

# INTERNAL AUDIT AGENCY

## TRAINING OF AUDIT COMMITTEE MEMBERS

### THE AUDIT COMMITTEE SYSTEM UNDER THE PFM ACT

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# ***ESTABLISHMENT OF AUDIT COMMITTEES***

- Section 86 of the Public Financial Management Act 2016, (Act 921) requires **all covered** entities to establish an Audit Committee (AC) to perform specific functions under the Act 921.
- Regulation 223 (1) of the PFM Regulations, 2019 (L.I. 2378) also requires **each covered** entity to establish an AC
- The framework for Professional Practice of Internal Auditing issued by the Institute of Internal Auditors also requires organisations to have **effective** Audit Committees.

# ***Membership of the AC***

Section 87 of the PFM Act, 2016 (Act 921) details the membership of the Committee.

- i. The AC shall consist of 5 members (Sec 87:1)
- ii. Majority of members of the AC shall be independent members (Sec 87:2)
- iii. The IAA and ICAG shall nominate the majority of members from among persons who do not work in the AC's covered entity (Sec 87:3)
- iv. Chairperson of the AC shall be elected from the independent members (Sec 87:4)
- v. The AC may co-opt a Senior Management personnel to serve on the Committee (Sec 87:5)
- vi. The Principal Account Holder shall appoint the chair and members of the AC. (Sec 87:6)

# ***Purpose of Audit Committees***

- The primary purpose of an Audit Committee is to provide oversight of the:
  - financial reporting process,
  - audit process,
  - Risk Management System
  - system of internal controls, and
  - compliance with laws and regulations.

# ***Key Definitions... from the PFM Act***

- **Per the PFM Act, 2016 (Act 921), **Covered Entity**:** means
  - The Executive, Legislature & Judiciary
  - The Public Service
  - Constitutional Bodies
  - Autonomous Agencies
  - MDAs and Local Government Authorities
  - Statutory Bodies
- **Principal Account Holder**: means the Sector Minister or political head of a covered entity (**MMDCE**)
- **Principal Spending Officer** in relation to a covered entity means the Chief Director, Chief Executive or the most senior administrative head responsible for producing outputs (**Coordinating Director**)

# ***Roles of Audit Committees***

1. Mandatory Roles
2. Advisory Roles
3. Supporting Roles



# ***Mandatory Roles of the AC***

Section 88 of the PFM Act provides for the mandatory roles of the AC as follows;

- Ensuring that the head of the covered entity;
  - Pursues the implementation of any recommendation contained in the reports from:
    - Internal Audit,
    - Parliament's decision on Auditor-General's (AG) report,
    - AG's Management Letter, and
    - Internal Monitoring Unit with financial matters.

# ***Mandatory Roles of the AC (cont'd)***

- Ensuring that the head of the covered entity;
  - Prepares **Annual Statement** showing the status of implementation of any recommendations contained in the above reports.
    - The annual statement shall indicate the remedial action taken or proposed to be taken to minimize or prevent the recurrence of the undesirable feature in the accounts & operations
    - The statement shall indicate the period for the completion of the remedial action
    - **The statement shall be endorsed by the Sector Minister and forwarded to the Minister for Finance, Parliament, OOP, AG & IAA within 6 months.**

# ***Mandatory Roles of the AC***

- Regulation 229 of the *PFM Regulations (Report of ACs)* also requires the Committee on half-yearly basis, to report **any concern** in relation to the covered entity to the;
  - The Principal Account Holder
  - Minister,
  - Director-General of the Internal Audit Agency,
  - Chairperson of the Board or Council of the covered entity; and
  - The Auditor-General

# *Advisory Roles of the AC*

## Guidelines

- Providing advice on sound, transparent and reliable financial management practices,
- Ensuring the risk management process is comprehensive and ongoing.
- Helping to achieve an organization-wide commitment to strong and effective internal controls, emanating from the tone at the top.
- Reviewing corporate policies relating to compliance with laws and regulations, ethics, conflicts of interest, and the investigation of misconduct and fraud.

# *Supporting Roles*

- a) The AC is expected to review and approve;
  - The Internal Audit Charter
  - The Risk-Based Annual Internal Audit Workplan
- b) The AC ensure continuous communication with, and meets with the Head of Internal Audit at least once a year without the presence of management.
- c) The AC ensures that internal audit is free to work independently and objectively, i.e. free from the influence of those being audited.

# ***Supporting Roles***

- d) The AC ensures that internal audit is appropriately tasked and resourced, and has sufficient authority to carry out its tasks effectively;
- e) The AC reviews and monitors management's responsiveness to the internal auditor's findings and recommendations;
- f) The AC monitors and assesses the quality and effectiveness of internal audit, and its role in the overall context of the organization's risk management system

# ***Conditions For Success of ACs***

- Secretariat and Secretary for the AC...who shall swear the oath of secrecy and confidentiality.
- File for the AC
- Handing over notes
- Annual Workplan for the AC.
- Training for the AC members.
- Availability of Budget for the Committee
- Approve the Annual Audit Work Plan
- Sort out issues of Members allowances and operational protocols
- Obtain relevant documentation and material to support members.
- Avoid conflict of interest activities and relationship with the organization.

# ***Powers of the Audit Committee***

- **Regulation 228 (1)** of the *PFM Regulations* empowers an AC of a covered entity to:
  - a) Investigate matters in relation to suspected cases of fraud or misuse of public funds; and
  - b) Have **full access** to the management, personnel, books, records, documents, property and information of that covered entity.
- Regulation 228 (2) of the *PFM Regulations* states that *“Where the AC suspects any case of fraud or misuse of public funds, the chairperson of the AC shall promptly report the case to the Principal Spending Officer or the Principal Account Holder concerned for investigation into the matter”*.



# ***Authority of the Audit Committee***

Section 9 of the '***Guidelines for Effective Functioning of the AC***' issued by the Finance Minister in August 2017 states that...

*“The Audit Committee shall, in the discharge of its duties & responsibilities, be authorised and entitled to:*

- Obtain professional advice from relevant government organizations, when necessary.*
- Authorize investigations into any matters within its scope of responsibility.*
- Resolve any disagreements between management and the internal auditor”.*

# Roles of Key Officers in the Work of AC

**Principal Account Holder:** Responsible for;

- Nominating two members to the Committee (Section 87:3)
- Appointing the Chairperson to the Committee (Section 87:6)
- Appointing members to the Audit Committee (Section 87:6)
- Preparing and submitting to Parliament in the 1st Quarter; a Performance Report on budget implementation for proceeding financial year, showing action taken on Parliament's decision on AG Report (Sec. 27: 1, 4d)
- Endorsing the *Annual Statement* prepared by the head of a covered entity and forwarding same to the Minister of Finance, Parliament, OOP, and AG within 6 months after the end of each financial year (Section 88:2c) - *(This statement details the status of implementation of recommendations contained in internal & external audit reports and Parliament decision on the AG's report as well as other related directive from Parliament)*

# ***Roles of Key Officers in Work of AC***

## **Principal Spending Officer (PSO):**

- Submit Accounts & Report to AG and CAG within 2 months after the end of each Financial Year indicating the action taken on recommendations of Parliament on the report of the AG **(Section 80:1, 3C)**
- The head of IAU reports administratively to the PSO **(Section 83:2)**
- The Head of IAU prepares his/her Risk Based Plans for the year in consultation with the PSO **(Section 83:4)**
- The PSO also receives the Risk Based Plans from the head of IAU within 30days after the beginning of each financial year **(Section 83:6)**
- Receives quarterly internal audit reports from the head of IAU on the execution of the plan **(Section 83:7)**
- Receives report from the head of IAU on any incidence of suspected fraud or misuse of public funds **(Sec. 83:9)**

# Roles of Key Officers in Work of AC

## Principal Spending Officer (PSO):

- Annually submits to the Minister of Finance and Auditor-General, the ff;
  - Report on the status of implementation of recommendations made by the Auditor-General in respect of the Covered entity
  - Report on the status of implementation of recommendations made by Parliament in respect of the covered entity *(Sec 85:1)*
- Pursues the implementation of recommendations made in internal audit reports, Parliament decisions on the AG's report, AG's Management Letter and reports of internal monitoring unit with financial matters *(Sec. 88:1a)*
- Prepares Annual Statement showing the status of implementation of any recommendations contained in Audit Reports etc *(Sec 88:1b)*

# ***Qualities Expected of AC Members***

***Individual*** members should have:

- **Knowledge** of the organization and its operations
- High levels of personal **integrity and ethics**
- Sufficient **time** available to devote to their responsibilities as a committee members.
- High levels of **financial literacy** and, if possible accounting, financial, legal compliance and/or risk management experience or qualifications.
- Strong **communication skills**

# ***Qualifications Expected of AC Members***

Per Regulation 224 of the PFM Regulations and the *Guidelines on Effective Functioning of ACs*, the Audit Committee should have:

- At least one member with qualifications and experience in accounting, auditing and PFM.
- Skills and experience relevant to discharging its responsibilities, including experience in business, financial and legal compliance, risk management.

# *Funding of the AC*

- Regulation 226(1) of the PFM Regulations states that the AC shall be funded by an appropriation for the covered entity in the annual budget.
- Section 14 of the “*Guidelines for Effective Functioning of Audit Committees*” issued by the Minister for Finance in August 2017 provides that “*...the level of remuneration paid to the members of the Committee shall be equivalent to sitting allowances paid to Board Members or Senior Management (whichever is higher and prevails)*”.

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