-term fiscal sustainability analysis
- Enhances accountability

### Challenges

- Complex and costly to implement
- Requires strong systems and skilled personnel

### 3. Modified Approaches (Hybrid Systems)

Many countries use transitional systems between cash and accrual:

#### Modified Cash Basis

- Primarily cash-based but includes some additional disclosures (e.g., arrears)
- Recognizes some assets/liabilities but not all

These are often used during IPSAS adoption reforms.

### Key Differences: IFRS vs IPSAS

Aspect	IFRS	IPSAS
Primary users	Investors, shareholders	Citizens, parliament, donors
Objective	Profit & financial performance	Accountability & service delivery
Sector	Private sector	Public sector
Revenue focus	Exchange transactions	Exchange + non-exchange (taxes, grants)
Basis	Accrual	Cash or accrual
Standards body	IASB	IPSASB

**International Public Sector Accounting Standards Board.** The IPSASB develops the International Public Sector Accounting Standards (IPSAS). It focuses on accounting standards for governments and public sector entities. It operates under the International Federation of Accountants.

**International Accounting Standards Board.** The IASB develops the International Financial Reporting Standards (IFRS). It focuses on accounting standards for private sector and corporate entities. It is part of the IFRS Foundation.

Difference between IPSASB and IASB. The IPSAS focus on the public sector (governments) whilst the IASB focus on the private sector (companies)

### Application in Public Sector Context in Sierra Leone

In Sierra Leone the central government is using IPSAS cash basis and moving toward IPSAS modified accrual basis. The State-Owned Enterprises often use IFRS and the Donor funded projects may require IPSAS-aligned reporting

### Why IPSAS is Preferred in the Public Sector

- Captures tax revenues and donor grants
  - Reflects public service obligations
  - Supports fiscal discipline and transparency
- Aligns with international best practices promoted by donors like the World Bank and International Monetary Fund

**IFRS** is primarily used in commercial public entities (SOEs).

**IPSAS** is the main public sector accounting framework, with:

- Cash basis (simpler, short-term focus)
- Accrual basis (comprehensive, long-term focus)

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Most governments are gradually transitioning from cash-based IPSAS to accrual IPSAS to improve transparency, accountability, and financial decision-making.

IPASS is a widely used framework that brings discipline, transparency, and accountability to donor-funded grant management. By guiding projects from identification through supervision, it helps ensure that resources are allocated effectively and achieve intended development outcomes. However, its effectiveness depends on balancing rigor with flexibility to avoid excessive administrative burden. The abbreviation IPASS most commonly stands for: **Identification – Preparation – Appraisal – Selection – Supervision**

In institutions like the World Bank, European Union, and United Nations, the IPASS framework is effectively embedded within formal operational systems. It ensures that grant funding moves systematically from strategic identification to accountable implementation, balancing development impact with strong fiduciary and risk controls.

In Sierra Leone, IPASS is effectively embedded within the broader Public Financial Management system, guiding how public funds and donor resources are identified, planned, approved, and monitored. While reforms have strengthened fiscal discipline and transparency, ongoing improvements in capacity, coordination, and evaluation are critical to maximizing development impact.

#### **Meaning of Each Term**

- **Identification** – Recognizing and defining a project or funding need
- **Preparation** – Developing detailed plans, budgets, and proposals
- **Appraisal** – Evaluating feasibility, risks, and expected impact
- **Selection** – Approving and choosing projects for funding
- **Supervision** – Monitoring implementation and ensuring accountability

### **4. Introduction to Foreign Exchange Accounting**

Foreign exchange differences arise when an entity conducts transactions in a currency other than its functional currency (the currency of the primary economic environment in which it operates).

Exchange differences occur due to:

- Changes in exchange rates over time
- Differences between transaction date and settlement/reporting date

## **2. Key Definitions**

### **Functional Currency**

- The main currency in which an entity operates (e.g., Leone in Sierra Leone).

### **Foreign Currency**

- Any currency other than the functional currency.

### **Monetary Items**

- Assets/liabilities to be received or paid in fixed amounts:
  - ✓ Cash
  - ✓ Receivables
  - ✓ Payables
  - ✓ Loans

### **Non-Monetary Items**

- Items not fixed in monetary terms:
  - ✓ Inventory
  - ✓ Property, plant, and equipment
  - ✓ Intangible assets

## **3. Accounting Treatment of Foreign Currency Transactions**

### **A. Initial Recognition**

At the date of transaction:

- Record using the spot exchange rate on that date

#### **Journal Entry Example:**

- Dr Inventory
- Cr Accounts Payable  
(converted at transaction date rate)

### **B. Subsequent Measurement**

#### **1. Monetary Items**

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At reporting date:

- Re-translate using the closing exchange rate

**Exchange Difference:**

Difference between previous carrying amount and new translated amount

Recognized in the Profit or Loss under IFRS and Surplus or Deficit in case of IPSAS

**2. Non-Monetary Items**

**i. Historical Cost**

- Not retranslated
- Remain at original exchange rate

**ii. Fair Value**

- Translated at rate when fair value is determined
- Exchange differences follow the same treatment as the fair value change:
  - ✓ Profit or loss OR
  - ✓ Other comprehensive income (OCI)

**4. Settlement of Foreign Currency Transactions**

When payment is made or received:

Compare amount recorded initially and amount actually settled. The difference is a realized exchange gain or loss

**Journal Entry Example**

- Dr Accounts Payable
- Cr Cash
- Cr/Dr Exchange Gain or Loss

**5. Types of Exchange Differences**

**(a) Realized Gains/Losses**

- Occur when a transaction is settled
- Recognized in profit or loss

**(b) Unrealized Gains/Losses**

- Arise from revaluation at reporting date
- Also recognized in profit or loss

**6. Translation of Foreign Operations (Consolidation)**

When a parent company consolidates a foreign subsidiary:

**Assets & Liabilities**

- Translated at closing rate

**Income & Expenses**

- Translated at average rate

**Exchange Differences**

Recognized in:

- Other Comprehensive Income (OCI)
- Accumulated in equity as Foreign Currency Translation Reserve

It not recognized in profit or loss until disposal of the foreign operation

**7. Special Considerations**

**(a). Net Investment in Foreign Operation**

- Exchange differences recorded in OCI
- Reclassified to profit/loss on disposal

**(b). Hyperinflationary Economies**

- Adjustments required under IAS 29 before translation

**(c). Hedging (Advanced)**

Covered under IFRS 9

- Gains/losses may be deferred depending on hedge type

**8. IPSAS Perspective (Public Sector)**

Under IPSAS 4:

**Same principles as IAS 21**

- Terminology differs:
  - Profit → Surplus
  - Loss → Deficit

**Public Sector Relevance**

Common for:

- Donor-funded projects
- External loans

▪ Grants in foreign currency

In countries like Sierra Leone, exchange rate fluctuations significantly affect:

- Government debt
- Budget execution
- Project costs

## 9. Presentation in Financial Statements

### Statement of Financial Performance

Exchange gains/losses included in: Finance costs or other income

### Statement of Financial Position

Monetary items shown at closing rate

### Equity Section

Translation reserves (for foreign operations)

## 10. Disclosure Requirements

Entities must disclose:

- Exchange differences recognized in profit/loss
- Exchange differences in OCI
- Reconciliation of foreign currency reserves
- Functional currency used

## 11. Practical Example

### Scenario:

- Purchase goods: \$1,000
- Transaction rate: 1 USD = Le 20 → Le 20,000
- Year-end rate: 1 USD = Le 22 → Le 22,000

### Result:

Increase in liability = Le 2,000

Recognize:

Exchange loss = Le 2,000 (profit or loss)

## 12. Key Principles Summary

- Use transaction date rate for initial recognition
- Revalue monetary items at closing rate
- Recognize most exchange differences in profit or loss
- Use OCI only for foreign operations and specific cases
- Distinguish between monetary vs non-monetary items

Foreign exchange accounting under IAS 21 and IPSAS 4 ensures that financial statements reflect the true economic impact of currency fluctuations. Proper treatment of FX gains and losses is essential for:

- Accurate financial reporting
- Transparent public sector accountability
- Sound financial decision-making

## List Of Annexes

### Annex 1: General Ledger Codes

This constitutes a provisional code for the General Ledger. It is subject to modification upon the acquisition and implementation of a consensual Accounting System.

GL Account	GL	Description
11 1		FUNDS & RESERVES
110000 1		DONOR FUNDS
1100000	1	DONOR DCA FUND
111000 1		GOSL LOCAL FUNDS
1100010	1	GOSL LOCAL FUNDS
19 1		CAPITALISATION A/C
19000 1		CAPITALISATION A/C
19000000 1		CAPITALISATION A/C
21 2		FIXED ASSETS
2102 2		GOODS

21021	2	GOODS COMPONENT A
2102110	2	VEHICLES COMPONENT A - FOREIGN
2102111	2	VEHICLES COMPONENT A - LOCAL
2102120	2	OFFICE EQUIPMENT COMPONENT A – FOREIGN
2102121	2	OFFICE EQUIPMENT COMPONENT A – LOCAL
2102130	2	OFFICE FURNITURE COMPONENT A – FOREIGN
2102131	2	OFFICE FURNITURE COMPONENT A – LOCAL
2102140	2	IEC/BCC AND LIBRARY MATERIALS – FOREIGN
2102141	2	IEC/BCC AND LIBRARY MATERIALS – LOCAL
2102150	2	OTHER ITEMS– FOREIGN
2102151	2	OTHER ITEMS – LOCAL
21022	2	GOODS COMPONENT B
2102240	2	IEC/BCC AND LIBRARY MATERIALS – FOREIGN
2102241	2	IEC/BCC AND LIBRARY MATERIALS – LOCAL
2102250	2	OTHER ITEMS– FOREIGN
2102251	2	OTHER ITEMS – LOCAL
2102260	2	
2102261	2	
21023	2	GOODS COMPONENT C
2102340	2	IEC/BCC AND LIBRARY MATERIALS – FOREIGN
2102341	2	IEC/BCC AND LIBRARY MATERIALS – LOCAL
2102350	2	OTHER ITEMS– FOREIGN
2102351	2	OTHER ITEMS – LOCAL
2102360	2	
2102361	2	
2102370	2	MEDICAL EQUIP/DRUGS/KITS – FOREIGN
2102371	2	MEDICAL EQUIP/DRUGS/KITS – LOCAL
21024	2	GOODS COMPONENT D
2102440	2	IEC/BCC AND LIBRARY MATERIALS – FOREIGN
2102441	2	IEC/BCC AND LIBRARY MATERIALS – LOCAL
2102450	2	OTHER ITEMS– FOREIGN
2102451	2	OTHER ITEMS – LOCAL
2102470	2	MEDICAL EQUIP/DRUGS/KITS – FOREIGN
2102471	2	MEDICAL EQUIP/DRUGS/KITS – LOCAL
31	3	STOCKS
31100	3	STOCKS
3110000	3	STOCK
41	4	DEBTORS
41100	4	DEBTORS
4110000	4	SUNDRY DEBTORS
42	4	CREDITORS
42100	4	CREDITORS
4210000	4	SUNDRY CREDITORS
51	5	CASH
5100	5	PETTY CASH ACCOUNTS
5100100	5	PETTY CASH – MAIN PROJECT ACCOUNT
5100100	5	PETTY CASH - MOHS
52	5	BANK
5210	5	GOSL LOCAL BANK A/CS
5210100	5	GOSL LOCAL PROJECT A/C - MAIN PROJECT
5210200	5	GOSL LOCAL PROJECT A/C – MOHS
5200	5	DONOR SPECIAL A/CS
5200100	5	DONOR SPECIAL A/C – MAIN PROJECT
5200200	5	DONOR SPECIAL A/C - MOHS
61	6	DEVELOPMENT COSTS
61031	6	CONSULTANTS, AUDIT & TRAINING – COMPONENT A
6103110	6	CONSULTANTS SERVICES - FOREIGN
6103111	6	CONSULTANTS SERVICES – LOCAL
6103120	6	AUDITS – FOREIGN

6103121	6	AUDITS – LOCAL
6103130	6	TRAINING/WORKSHOPS/SEMINARS – FOREIGN
6103131	6	TRAINING/WORKSHOPS/SEMINARS – LOCAL
61032	6	CONSULTANTS', AUDIT & TRAINING –
6103210	6	CONSULTANTS SERVICES - FOREIGN
6103211	6	CONSULTANTS SERVICES – LOCAL
6103230	6	TRAINING/WSHOPS/SEMINARS – FOREIGN
6103231	6	TRAINING/WSHOPS/SEMINARS – LOCAL
61033	6	CONSULTANTS', AUDIT & TRAINING
6103310	6	CONSULTANTS SERVICES - FOREIGN
6103311	6	CONSULTANTS SERVICES – LOCAL
6103330	6	TRAINING/WORKSHOPS/SEMINARS – FOREIGN
6103331	6	TRAINING/WORKSHOPS/SEMINARS – LOCAL
61034	6	CONSULTANTS', AUDIT & TRAINING
6103410	6	CONSULTANTS SERVICES - FOREIGN
6103411	6	CONSULTANTS SERVICES – LOCAL
6103420	6	AUDITS – FOREIGN
6103421	6	AUDITS – LOCAL
6103430	6	TRAINING/WORKSHOPS/SEMINARS – FOREIGN
6103431	6	TRAINING/WORKSHOPS/SEMINARS – LOCAL
61044	6	GRANTS
6104400	6	GRANTS –
6106	6	PROJECT PREPARATION ADVANCE
6106000	6	PROJECT PREPARATORY ADVANCE
6107	6	UNALLOCATED EXPENDITURE
6107000	6	UNALLOCATED EXPENDITURE
62	6	RECURRENT COSTS
62051	6	OPERATING COSTS COMPONENT A
6205101	6	PERSONNEL COSTS
6205102	6	MAINTENANCE OF VEHICLES
6205103	6	MAINTENANCE OF EQUIPMENT
6205104	6	FUEL
6205105	6	OFFICE SUPPLIES
6205106	6	UTILITIES
6205107	6	TRAVEL PER DIEMS & ALLOWANCES
6205108	6	TRAVEL & ACCOMMODATION
6205109	6	OFFICE RENTAL
62053	6	OPERATING COSTS COMPONENT C
6205301	6	PERSONNEL COSTS
6205302	6	MAINTENANCE OF VEHICLES
6205303	6	MAINTENANCE OF EQUIPMENT
6205304	6	FUEL
6205305	6	OFFICE SUPPLIES
6205306	6	UTILITIES
6205307	6	TRAVEL PER DIEMS & ALLOWANCES
6205308	6	TRAVEL & ACCOMMODATION
6205309	6	OFFICE RENTAL
71	7	INCOME
7100000	7	MISCELLANEOUS INCOME

## Annex 2: Coding Convention - General Ledger Accounts

The General Ledger Account Codes consist of 5 segments as follows:

Segment Names	Segment Type	Segment Length	Total Length
Account Type	Numeric	1	1
Account Group	Numeric	1	2
Account Category	Numeric	2	4
Account Component	Numeric	1	5
Account Item	Numeric	2	7



- a) Financial Audits: SAIs perform financial audits to assess the reliability and accuracy of public entities' financial reporting. This involves examining financial statements, transactions, and records to ensure compliance with accounting principles and standards. Financial audits provide assurance that public funds are managed in a transparent and accountable manner.
- b) Compliance Audits: SAIs conduct compliance audits to assess whether public entities are complying with applicable laws, regulations, and governing authorities. These audits help identify instances of non-compliance and provide recommendations for corrective actions. Compliance audits ensure that public entities adhere to legal and regulatory requirements, promoting transparency and accountability.
- c) Broadening the Scope: SAIs are expanding their role beyond financial and compliance audits. They are increasingly focusing on evaluating the effectiveness, efficiency, and economy of policies and programs. This broader perspective allows SAIs to assess the outcomes and impact of government initiatives, contributing to evidence-based decision-making.
- e) Informed Policy-Making: SAIs have untapped potential to contribute to more informed policy-making. By conducting audits and evaluations on the outcomes and impact of policies and programs, SAIs provide valuable insights and evidence to policymakers. This helps in identifying areas of improvement, assessing the effectiveness of existing policies, and informing the development of future policies.
- f) Enhancing Transparency and Accountability: SAIs play a critical role in enhancing transparency and accountability in the public sector. Their independent and professional audits provide assurance to the public and stakeholders that public funds are used efficiently, effectively, and in accordance with laws and regulations. SAIs' findings and recommendations promote transparency and contribute to strengthening the governance and management of public resources [63].

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