

Functioning of Audit Committees

Participants' Handbook

April 2014

SULGO
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The United Republic of Tanzania

Support to Local Governance Processes (SULGO) in Tanzania
Project: Strengthening internal controls at sub-national level

Summary Guide
Part B

Functioning of Audit Committees

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Foreword

Tanzania's local government budgets account for over 25 per cent of the total national budget – and the proportion is increasing. This trend mirrors the responsibilities that have so far been transferred to LGAs over the past decade under the national decentralisation by devolution policy. At the same time, LGAs are facing ever-increasing demands for quality services and for strict adherence to regulations and transparency, pushed by, amongst others, the National Audit Office as seen in the critical audit opinions it issued to various LGAs.

The effectiveness of LGAs' internal control systems determines not only how public funds are used but also the extent to which local governments are becoming the drivers for development as they are expected to be. Further advancements in the national decentralisation process depend heavily on the way LGAs control the resources they are entrusted with. LGAs' internal control systems also play a key role with respect to the legitimacy of the state because local governments are the institutions closest to the ordinary citizens. Hence, the way the LGAs actually use their resources has a big impact on the public's opinion and perception of the performance of the government as a whole. In the context of rising tensions within a transforming society, the importance of strong LGA internal control systems cannot be overemphasized.

Several government bodies such as the Prime Minister's Office for Regional Administration and Local Government (PMO-RALG), Regional Secretariats (RSs), and the Office of the Internal Auditor General are required to capacitate LGAs in the area of internal controls. Yet, developing capacities for nearly 170 LGAs constitutes an enormous task in addition to the challenges already being encountered as the LGAs attempt to cope with recently introduced higher national standards, such as those relating to risk management or to accrual accounting.

PMO-RALG and GIZ, in close collaboration with the Office of the Internal Auditor General, launched an initiative to assist selected district, municipal and city councils and corresponding Regional Secretariats (RS) in the application of and adherence to internal controls standards and regulations. The focus of this initiative was on learning-by-doing, capacitating public servants through coaching on-the-job, and on formulating respective methods of capacity development at sub-national level.

The present book is a direct outcome of the coaching and forms part of a series that covers the four thematic areas of Accounting & Administrative Controls, Risk Management, Internal Audit and Audit Committees in the councils, as well as the backstopping role of Regional Secretariat in monitoring and evaluation of LGAs' internal controls. Each of the areas comprises two books: a participants' handbook for the public servant for reference, and a handbook for facilitators tasked with capacitating staff from LGAs or RSs.

We wish the users of the present book interesting and stimulating reading and hope that it helps to perform better their tasks.

Achim Blume

Head of GIZ Governance Programmes Tanzania

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List of Abbreviations

CAG	Controller and Auditor General
CIA	Council Internal Auditor
CT	Council Treasurer
EA	External Audit
HoD	Head of Department
IA	Internal Audit
IAGD	Internal Auditor General Division
IAU	Internal Audit Unit
IIA	Institute of Internal Auditors
IPSAS	International Public Sector Accounting Standard
LAFM	Local Authority Financial Memorandum
LGA	Local Government Authority
MDAs	Ministries, Departments and Agencies
MMDC	Maneno Mengi District Council
NAO	National Audit Office
PFA	Public Finance Act
PMO-RALG	Prime Minister's Office Regional Administration and Local Government
PSO	Public Sector Organisation
PTC	Porini Town Council
RS	Regional Secretariat
ToR	Terms of Reference
URT	United Republic of Tanzania

Introduction to the Handbook

Background Information

This Participant's Handbook on Accounting and Administrative Controls has been developed as part of the Project "Strengthening internal controls at sub-national level" under the GIZ Programme "Support to Local Governance Processes" (SULGO). The project's objective is: "The internal control mechanisms at selected LGA level in the two partner regions of the programme, Mtwara and Tanga, are reinforced". The project supports the Tanzanian Local Government Reform Programme as one of the major national strategies promoting the decentralization process.

The project covers four (4) key thematic areas; (1) risk management; (2) accounting and administrative controls; (3) internal audit techniques and (4) functioning of the audit committees. Each thematic area has its own coaching materials in form of one participants' and one facilitators' handbook. The coaching curriculum for each of the thematic area was developed based on the coaching needs assessment of beneficiaries, documentary review on CAG audit reports, management letters and on the study "Priority Entry Points to Strengthen Accountability and Internal Auditing at District level" from 2012.

Use of the Participants' Handbook

This handbook was first used as a coaching aid when coaching sessions were conducted to officials in the four pilot LGAs, i.e. in Handeni District, Tanga City, Mtwara District and Mtwara Municipal Council.

After the coaching has ended, the handbook can be further used as reference and guidance document, e.g. for clear definitions of technical terms, for step-by-step explanations of processes, for checklists or for the correct use of templates and reporting formats.

In addition to the coaching participants, the handbook was also developed for officials of other LGAs as a self-learning kit.

Overview of Session Layout and Design

The Participants' Handbook covers 18 main coaching sessions. The layout of the session is composed of an introduction, learning objectives, definitions if appropriate, the session content, some hints and review questions. On successful completion of the 18 sessions, participants will be able to perform their roles and responsibilities.

The coaching sessions have a duration ranging from thirty minutes up to two hours, with the average being one hour. The sessions to be delivered at a particular LGA in form of one-on-one sessions, focus group discussion and peer-to-peer learning sessions.

Session 1

1 Need for Audit Committees

Introduction

This session discusses the critical need of audit committees in public sector organisations, specifically Local Government Authorities (LGAs). In these days, LGAs face more knowledgeable stakeholders, scrutinizing media as well as transparency and accountability requirements. Hence, in order to remain viable and continue to bring value, LGAs have to respond to this environment, by taking on board a number of best practices in corporate governance. This includes, among other things, the creation of audit committees which will be charged with oversight responsibilities towards these new and improved governance initiatives.

The session is divided into two (2) sub-sessions: Sub-session 1: The essence, need and regulatory requirements for audit committees in LGAs and Sub-session 2: Benefits and composition of audit committees.

Session Objectives

At the end of this session, participants will be able to:

- ▶ Define the term “Audit Committee”;
- ▶ Explain the essence and need for audit committees in the public sector, LGAs;
- ▶ Explain the regulatory requirement for audit committees in Tanzania, particularly in LGAs;
- ▶ Describe the composition of audit committees.

1.1 Sub-session 1: The essence, need and regulatory requirements for Audit Committee in LGAs

1.1.1 Learning Objectives

At the end of this session, participants will be able to:

- ▶ Define an audit committee;
- ▶ Explain the need for audit committees;
- ▶ Explain the regulatory requirements for audit committees in the public sector i.e. LGAs.

1.1.2 Definitions

“Audit Committee” is an independent oversight body established within the Local Council in order to improve the LGA's overall governance framework

1.1.3 The Concept of Audit Committees

An audit committee is an independent oversight body of an organisation designed to improve the organisation's overall governance framework. In the public sector, the audit committee plays an advisory role and generally helps in achieving the following:

- ▶ Improve accountability;
- ▶ Strengthening the control environment;
- ▶ Assisting the Council and Accounting Officers to fulfil their stewardship, leadership and control responsibilities.

1.1.4 Essence and Need of Audit Committees

Audit committees are a result of the failure of large corporations in Europe and America since 1986. The major causes for failure were: manipulation of accounting figures; fraudulent management, failure by external and internal audit; unethical management; incompetent senior management etc. This led to formation of various committees/ commission like Treadway Commission (1987), Blue Ribbon Committee (in USA); Cardbury Committee (1992); Macdonald Committee (1982) [in UK] and Bosch Committee (1991) in Australia.

[See also Verschoor, C (2008), Audit Committee Essentials (USA), Braiotta, et al (2010), Audit Committee Handbook]

One of the key recommendation of these committees was the need for audit committees as a means by which to improve the reliability of financial reporting, auditing and to raise the standards of corporate accountability and governance. Ever since, audit committees have been increasingly adopted by organisations in both private and public sectors worldwide. In Tanzania for instance, the audit committees were established effectively in the year 2003/04.

1.1.5 The Regulatory Requirement for Audit Committees in LGAs

The regulatory requirement for audit committees in Tanzania and more specifically in LGAs is provided in the main law [Public Finance Act (PFA) No.6 of (2001) as amended in 2004 and 2010] and its attendant regulations for both Ministries, Departments and Agencies (MDAs) and LGAs. The laws and regulations require improvement in the management, control and accountability of public funds and resources i.e. ensuring transparency, accountability and integrity in overall operations of handling government resources - that national resources are managed efficiently, ethically and professionally.

As for the LGAs, Order No 12(1) of the Local Authority Financial Memorandum (2009) requires establishment of an audit committee in every council i.e. "there shall be in every council a committee known as an Audit Committee". Further, Order No 12 (2) of the LAFM (2009) provides that the Accounting Officer of the council shall have the responsibility to appoint members of the committee.

Also, section 38 (2) f-g of the Public Finance Act (2001) as revised (2004) and amended 2010 gives mandate to the Internal Auditor General (IAG) to manage and control quality of operations of audit committees including evaluating their effectiveness for both MDAs and LGAs.

Generally, the regulations require that:

- ▶ The Accounting Officer is responsible and accountable for establishing audit committee and appointing its members;
- ▶ The audit committee must have terms of reference (audit committee charter) that clearly spell out the membership, authority and duties;
- ▶ Audit committee membership will be between 3 and 5 members. At least two (2) members from outside and other three (3) members are drawn from senior members (heads of departments) within the LGA;
- ▶ Formalisation of meetings and processes with at least four meetings annually;
- ▶ The audit committee has no executive powers. It reports to and makes recommendations to the Accounting Officer.

1.1.6 Review Questions

- (i) Define the term “audit committee”.
- (ii) Explain the regulatory requirements for audit committee in LGAs.

1.2 Sub-session 2: Benefits and Composition of Audit Committees in LGAs

1.2.1 Learning Objectives

At the end of this session, participants will be able to:

- ▶ Explain the benefits of audit committees in public sector and more specifically in LGAs;
- ▶ Explain the composition of audit committees in LGAs.

1.2.2 Benefits of an Audit Committee

As mentioned before, the existence of an independent audit committee is recognized at both local and international levels as an important feature of good corporate governance. Effective operationalization of the audit committee will enable the LGA to achieve the following benefits:

- ▶ Obtain assurance from management that all financial and non-financial internal control and risk management functions are operating effectively and reliably;
- ▶ Provide an independent review of an LGA’s reporting functions to ensure the integrity of financial reports;
- ▶ Monitor the effectiveness of the LGA’s performance management and performance information;
- ▶ Provide strong and effective oversight of an LGA’s internal audit function;
- ▶ Provide effective liaison and facilitate communication between management and external audit;
- ▶ Provide oversight of the implementation of accepted audit recommendations;
- ▶ Ensure the LGA effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.

[See also Verschoor, C (2008), *Audit Committee Essentials (USA)*, Braiotta, et al (2010), and *Audit Committee Handbook*]

1.2.3 Composition of an Audit Committee

In Tanzania and more specifically in LGAs, as mentioned earlier, members of an audit committee should not be less than 3 and not more than 5 [(Order No. 12(2) of the LAFM (2009)]. The Accounting Officer appoints the members and considers the following factors as per requirements of laws:

- ▶ Members are drawn from senior members (heads of departments) within the LGA;
- ▶ Two members should be from outside the LGA;
- ▶ At least one member appointed by the Accounting Officer shall have experience of accounting and auditing i.e. a person who is a qualified accountant, who is a current member of the professional accounting body- The National Board of Accountants and Auditors;
- ▶ The audit committee Chairman shall be nominated from amongst Head of Departments with lesser procurement functions;
- ▶ The audit committee Secretary shall be appointed from Heads of Departments or Principal Officers who shall not vote;
- ▶ The tenure of office is three (3) years and may be re-appointed for another period.

Other factors which should be taken into account while appointing audit committee members are:

- ▶ A thorough understanding of the core activities of the LGA and the environment in which it operates, including its strengths, weaknesses, opportunities and threats;
- ▶ A commitment to the continual improvement of the LGA's financial and non-financial performance management information and how this contributes to the whole of government performance management framework;
- ▶ A high level of understanding of best practice internal control, risk management and corporate governance;
- ▶ A high level of competency in financial and performance reporting and the ability to analyse complex financial reports;
- ▶ A sound knowledge of information systems and emerging technology.

Other personal qualities of individual members which should be considered include:

- ▶ Ability to ask relevant questions, evaluate answers and continue to probe for information until completely satisfied with the answers provided;
- ▶ The desire to always encourage openness and transparency;
- ▶ Ability to think independently, objectively and have an inquisitive mind;
- ▶ Strong ethical values, including a thoughtful approach to ethical issues that might be faced;
- ▶ A sense of integrity and an ability to provide direct and honest opinions;
- ▶ A proven ability to be open to, accept and foster change.



The required skill set of the committee should be observed before the appointment of members by the Accounting Officer. The appointment of an audit committee member should be formalized in an official letter signed by the Accounting Officer [see also attached Template A (as per Template No. 2 of the Guidelines for audit committees in the Public Sector in Tanzania)].

1.2.4 Review Questions

- (i) Explain the benefits and composition of audit committee in LGAs.
- (ii) What are the basic personal qualities of individual members of the audit committee?

Session 2

2 Role and Responsibilities of Audit Committees

Introduction

This session discusses the role and responsibilities for audit committees. Clear understanding of the role and responsibilities by members of the committee as detailed in the committee charter is crucial for the committee members to contribute to improved governance systems of LGAs.

The session is divided into three (3) sub-sessions: Sub-session 1: Audit Committee Charter, Risk Management and Internal Control Oversight; Sub-session 2: Financial Reporting and Internal Audit Oversight and Sub-session 3: External Audit, Compliance and other Audit Committee Responsibilities.

Session Objectives

At the end of this session, participants will be able to:

- ▶ Define “Audit Committee Charter” and its importance;
- ▶ Prepare and operationalize an Audit Committee Charter;
- ▶ Explain the roles and responsibilities of audit committees;
- ▶ Apply the knowledge and skills gained in undertaking their role.

2.1 Sub-session 1: Audit Committee Charter, Risk Management and Internal Control Oversight

2.1.1 Learning Objectives

At the end of this session, participants will be able to:

- ▶ Define “Audit Committee Charter” and its importance;
- ▶ Prepare and operationalize an Audit Committee Charter;
- ▶ Explain the roles and responsibilities of audit committees relating to Risk Management and Internal Control.

Definitions

The “Audit Committee Charter” is a document which governs the operations of the audit committee. It includes mandate, purpose, responsibilities, duties, functions, and operating procedures of the audit committee.

[See also Deloitte (2005), Public Sector Audit Committee: Resource Guide for the discussion on audit committee roles and responsibilities]

2.1.3 The Audit Committee Charter

As it has already been mentioned in the first session, once established, the audit committee must prepare its terms of reference (also known as Audit Committee Charter). The Audit Committee Charter provides mandate, scope and guidance regarding overall functioning of the audit committee. The committee's charter should define the following:

- ▶ Audit committee Authority/Mandate;
- ▶ Overall purpose and objectives/mission;
- ▶ Organisation – size, frequency, and timing of meetings;
- ▶ Roles and responsibilities (including qualifications and terms of office);
- ▶ Relationship with management and auditors (i.e. internal and external auditors);
- ▶ Reporting responsibilities;
- ▶ Decision-making process;
- ▶ Authority to conduct special investigations (if appropriate);
- ▶ Evaluation of committee activities;
- ▶ Review of the Charter;
- ▶ Approval of the Charter.

The Guidelines for Audit Committees¹ provide guidance for producing the Audit Committee Charter, Template 1.

TEMPLATE 1: THE AUDIT COMMITTEE CHARTER

The Charter

This document, to be known as the Audit Committee Charter of {PSO Name} has been approved by {title of Appointing Authority} as the Appointing Authority of {PSO Name}.

The purpose of this charter is to outline the role, responsibilities, composition and operating guidelines of the audit committee (the committee) in accordance with the Audit Committee Guidelines of 2013.

AUTHORITY AND INDEPENDENCE

The committee has no executive powers, unless delegated to it by the {title of Appointing Authority}. The audit committee is a committee of {PSO Name} and is directly responsible to the {title of Appointing Authority}. In discharging its responsibilities, the committee has the authority to:

- ▶ Conduct or authorise investigations into matters within its scope of responsibility
- ▶ Access information, records and personnel of {PSO Name} for such purpose
- ▶ Request the attendance of any employee, including executive staff, at committee meetings
- ▶ Conduct meetings with {PSO Name} internal and external auditors, as necessary,
- ▶ Seek advice from external parties, as necessary.

¹ The Audit Committee Guidelines, October 2013, are issued by the Ministry of Finance, Internal Auditor Generals Division.

ROLE

The role of the committee is to provide independent assurance and assistance to the {title of Appointing Authority} of {PSO Name} on the risk, control and compliance frameworks.

The committee does not replace or replicate established management responsibilities and delegations, the responsibilities of other executive management groups within {PSO Name}, or the reporting lines and responsibilities of either internal audit or external audit functions

The committee will provide prompt and constructive reports on its findings directly to the {title of Appointing Authority}, particularly when issues are identified that could present a potential material risk or threat to {PSO Name}.

DUTIES AND RESPONSIBILITIES

The audit committee is directly responsible and accountable to the {title of Appointing Authority} for the exercise of its duties and responsibilities. In carrying out its duties and responsibilities, the committee must at all times recognise that primary responsibility for management of {PSO Name} rests with the {title of Appointing Authority}.

The audit committee's duties and responsibilities are to {tailor to PSO's name needs}:

Financial Statements

- ▶ Review the appropriateness of accounting policies adopted by the PSO and ensures the accounting policies adopted are relevant to the PSO and its specific circumstances.
- ▶ Review the appropriateness of significant assumptions and critical judgements made by management, particularly around estimations which impact on reported amount of assets, liabilities, income and expenses in the financial statements.
- ▶ Review the financial statements for compliance with prescribed accounting and other requirements.
- ▶ Review, with management and the external auditors, the results of the external audit and any significant issues identified.
- ▶ Exercise scepticism by questioning and seeking full and adequate explanations for any unusual transactions and their presentation in the financial statements.
- ▶ Analyse the financial performance and financial position and seek explanation for significant trends or variations from budget forecasts.
- ▶ Ensure that assurance with respect to the accuracy and completeness of the financial statements is given by management.

Risk Management

- ▶ Review the risk management framework for identifying, monitoring and managing significant risks including fraud.
- ▶ Satisfy itself that insurance arrangements are appropriate for the risk management framework, where appropriate.
- ▶ Liaise with management to ensure there is a common understanding of the key risks to the PSO. The risks will be clearly documented in a risk register which will be regularly reviewed to ensure it remains up-to-date.
- ▶ Assess and contribute to the audit planning processes relating to the risks and threats to the PSO.

- ▶ Review effectiveness of PSO's processes for identifying and escalating risks particularly strategic risks.

Internal Audit

- ▶ Review the budget, staffing and skills of the internal audit function.
- ▶ Review and approve the internal audit plan, its scope and progress, and any significant changes to it, including any difficulties or restrictions on scope of activities or any significant disagreements with management.
- ▶ Review the proposed internal audit strategic plan and annual plan to ensure they cover key risks and that there is appropriate co-ordination with the external auditor.
- ▶ Review significant findings and recommendations of internal audit and the response to them by management.
- ▶ Review implementation of internal audit recommendations accepted by management.
- ▶ Ensure that there is no material overlap between the internal and external audit functions.

External Audit

- ▶ Consult with external audit on the function's proposed audit strategy, audit plan and audit fees for the year.
- ▶ Review the findings and recommendations of external audit (including from performance audits) and the response to them by management.
- ▶ Review responses provided by management to ensure they are in line with the PSO's risk management framework.
- ▶ Review the implementation of external audit recommendations accepted by management and where issues remain unresolved ensure that satisfactory progression is being made to mitigate the risk associated with audit's findings.

Compliance

- ▶ Determine whether management has considered legal and compliance risks as part of the PSO's risk assessment and management arrangements.
- ▶ Review the effectiveness of the system for monitoring the PSO's compliance with relevant laws, regulations and government policies.
- ▶ Review the findings of any examinations by regulatory agencies, and any auditor observations.

Reporting

- ▶ Submit quarterly reports to {title of Appointing Authority} outlining relevant matters that have been considered by it as well as the committee's opinions, decisions and recommendations.
- ▶ Circulate minutes of the committee meetings to {title of Appointing Authority}, committee members and invited guests as appropriate.
- ▶ Prepare an annual report to {title of Appointing Authority} summarising the performance and achievements for the previous year. An interim programme of the planned activities for the coming year is also to be provided.
- ▶ Submit a summary of its activities for inclusion in {name of PSO} Annual Report.

MEMBERSHIP AND MEETINGS MEMBERSHIP

- ▶ Members, including the Chair, are appointed by {title of Appointing Authority}.
- ▶ Membership of committee will consist of a minimum of three and a maximum of six {unless otherwise determined by the title of Appointing Authority}.
- ▶ A minimum of two members will be external to the PSO. The committee will strive to increase the number of independent members over time.
- ▶ At least one member will have 'financial expertise'.
- ▶ At least one member will have expertise in the industry in which the PSO operates.
- ▶ The term of appointment is for three years and can be extended for a further term subject to the composition and skill requirements of the committee. The maximum term is six years.
- ▶ Members are appointed on the basis of personal qualities and skills and proxies are not permitted if the member is unable to attend meetings.
- ▶ Member terms and conditions are to be disclosed in the Letter of Appointment.

Chair

- ▶ The Chair will be external to the PSO, or if internal to the PSO will be a person independent of the areas within the audit committee's scope of review and independent of line management and day to day operations of {name of the PSO}.
- ▶ The Chair will possess sound communication and strong leadership skills.

Secretary

- ▶ A secretary/secretariat function may be appointed by the audit committee chair to facilitate the committee's meetings and reporting duties.
- ▶ The secretary, in consultation with the Chair, will prepare and send notices of meetings and agendas and accurately transcribe all decisions of the committee.
- ▶ The secretary will table all correspondence, reports and other information relevant to the committee's activities and operations.

Ethical practices

- ▶ Members are required to declare any interests that could constitute a real, potential or apparent conflict of interest with respect to participation on the committee.

Meetings and attendance

- ▶ The committee will meet {e.g. at least four times per year} and the schedule of meetings will be agreed in advance.
- ▶ A quorum will consist of {insert number} members, one of whom must be an independent member.

Meeting Agenda

- ▶ The committee should determine its own agenda, ensuring appropriate consultation to include emerging issues and emphasis on the most significant risks and threats.
- ▶ The agenda and relevant papers will be distributed to members at least {insert timeframe but suggest at least ten} working days prior to the meetings.

RELATIONSHIPS

Internal Audit

The committee will act as a forum for internal audit and oversee its planning, monitoring and reporting processes. This process will form part of the governance processes that ensure that {PSO name} internal audit function operates effectively, efficiently and economically.

- ▶ The internal auditor will have a standing invitation to attend committee meeting.
- ▶ The Chair and an independent member will hold executive sessions with internal audit at least twice per year, if required.

External Audit

The committee has no power of direction over external audit or the manner in which the external audit is planned or undertaken, but will act as a forum for the consideration of external audit findings and will ensure that they are balanced with the views of management.

The external auditor will have a standing invitation to attend committee meetings.

The Chair and an independent member will hold executive sessions with external audit at least twice per year, if required.

Other Executive Management committees

The audit committee shall liaise with {insert name of committees existing in the PSO} as required to ensure:

- ▶ That its statutory and operational responsibilities are met.
- ▶ That there is no material overlaps between the functions and duties of the groups.
- ▶ Frank and meaningful interchange of information.

EVALUATION OF COMMITTEE ACTIVITIES

- ▶ The committee will undertake an annual self-assessment of its performance for the previous twelve months at {Insert timeframe e.g. the September meeting}.
- ▶ The committee will provide a report of the annual review outcomes to {title of Appointing Authority}.
- ▶ At least once every {insert appropriate timeframe e.g. three years, or co-ordinate with Chair's term of office} the committee will arrange for and external peer review of its operations and activities. The results of this review are to be provided directly to {title of Appointing Authority}
- ▶ The Chair will provide each individual member with feedback on that person's contribution to the committee's activities at least once during each member's term of office. This assessment will include a review of any training needs of the member.

REVIEW OF THE CHARTER

- ▶ The charter will be reviewed annually by the committee to ensure it remains consistent with the committee's authority, objectives and responsibilities.
- ▶ All amendments to the charter will be discussed and approved by {title of Appointing Authority}.

APPROVAL OF THE CHARTER

{PSO name} audit committee charter is endorsed by the Chair of the committee and approved by {title of Appointing Authority}.

_____	_____
Name	Name
Chair Audit Committee	{Title of Appointing Authority}

(NB: an illustration/example of the above Template No.1 is presented in Appendix B.)

2.1.4 Responsibilities of an Audit Committee

Order No 12 (5) a – g of the LAFM (2009) provides for functions/responsibilities of audit committees in LGAs. The oversight functions can be broadly put into the following major categories:

- ▶ Overseeing the process related to the organisation’s risks and internal control;
- ▶ Overseeing financial reporting;
- ▶ Compliance (Regulatory/Legal Requirements);
- ▶ Overseeing internal and external audit processes.

Other areas that could be included in the audit committee’s mandate are:

- ▶ The effectiveness of governance arrangements;
- ▶ All external accountability reporting, including non-financial performance and the clarity of links between non-financial performance measures and strategy; and
- ▶ Overseeing the management of significant projects.

(Note: Separate detailed checklists on each of the functional area for the audit committee oversight can be prepared to systematically guide the committee members in discharging their responsibilities).

Risk Management Oversight

Risk management is a systematic application of principles, approach and processes to the task of identifying and assessing risks, and the planning and implementing risk responses. Risk management is an essential part of effective corporate governance. Some examples of risks could be: loss of key staff; loss of funding or reduction of revenue sources; erroneous financial reporting; regulatory non-compliance and fraudulent activities resulting from weaknesses in internal controls.

It is the responsibility of audit committee to ensure that management has implemented an effective risk management system (to identify, monitor, and manage) all potential risks (strategic, technical, operational, compliance and financial) that may affect the LGA to achieve successfully its intended objectives. In March 2013, the Government of Tanzania issued a Guideline on “Developing and Implementing Institutional Risk Management Framework in Public Sector Organisations”. Further, all Accounting Officers in Tanzania Mainland are charged with the responsibility for adoption and implementing effective risk management practices in their organisations (Treasury Circular No. 12 of 2012/13) By using the Guideline, it is expected that all public sector organisations (MDAs, LGAs, Regional Secretariats and Parastatal Organisations) must implement effective risk management systems.



For the audit committee to meet its risk management responsibilities, it is important that the committee fully understands the:



- ▶ Approach and attitude to the management of risks by the LGA including the LGA's assessment of risks and
- ▶ Arrangement in place for the management of its risks, particularly the LGA's highest risks.

Thus, in view of the above, the audit committee responsibilities with regard to risk management are shown in the table below:

Table 1: Audit Committee Risk Management Responsibilities

The audit committee's responsibilities are to:

- ▶ Review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures designed to ensure that the identification and management of the LGA's operational and financial risks, including fraud, are effective;
- ▶ Determine whether a sound and effective approach has been followed in managing the LGA's major risks including those associated with individual projects, programme implementation, and activities;
- ▶ Assess the impact of the LGA's enterprise risk management framework on its control environment and insurance arrangements;
- ▶ Determine whether a sound and effective approach has been followed in establishing the LGA's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested;
- ▶ Review the LGA's fraud control arrangements and satisfy itself the entity has appropriate processes or systems in place to capture and effectively investigate fraud-related information; and
- ▶ Review quarterly reports on risk management. The audit committee should also periodically ask to see the departmental and council-wide risk registers.

Internal Control Oversight

The audit committee will generally be responsible for reviewing the adequacy of the LGA's internal control environment to provide assurance that the LGA's key controls are designed appropriately and are operating as intended. In fulfilling this responsibility, the committee could be expected to obtain information from management and also from internal and external audit on the design and operation of key financial controls and assurance processes.

To do this effectively, audit committees are expected to have a good understanding of the LGA's internal control framework, including the LGA's internal policies or equivalent, and mechanisms in place to periodically assess compliance with the LGA's financial management responsibilities.

Table 2: Audit Committee Internal Control Responsibilities

The audit committee's duties are to:

- ▶ Review whether the management's approach to maintaining an effective internal control framework, including over external parties such as contractors, is sound and effective;
- ▶ Review whether the management has put in place relevant policies and procedures, including internal policies or their equivalent, and whether these are periodically reviewed and updated;
- ▶ Determine whether appropriate processes are in place to periodically assess compliance with legislation and key policies;
- ▶ Review whether appropriate policies and supporting procedures are in place for the management and exercise of compliance, internal policy, and delegations requirements;
- ▶ Consider how management identifies any required changes to the design or implementation of key internal controls; and
- ▶ Assess whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

2.1.5 Review Questions

- (i) What do you understand by the term audit committee charter?
- (ii) What is the importance of the audit committee charter and what is its main content?

2.2 Sub-session 2: Financial Reporting and Internal Audit Oversight

2.2.1 Learning Objectives

At the end of this session, participants will be able to explain the roles and responsibilities of audit committees relating to:

- ▶ Financial Reporting;
- ▶ Internal Audit.

2.2.2 Financial Reporting Oversight

The function of the audit committee in relation to the LGA's external reporting is fundamental. The audit committee has responsibility to advise the Accounting Officer on the implementation of issues raised the external audit report. The Council Treasurer may be invited to explain issues contained in the audited financial statements of the LGA step by step and highlighting on any key changes. Key attention should also be paid to the notes and other disclosures supporting the abstracts. The committee member with accounting and auditing literacy assists other members in providing the independent review of the LGA's financial statements.

In general, the audit committee should consider the following responsibilities in relation to the annual financial statements of the LGA:

Table 3: Audit Committee Financial Reporting Responsibilities

The audit committee's responsibilities are to:

- ▶ Obtain assurance from management that the financial statements comply with all prescribed accounting requirements (e.g. International Public Sector Accounting Standard (IPSAS) etc.) and are materially correct prior to recommending the financial statements for certification by the accountable officer or statutory body;
- ▶ Assess the appropriateness of the LGA's internal accounting policies;
- ▶ Assess the process used by management in making material estimates and judgments in financial reports (e.g. writing-off bad debts etc.);
- ▶ Identify and actively assess any unusual financial or operational trends or variations from forecasts;
- ▶ Review the impact of any materially adverse audit findings on the integrity of the LGA's financial statements;
- ▶ Perform other due care and diligence processes, including whether the statements are complete and operationally accurate and provide a 'true and fair view' of the operations of the LGA for the period under review and its financial position at the reporting date. Particularly relevant are the notes and other disclosures that complement the statements, including performance indicators.

2.2.3 Internal Audit Oversight

In accordance with Section 45(1) of the Local Authority Finances Act No. 9 of 1982, each urban and district LGA shall employ its own Internal Auditor who shall audit its accounts. Further, Order No 7 (c) of the LAFM (2009) gives mandate to the Accounting Officer (Council Director) to establish and ensure operationalization of an internal audit function.

The key role of internal audit is to provide greater assurance to the Accounting Officer, management and the audit committee that systems of risk management, controls and governance are effective, efficient and economical and that its operations are performed properly.

In general, the audit committee should perform the following responsibilities in relation to internal controls:

Table 4: Audit Committee Internal Controls Monitoring Responsibilities

The audit committee's responsibilities are to:

- ▶ Act as a forum for communication between the Accounting Officer, senior management and internal and external audit;
- ▶ Review internal audit coverage and ensure the internal audit plan is aligned with the LGA's risks, and recommend approval of the plan by the Accounting Officer;
- ▶ Advise the Accounting Officer on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan;
- ▶ Coordinate, as far as practicable the audit programmes conducted by internal and external audit and other review functions to avoid unnecessary duplications and/or material overlap;
- ▶ Review all audit reports and provide advice to the Accounting Officer on significant issues identified and action to be taken on issues raised that are relevant to the LGA, including the identification and dissemination of good practice;
- ▶ Monitor management's implementation of internal audit recommendations;
- ▶ Review the internal audit charter to ensure appropriate authority, access and reporting arrangements are in place; and
- ▶ Periodically review the performance of internal audit.

2.2.4 Review Questions

- (i) Summarize the main financial reporting responsibilities of audit committees.
- (ii) Summarize the main internal controls monitoring responsibilities of audit committees.

2.3 Sub-session 3: External Audit, Compliance and other Governance Issues Oversight

2.3.1 Learning Objectives

At the end of this session, participants will be able to explain the roles and responsibilities of audit committees relating to:

- ▶ External Audit;
- ▶ Compliance; and
- ▶ Other governance issues.

2.3.2 External Audit Oversight

The responsibility for conducting external audit for all public sector organisations in Tanzania lies with the National Audit Office (NAO) headed by the CAG [Article 143 of the Constitution of the United Republic of Tanzania (1977) as amended from time to time and the Public Audit Act (2008)]. Annual accounts of all public sector organisations are required for submission for audit to the CAG on or before 30th September each year.

It should be noted that the audit committee has no power to direct the external audit function or to review the external auditor's working papers and files. Rather, the audit committee acts as a forum to ensure that the issues raised by external audit have been

addressed appropriately by the LGA in a cost-effective manner. If the LGA does not agree with an audit recommendation, the audit committee should assess whether the response by management adequately addresses the associated risks to the LGA.

The audit committee's involvement in relation to the external audit process would include:

Table 5: Audit Committee External Audit Responsibilities

The audit committee's responsibilities are to:

- ▶ Act as a forum for communication between the Accounting Officer, senior management and external audit on the committee's full range of responsibilities;
- ▶ Discuss with external audit its proposed strategy for the year with particular reference to areas of risk and materiality. The committee could suggest areas which it believes require additional audit coverage;
- ▶ Discuss with external audit with regards to its scope of audit (key areas of control and compliance risk, adequacy of the entity's internal controls and Value for Money audits);
- ▶ Other issues that committee should note include:
 - ▶ Allocation of audit procedures among the LGA's units
 - ▶ Significant controls over compliance with laws and regulations
 - ▶ Individual financial statement balances or disclosures
 - ▶ Nature of audit tests
 - ▶ Extent of reliance on internal controls and internal audit function
 - ▶ Materiality levels
 - ▶ Levels of assurance obtained
- ▶ Provide input and feedback on the financial statements, performance audit and assurance review coverage proposed by external audit, and provide feedback on the audit services provided;
- ▶ Provide advice to the Accounting Officer on actions to be taken on significant issues raised in relevant external audit across-institutional reports or better practice guides.

2.3.3 Compliance Oversight

Audit committees usually oversee compliance matters beyond those relating to the integrity of published financial information. Whilst the committee's charter determines the extent to which the committee needs to consider legislative compliance, non-financial areas of possible legislative compliance can include the LGAs Act and other enabling legislation; procurement law and regulations, labour laws, environmental laws, code of ethics, occupational and health safety etc.

In general, the audit committee should consider the following responsibilities in relation to compliance.

Table 6: Audit Committee Compliance Oversight Responsibilities

The audit committee's responsibilities are to:

- ▶ Review the system for monitoring compliance with laws and regulations and the results of the management's investigation and follow-up of any fraudulent acts or accounting irregularities;
- ▶ Obtain regular updates from management regarding compliance;
- ▶ Assess whether all regulatory compliance matters have been considered in the preparation of the financial statements;
- ▶ Review the findings of any examinations by regulatory agencies; e.g. Public Procurement Regulatory Authority (PPRA), Institute of Internal Auditors (IIA) etc.;
- ▶ Review any steps taken by the management to establish, implement and monitor a formal written code of conduct/customer charters.

2.3.4 Audit Committee's Other Responsibilities

Other responsibilities of an audit committee include the review of overall governance arrangements/issues in the LGA which include the items in the following table.

Table 7: Audit Committee other Responsibilities

The review of LGA overall governance arrangements includes:

- ▶ The LGA's governance arrangement remain relevant and responsive to the operating public sector environment and emerging risks;
- ▶ The LGA has appropriate mechanisms in place to review and implement, where appropriate, relevant parliamentary committee reports and recommendations;
- ▶ The LGA has a performance management framework that is linked to organisational objectives, targets and outcomes;
- ▶ The LGA management has in place appropriate processes to develop performance indicators, and systems and procedures to report against them in the LGA's annual report.

2.3.5 Review Questions

- (i) Explain the audit committee responsibilities with regards to:
 - ▶ External audit oversight
 - ▶ Compliance oversight
 - ▶ Other governance arrangements oversight
- (ii) What area of responsibility do you think might have some challenges to members of audit committee and why?

Session 3

3 Management of Audit Committees

3.1 Introduction

This session discusses the management of audit committees. In order to realize effective management of audit committees, it is paramount that there is also an effective audit committee chairperson being supported with appropriate sub-committee arrangements.

3.2 Session Objectives

At the end of this session, participants will be able to explain:

- ▶ Functions of the audit committee chairperson;
- ▶ Functions of the audit committee secretary;
- ▶ Principles for ensuring effective management of the audit committee.

3.3 Functions of the Committee Chairperson

3.3.1 Introduction

The committee chairperson plays a pivotal role in the effective functioning of any committee, with particular responsibilities to set the tone and direction of the committee's deliberations.

The chairperson needs to possess expertise and experience in governance and to bring personal qualities and independence to the role that will openly and effectively involve all those the audit committee needs to work with.

3.3.2 Functions of the Audit Committee Chairperson

The audit committee chairperson's responsibilities will generally be to:

- ▶ Recommend to the Accounting Officers the appointment of audit committee members;
- ▶ Assist committee members to maintain a good understanding of the LGA's objectives, targets, operational needs, risks and priorities;
- ▶ Settle the agenda for each meeting with the committee secretariat;
- ▶ Lead discussion and encourage the participation of other members, and focus the committee's deliberations on the most important issues;
- ▶ Seek the input of observers or other experts to maximize their contribution to the deliberations of the committee;
- ▶ Summarise discussion outcomes and actions, including assigning responsibility and timeframes for actions;
- ▶ Report formally and informally to the Accounting Officer;
- ▶ Attend formal and informal meetings with senior management, the Council Treasurer, the Council Internal Auditor and External Auditor as required;
- ▶ Signing/approving committee minutes/quarterly and annual committee reports;

- ▶ Ensure quarterly reports are submitted timely to the relevant authorities (within 15 days after the meeting) and
- ▶ Arrange for a periodic review of the effectiveness of the audit committee against its charter.

To be effective, it is important that the audit committee operates in an environment of co-operation and trust. This is generally achieved when the audit committee chairperson promotes an open and cooperative relationship with senior management, other LGA committees, and the internal and external auditor. [See also Verschoor, C (2008), *Audit Committee Essentials (USA)*, Braiotta, et al (2010), *Audit Committee Handbook*]

3.4 Functions of the Committee Secretary

3.4.1 Introduction

The sub-committee to the audit committee provides technical support to the committee in the process of performing its duties. It is expected that the sub-committee works closely with the committee chairperson to assist in ensuring that:

- ▶ All committee papers are of an appropriate standard and are available to committee members sufficiently in advance of meetings to allow members appropriate timeframes for review and consideration;
- ▶ Minutes for the meeting held are maintained properly and systematically; and
- ▶ Members are kept abreast of key developments in the LGA. e.g. major projects, new government policy, significant changes in operational process

3.4.2 Functions of the Audit Committee Secretary

The responsibilities of the committee secretary are:

- ▶ Liaising with the committee chairperson to prepare meeting agendas and generally committee action plan;
- ▶ Coordinating the preparation and circulation of committee papers (with invitation letters) to committee members within agreed timeframes;
- ▶ Preparing minutes of committee meetings, including action points arising from meetings and details of actions to be undertaken by management;
- ▶ Supporting the chairperson in the preparation of audit committee reports for submission to the Accounting Officer with copies relevant officials/organs specified in the laws and regulations;
- ▶ Maintaining a record of when members' terms of appointment are due for renewal or termination;
- ▶ Ensuring that the new members receive appropriate induction training, and that all members are supported in identifying and participating in on-going training; and
- ▶ Managing expenditures relating to the audit committee's operations.

The sub-committee also has an important role in assisting the audit committee to maintain communication channels between the internal and external auditors and to assist the committee in keeping the Accounting Officer informed of the audit committee's activities.

The sub-committee can also assist the audit committee by providing members with progress reports for internal and external audit, as outlined below:

- ▶ A progress report from the Council Internal Auditor summarizing:
 - Work performed (and a comparison with work planned);
 - Key issues emerging from internal audit work;
 - Significant changes to the LGA's risk register;
 - Management responses to audit recommendations; and
 - Any resourcing issues affecting the delivery of internal audit.
- ▶ A report from external audit summarizing work done - financial statements, performance audits, cross-sectional audits, practice guides - and emerging findings.

3.5 Principles for Effective Working of an Audit Committee

There are mainly four (4) key principles for ensuring effective working of an audit committee:

- 1) Independence: most of the members of an audit committee need to be independent of the management team including the Accounting Officer;
- 2) Competence: Members need to have relevant experience and expertise. The personal qualities, skills, experience in governance and independence of the Chairperson are even more important;
- 3) Clarity of purpose: An audit committee needs to be clear about its mandate, purpose, and role in the organisation and within the governance structure as a whole;
- 4) Open and effective relationship: Audit committee needs to encourage open and transparent communication and effective ways of working with its stakeholders.

Other recommended good practices for the successful audit committees include:

- 5) The chairperson being responsible for setting and approving the agenda, which would have been prepared with committee secretary;
- 6) The audit committee chairperson and the Head of Internal Audit having regularly scheduled meetings, outside audit committee. The chairperson however, needs to report to committee members;
- 7) Internal and external auditors being able to attend audit committee meetings, without any members of the management team being present;
- 8) "Committee-only" time, which enables audit committee members to discuss issues and questions without the Accounting Officer or staff being present;
- 9) The audit committee ensuring that requests it makes of management are reasonable and cost-effective to implement.

(Wilson, E (2003), Best Practices for Audit Committee)

3.6 Review Questions

- (i) Explain the functions of the following ;
 - ▶ Audit committee chairperson;
 - ▶ Audit committee secretary.
- (ii) Explain the underlying principles for effective work of an audit committee.
- (iii) Discuss the challenges experienced by the audit committee members in the current working relationship with their stakeholders and how to tackle the challenges.

Session 4

4 The Audit Committee Action Plan

4.1 Introduction

This session discusses the need and mechanics for preparing an audit committee action plan. It also discusses the audit committee action plan format. Preparation of the action plan helps the audit committee to discharge its responsibilities in a structured and timely manner.

4.2 Session Objectives

At the end of this session, participants will be able to:

- ▶ Define an audit committee action plan;
- ▶ Explain the need for an audit committee action plan;
- ▶ Explain the mechanisms for preparing an audit committee action plan;
- ▶ Explain the contents and/or format of the audit committee action plan.

4.3 Definitions

The "Audit committee Action Plan" is the schedule of committee activities that include dates, location and agenda items for each meeting and covers all the committee's responsibilities as outlined in its charter.

4.4 Need of the Audit Committee Action Plan

The action plan helps the audit committee to discharge its responsibilities in a structured and timely manner. Good practice indicates that the action plan is prepared over the next 12 months (1 year) time period.



The audit committee annual action plan should be tailored to its charter. The audit committee action plan is useful for agenda setting.

4.5 Mechanisms for Preparing the Audit Committee Action Plan

The following steps should be taken into consideration when preparing the audit committee action plan:

- ▶ Prior to preparation of the action plan, all members should be consulted with regards to their commitments and/or other assignments they may be engaged in over the year;
- ▶ The committee secretary prepares the draft audit committee action plan – in this regard, the committee should have in place a calendar and the Audit Committee Charter. It

- should also ensure that all Committee responsibilities as provided in the charter are included in the action plan (including self-assessment for the audit committee itself);
- ▶ The draft audit committee action plan is then presented in a specific format (discussed in the next section) for easy reference;
 - ▶ The draft audit committee action plan is shared with the chairperson and all other members to confirm to its correctness. Also, the same is shared with members of management of the LGA;
 - ▶ Once the final version is produced, it is signed by the Committee Chairperson and Secretary;
 - ▶ Sufficient copies should be made so that each committee member receives a copy;
 - ▶ The Accounting Officer is also furnished with the copy of the committee's action plan.

4.6 Format of the Audit Committee Action Plan

The audit committee action plan is normally presented in a tabular format with the months spread over the year. The timing of the committee activity is shaded on a respective month. The cumulative activities in a month indicate the items of the agenda that will be discussed during the committee meeting. It is also advised to indicate the specific date in that particular month.

The audit committee action plan should have name and logo of the LGA as well as title. The spread of activities over the month should be considered on a quarterly basis i.e. ensure at least one meeting per quarter.

The format of the audit committee action plan is shown below.

(Note: The activities indicated are typical examples from a particular LGA)

Table 8: Format for an Audit Committee Action Plan

Name and Logo of LGA

Audit Committee Annual Action Plan for the Year Ending June 20XX

Key Resp.	Sub-Activities	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Financial Reporting	Review of Financial reports												
	Review management compliance/ represent												
	Review significant acc. and reporting issues												
External Audit (EA)	Briefing from External Auditor on review of financial reports, audit findings and follow up with management												
	Share with External Auditors progress of an audit.												
	Chair and independent member meet with EA												
	Discuss findings from the external audit report												
Internal Audit (IA)	Review annual IA plan and IA charter.												
	Review quarterly Internal Audit Reports												
	Review performance and resourcing of IA												
	Chair and independent member meet with IA												
Risk Management	Obtain and review Report on significant risks												
	Review reports on significant risks Review of risk mgmt framework and registers												
	Monitor implementation of Internal and External audit recommendations.												
Regul. compliance	Review reports on legal and regulatory matters												
Internal Controls	Briefings from assurance providers e.g. IA/EA/Management												
Effectiveness of audit committee	Review committee and members performance												
	Review or confirm audit Committee Charter												
	Review or confirm audit committee Action Plan												

Keynotes:

	= Audit committee Meeting		= Results of discussions may be noted in the meeting
--	---------------------------	--	--

.....
Signature
Chairperson, Audit Committee

.....
Signature
Secretary, Audit Committee

4.7 Review Questions

- (i) Explain the key steps for preparing the audit committee action plan.
- (ii) Prepare a tentative audit committee action plan for the audit committee of your LGA for the next financial year.

Session 5

5 Procedures of Audit Committee Meetings

5.1 Introduction

This session discusses procedures of audit committee meetings with particular emphasis on how to document the minutes of the audit committee meeting. The procedures of audit committee meetings are expected, by any standard, to demonstrate a role model in governance starting from time for starting meetings, attendance and documentation.

5.2 Session Objectives

At the end of this session, participants will be able to explain/understand:

- ▶ Minimum number of members to constitute a quorum;
- ▶ Need for further evidence for deliberations;
- ▶ Procedure for documenting proceeding of meetings of the audit committee.

5.3 Minimum number of members to constitute a quorum

A quorum should consist of a majority of committee members. In committees which have more than one external member, it is better practice for a quorum to include at least one external member.

As mentioned before, Order No. 12 (2) of the LAFM (2009) provides for a maximum number of members which constitute an audit committee of the LGA i.e. five (5) members, two (2) of whom should be from external public institutions of the LGA.

For that case, the minimum number to constitute a quorum (which is majority) should be three (3) members. Among the three members, one (1) member should be an external member.

Note: The meeting must be planned to ensure that the external member is available.

5.4 Need for Further Evidence for Deliberation

Further evidence for deliberation of the audit committee is obtained by exercising its powers. Generally the audit committee has the following rights [Order No 12(6) a-c of the LAFM (2009)]:

- ▶ Right to access staff. The audit committee may identify a particular staff as important to getting more information which will help them to decide on that particular issue. The audit committee chairperson will request the Accounting Officer to make such staff available in the meeting for the intended agenda only;
- ▶ Right to access “expert” or “specialists”. Where advice is required in relation to matter which is being considered by the audit committee and it is considered sufficiently material to require such services of the expert or specialist external to the LGA, the audit committee may request the Accounting Officer to make such expert/specialist available in the meeting for the intended agenda only;

- ▶ Right to access information and reports. The audit committee has the authority to access all relevant information and reports of the LGA to enable the same to discharge its duties effectively.

5.5 Documenting Minutes of the Audit Committee Meeting

Documentation of minutes of the meeting should start immediately when the Chairperson declares the meeting opened. The Secretary is responsible for taking records of the minutes. The following should be taken into consideration.

- ▶ The minutes should cover each agenda item and documents the discussion held and the outcome or conclusion from the discussions. This include any recommendations, action points, allocation of tasks to relevant persons, allocation of time for follow up and further consultations. The minutes should contain sufficient information to provide an understanding of the activities of the audit committee and the committee's recommendations, decisions, conclusion and outcomes;
- ▶ It is better practice for minutes of meetings to be prepared and distributed to committee members as soon as possible after the conclusion of the meeting. The Secretary should sign the minutes being distributed;
- ▶ The minutes should be confirmed as an accurate record of the meeting at the next meeting of the audit committee. If any important details have been incorrectly recorded or omitted, they can be discussed and the minutes amended prior to confirmation at a subsequent meeting;
- ▶ After the minutes are confirmed as an accurate record of the meeting, they should be signed by the chairperson;
- ▶ All members of the audit committee should receive a copy of the minutes of all meetings. In addition, minutes of the audit committee meeting should be made available to the Accounting Officer with copies to the Regional Secretariat, Internal Auditor General and Controller and Auditor General as quarterly reports (summary of key issues only).

The order of the minutes of the committee meeting should be in the following format:

Table 9: Format of Audit Committee meeting minutes

The minutes of an audit committee meeting should include the following agenda items:

1. AGENDA NO. 1: Opening of the Meeting: The Chairperson declares the meeting opened by welcoming all members to the meeting and wishing them constructive discussions. Any other announcement like new member, apologies etc. will be made;
2. AGENDA NO. 2: Adoption of the Agenda: The Chairperson mentions the number of agenda prepared by the secretariat and asks members if they adopt them or not. (Any amendment, if any, will be made);
3. AGENDA NO. 3: Declaration of Conflicts of Interest by Members of the audit committee and Invitees/Observers. Declaration of conflicts of interest will be made on a particular agenda so that the member(s) should not form part of the decisions;
4. AGENDA NO. 4: Confirmation of the Minutes of the Previous Meeting. Minutes are confirmed page after page on their correctness (Note: This will not be an agenda item of the Special Meeting);
5. AGENDA NO. 5: Matters Arising from the Previous Meeting. Issues that were directed for follow-up or actions are given report of their status or implementation. Presentation is done on one issue after another basis. (Note: This will not be an agenda item of the Special Meeting).

Note: From Agenda 6 onwards, the order of the discussions will be as per the agreed annual audit committee action plan.

6. NO. 6: Reports to be tabled. Reports will be tabled with regard to the main functions of the audit committee (oversight on financial reporting, risk management, internal controls, internal audit, external audit, compliance and other governance issues).
The secretariat summarises issues discussed on each main function. For example on Risk Management: "... members RAISED CONCERN on the lack of risk management systems at the LGA. This endangers achievement of LGA objectives as risks which the LGA is likely to face are not managed. It was AGREED that management be advised to implement risk management system immediately starting from..."
7. AGENDA NO. 7: Review of Audit Committee Charter (annual item);
8. AGENDA NO. 8: Audit Committee Self-Assessment (annual item);
9. AGENDA NO.9: Review of Audit Committee Annual Action Plan;
10. AGENDA NO. 10: Any Other Business (AOB) [Note: This will not be an agenda item of the Special Meeting];
11. AGENDA NO. 11: Next Meeting (Note: This will not be an agenda item of the Special Meeting);
12. AGENDA NO. 12: Closing of the Meeting. The Chairperson thanks all members for their active and constructive discussions and declares the meeting closed.

5.6 Review Questions

- (i) Explain the procedures of audit committee meetings.
- (ii) Review Minutes of the recently completed audit committee meeting and identify strengths and weaknesses in relation to the format of audit committee meetings minutes you discussed in this session.

Session 6

6 Audit Committee Working Relationships with its Key Stakeholders

6.1 Introduction

This session discusses audit committee working relationships with its key stakeholders. In order for the audit committee to discharge effectively its responsibilities as well as play its part as key organ in the governance arrangements in the LGA, there is a need to have smooth working relationships with its key stakeholders i.e. Accounting Officer, Council Treasurer, Council Internal Auditor, External Auditor, Risk Management Coordinator, other Heads of Departments/Units (line management) and other governance committees.

6.2 Session Objectives

At the end of this session, participants will be able to:

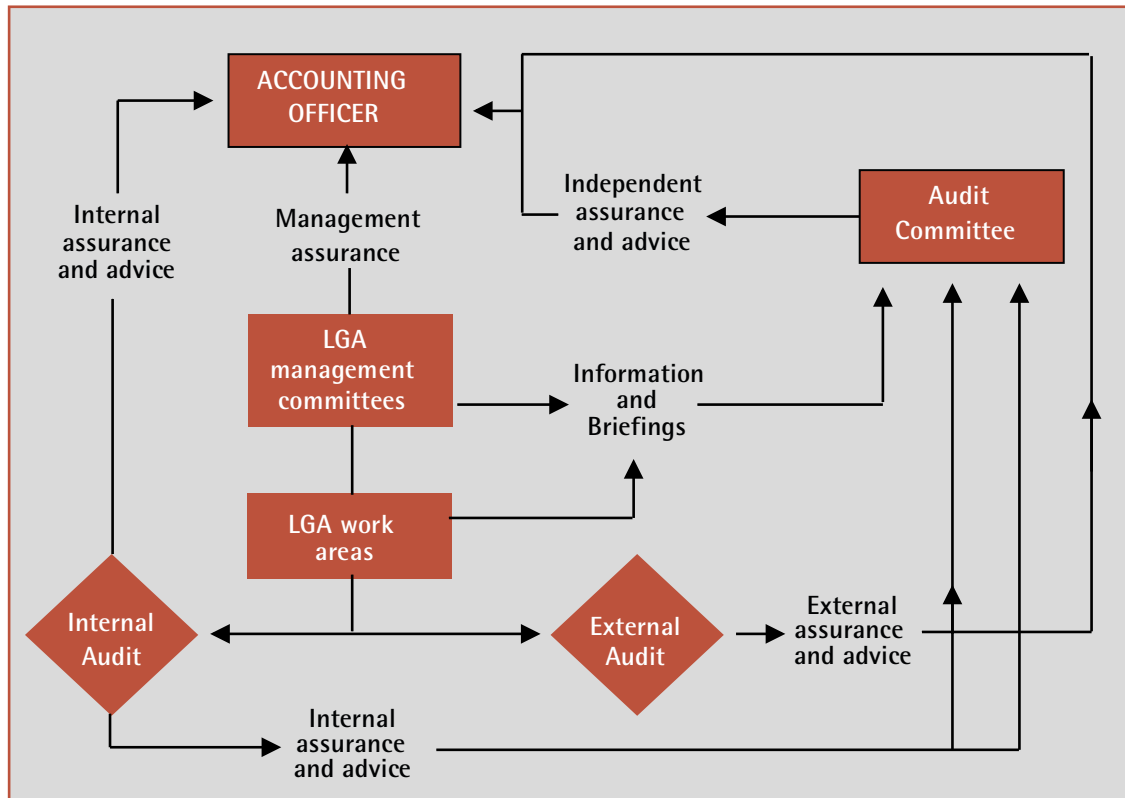
- ▶ Explain audit committee working relationships with its key stakeholders (i.e. Accounting Officer, Council Treasurer, Council Internal Auditor, External Auditor, Risk Management Coordinator, Other Heads of Departments/Units (line management) and other governance committees).
- ▶ Apply and maintain effective working relationships with audit committee stakeholders at their work place.

6.3 Definitions

"Audit committee Stakeholders" are persons or organs that have an interest or concern in the audit committee. These persons or organs can affect or be affected by the audit committee's functions or actions e.g. Finance Committee, Council Director, Head of Departments and units.

Figure 1 below provides a summary of the provision of assurance and advice (including working relationship) in an LGA.

Figure 1: Audit Committee's Provision of assurance and advice in an LGA



Adapted from: Commonwealth of Australia (2011), Public Sector Audit committees: Better Practice Guide

The relationships that should exist between the audit committee and its stakeholders are explained in detail in the following chapters.

6.4 Working Relationships with the Audit Committee stakeholders

6.4.1 Working relationships with the Accounting Officer

The Accounting Officer has a key role in supporting the effectiveness of the audit committee. Thus the relationship between audit committee and the Accounting Officer should be effective and sound and include:

- ▶ Audit committee should request brief meetings with the Accounting Officer, at least once a year to share strategic issues that have impact on the LGA e.g. significant risks, significant projects, technological and legislative changes, policy developments etc. ;
- ▶ The chairperson of the audit committee should arrange formal and informal meetings with the Accounting Officer after each audit committee meeting to discuss key issues;
- ▶ The chairperson of the audit committee should meet the Accounting Officer at the end of the year to discuss performance and achievements of the audit committee (as a whole as well as on member's individual basis) during the year. They should also discuss key issues and plans of the audit committee for the coming year.

6.4.2 Working Relationships with the Council Treasurer (CT)

There should be open and effective relationship between the audit committee and the CT (preparer of financial reports), including:

- ▶ The CT will normally be an “invitee” to the audit committee meetings - to present the financial reports as well as having face to face discussions with the members of the audit committee. For example: challenges encountered in the preparation of financial reports of the LGA; timings and timetable for preparing financial statements etc.;
- ▶ In addition, both the Chairperson of the committee and the CT may arrange formal and/or informal meetings to discuss issues relating to financial reporting for the benefit of the LGA.

6.4.3 Working Relationships with the Council Internal Auditor (CIA)

The relationship between audit committee and CIA should be bilateral and symbiotic. Given its functions in the LGA, the audit committee should view the internal audit unit as an important and significant source of information about what is going on within the LGA in all operational areas including finance, health, education, agriculture, planning etc.:

- ▶ The CIA will normally be an “invitee” to the audit committee meetings - to present internal audit reports as well as matters relating to improving effectiveness of internal audit function in the LGA;
- ▶ There should also be separate meetings with the CIA e.g.:
 - Separate meeting(s) may be held by the audit committee and CIA with no other “invitee” present;
 - Separate formal and informal meetings between the chairperson of the committee and the CIA.
- ▶ The key relationship issues include those which have already been covered in Session 2 - Responsibilities of the audit committee with regards to the internal audit function.

6.4.4 Working Relationships with the External Auditor

There should be strong and effective relationship between the audit committee and external audit. Open, regular, frank and confidential dialogue should exist between both organs. This will help in utilizing the technical knowledge and experience of external audit in assessing for example, the quality of LGA’s internal control systems, financial reports, value for money audits etc.:

- ▶ The external auditor should normally be invited as an “observer” in the audit committee meetings on an on-going basis i.e. giving technical advices on matters relating to external audit but not allowed to vote;
- ▶ Other issues like quality of information provided by the LGA to the external auditors; disagreements or unresolved matters with management in relation to audit findings; cooperation and assistance provided by the LGA in the course of audits; relationship between internal and external audit etc. may be of interest in this relationship;
- ▶ In addition, just like the CIA and CT, the Chairperson of the committee may arrange both informal and formal meetings with the external auditor to discuss matters geared towards improving LGA’s functions.

6.4.5 Working Relationships with other Heads of Departments/Units

The audit committee relationship with other HoDs will primarily focus on the management's response to audit findings and recommendations and include:

- ▶ The audit committee should determine whether management's responses to address the audit findings are satisfactory and cost-effective;
- ▶ The role of the audit committee is to ensure that the recommendations will enhance the effectiveness and efficiency of the LGA's delivery of services;
- ▶ The audit committee may invite any HoD if considered necessary, to attend the meeting for further discussion on a particular matter.

6.4.6 Working Relationships with the Risk Management Coordinator

The audit committee relationship with the risk management coordinator will be on issues relating to implementation of risk management systems in the LGA. Hence the risk management coordinator will also be among the "invitee" whom responsibility will be to present and take through members on matters relating to risk management in the LGA.

6.4.7 Working Relationships with other Assurance Provider Committees/Organs

It is important for the audit committee to maintain positive relationship with other assurance provider organs in the LGA e.g. Finance Committee, Ethics committee etc. with a view of sharing information of common interest and avoid unnecessary conflicts and/or misunderstandings.



The guiding rule in the audit committee relationships with its stakeholders should be the "need to have effective relationships built on principles of open, transparency and constructive dialogues (keeping doors open) amongst all its key stakeholders".

[See also Verschoor, C (2008), Audit Committee Essentials (USA); Braiotta, et al (2010), Audit Committee Handbook; Deloitte (2005), Public Sector Audit Committee: Resource Guide]

6.5 Review Questions

- (i) List the various key stakeholders of the audit committee.
- (ii) Explain the audit committee working relationships with its various stakeholders you identified in (i) above.

Session 7

7 Guide on Approval of Strategic Internal Audit Plans

7.1 Introduction

Order No 12 (5) b of the LAFM (2009) places responsibility for the audit committee to approve Internal Audit Strategic and Annual Plans of the LGA. The Internal Audit Strategic Plan is prepared by the IAU outlining its broad strategic direction over the medium terms (usually 3 or 5 years). This session therefore discusses guiding steps for the audit committee on approval of strategic internal audit plans.

7.2 Session Objectives

At the end of this session, participants will be able to:

- ▶ Define internal audit plans and audit objectives;
- ▶ Explain different types of long-term internal audit plans;
- ▶ Explain and apply procedures on reviewing the comprehensiveness of the internal audit plan before its approval.

7.3 Definitions

The "Internal Audit Plan" is a detailed framework for the work of the Internal Audit Function over a given period of time. The internal audit plan could either be strategic i.e. long-term which covers 3-5 years or annual which covers one year.

7.4 Understanding Internal Audit Plans and Audit Objectives

7.4.1 Internal Audit Plans

Internal Auditors are required by their professional standards to prepare two types of Internal Audit plans (which should be risk based):

- ▶ Strategic Internal Audit Plan – covers audit activities over a medium term i.e. 3 or 5 years;
- ▶ Annual Internal Audit Plan – covers audit activities over a one year time period.



IIA Performance Standard 2010:

"The Chief Audit Executive must establish risk-based plans to determine the priorities of internal audit activity, consistent with the organization goals"

- ▶ Similarly, Order No 14 (2) of the LAFM (2009) requires the Council Internal Auditor to prepare a Risk Based Plan and submit it to the audit committee for approval;

- ▶ Both plans help in focusing internal audit effort where it is most useful and effective; identifying resources, skills and experience required assist in delivering an effective internal audit service and providing a framework against which to measure the performance of internal audit.

7.4.2 Audit Objectives

Audit objectives are a broad statement of what the audit engagement or assignment intends to accomplish. Normally, internal auditors deduce audit objectives from the operating objectives of the activity under review or from the audit requests (Terms of Reference) or both.

Example of a revenue collection activity:

Operating objective: To ensure that income is adequately accounted for and banked promptly.

Audit objective: To determine whether there are systems in place to ensure that income is adequately accounted for and banked promptly.



Apart from using the operating objectives in setting objectives, internal auditors also design audit objectives that cover all five objectives of an internal control system i.e.:

- ▶ Reliability of information;
- ▶ Compliance with policies, plans, procedures, laws and regulations;
- ▶ Safeguard of assets;
- ▶ Value for money issues; and
- ▶ Accomplishment of goals and objectives of the activity.

7.5 Comprehensiveness of the Internal Audit Plan

Before approving the internal audit plans, members of the audit committee should review the same and ensure that they are adequate (comprehensive). The following areas should be of keen interest for the members during the review process. The internal audit plan should have:

- ▶ Identified all possible audit units/areas and major risks faced by the LGA and aligned in the way management view the LGA; this is done through organizing auditable areas by:
 - the organization structure – finance department, legal unit etc.;
 - operational processes – procurement process, payment process etc.;
- ▶ Considered risk factors in assessing each of the identified auditable unit i.e.:
 - financial impact (materiality);
 - criticality of the auditable unit (impact); and
 - Public/political sensitivity (visibility).
- ▶ Ranked and selected the significant audit assignments based on the risk factors. The areas with high priority will be audited frequently;
- ▶ Calculated realistically the resources required – number of working days for each auditable units, number of auditors required etc.;

Audit committee members should be guided by the agreed formats for preparing both strategic and annual internal audit plans in LGAs (see also the tables on the following

pages for the formats). Given satisfaction by the audit committee on its comprehensiveness and/or subject to improvements to be made arising from discussions, the Strategic Internal Audit Plan is approved.

Table 10: Formats of Strategic and Annual Internal Audit Plans

Format of the Strategic Internal Audit Plan

Title: Strategic Internal Audit Plan

1. Background
2. Purpose and Objectives
3. Methodology and Risk Assessment
4. Internal Audit Resources
 - 4.1 Internal Audit Staff (names and position) and audit hours/days available for each
 - 4.2 Financial Resources

Strategic Plan for 2012–2015

Audit Area	Rank by Risk Assessment Score	2012/13 Days	2013/14 Days	2014/15 Days	Frequency Indicator ²
Finance and Accounting					
Debtors		15		15	2
Payroll		15		15	2
Banking Arrangements/ Reconciliations			10		2
Insurance		15		15	2
Administration					
Vehicle Maintenance		5		20	2
Personnel, Recruitment and Training			15		2
Estates Management			15		3
Housing Repairs		15		15	2
Computer Audit					
Implementation of New Systems		30	30	30	2
Internet/Intranet			15		2
IT Security		5		15	2
Networks			15		3
Procurement and Contract Audit					
Contract Management		10	5	5	1
Tendering Arrangements		5	5	5	1
Etc.					
TOTAL					

2 The Frequency Indicator shows the frequency with which audits should be carried out as identified by the risk analysis: 1 = Every year; 2 = Every other year; 3 = No more than once every three years

Format of Annual Internal Audit Plan

Title

1. Background
2. Purpose and Objectives
3. Methodology and Risk Assessment
4. Internal Audit Resources
 - 4.1 Internal Audit Staff (names and position) and audit hours/days available for each
 - 4.2 Financial Resources

Annual Audit Plan Schedule

Permanent File ID.	Audit Area	Department	Audit Overall Objective/ Description	Risk Assessment Score (Ranked)	Estimated Total Audit Days	Quarter 1 (Estimated start date)	Quarter 2 (Estimated start date)	Quarter 3 (Estimated start date)	Quarter 4 (Estimated start date)

7.6 Review Questions

- (i) Explain the procedures on how the audit committee should approve the Internal Audit plans prepared by Internal Audit Units.
- (ii) As members of audit committee, give advice to the most recent practical internal audit plan of your LGA (NB: Pay attention to the adequacy of audit universe and assessment of risk for various auditable areas contained in the plan).

Session 8

8 Guide on Reviewing Financial Statements

8.1 Introduction

This session discusses procedures on reviewing financial statements of the LGA. Financial statements are very concise statements, summarizing the state of affairs and operating results of the LGA for a specified period of time normally a year. They are the main source of financial information to persons within and outside the LGA.

8.2 Session Objectives

At the end of this session, participants will be able to:

- ▶ Define or explain what constitutes financial statements;
- ▶ Explain and apply key steps for reviewing financial statements (focusing on non-compliance issues);
- ▶ Explain and apply procedures for giving advice to the Accounting Officer.

8.3 Definitions

"Financial Statements" are written reports that quantify the financial strength, performance and liquidity of an organisation. They are normally produced at the end of the respective financial year.

8.4 What Constitute Financial Statements

Section 41(2) of the Local Government Finances Act No. 9 of 1982 requires LGAs to furnish final accounts at the year end.

The final accounts are prepared after extracting the closing balances of all accounts in the general ledger and listing them in their corresponding columns of debits and credits.

The LGA is required to furnish the following final accounts as at the end of the year: [as per requirements of IPSASs and Order No.31 of the Local Authority Financial Memorandum (2009)]:

- ▶ Statement of financial position;
- ▶ Statement of financial performance by nature;
- ▶ Statement of changes in net assets;
- ▶ Cash flow Statement.

Other statements to accompany the final accounts are:

- ▶ Council information;
- ▶ LGA Councillors' report;
- ▶ Statement of financial performance – by function;

- ▶ Statement of comparison of budget and actual amounts- by nature;
- ▶ Statement of comparison of budget and actual amounts- by function.

Final accounts must be submitted to the external auditors (CAG - National Audit Office) within three months after the end of the LGA financial year i.e. submitted on or before 30th September of each year.

The final accounts must be published in widely read local newspapers and/or notice boards for public consumption.

8.5 Key Steps for Reviewing Financial Statements

The starting point is for the CT to highlight on how critical issues in relation to financial statements that were raised by auditors in the previous year(s) have been taken care into the current accounts. Also, key highlights on any changes in the current financial statements - revenue, assets, cash movements, accounting policies etc.

After key highlights on the current financial statements, the CT presents by taking through (page to page) members of the audit committee on each component of the financial statements. While presenting, the CT will be highlighting for the members on key changes/ issues for each component of the financial statements.

The presentation on each component of the financial statements will follow the order of arrangement in the document i.e.:

- ▶ Councillor's Report;
- ▶ Statement of financial position;
- ▶ Cash flow statements;
- ▶ Statement of change in net assets;
- ▶ Statement of financial performance - by nature;
- ▶ Statement of financial performance - by function;
- ▶ Statement of comparison of budget and actual - by nature;
- ▶ Statement of comparison of budget and actual - by function;
- ▶ Notes to the financial statements;

On each component of the financial statements, committee members should go through each item of the component and note/write down the significant changes from previous to the current year (including review of the respective accompanying notes) for discussions.

It is better practice that discussions are held one component after another. The committee member with accounting and auditing background will guide other committee members in the conclusions.

A financial reporting checklist (Appendix C) may be used by committee members in the review process.

8.6 Advisory Role of the Audit Committee

After reviewing the financial statements, the audit committee will discuss, deliberate and agree on key issues of concern regarding improvement of the financial statements. All key issues will be summarized in a matrix which will be appended to a brief report for submission to the Accounting Officer.

The format of giving advice/recommendation by the audit committee to the Accounting

Officer is as per the illustration below:

Table 11: Format for recommendations by the Audit Committee

S/N or MIN. NO.	Audit Committee Concern on Financial Reporting	Audit Committee Advice/ Recommendation	Responsible Official (Organ)	Implementation Status (by Management)
12/2013	Observed some errors in the year-end adjustments in respect of current financial year	Rectify all errors in the year-end adjustments before final accounts are submitted to the CAG for audit	Council Treasurer	
13/2013	Expressed concern about the inconsistent application of accrual accounting basis	Ensure consistent application of accrual basis of accounting	Council Treasurer	



The following should be noted regarding the format for recommendations:

- ▶ The responsible official/organ may be identified by the audit committee (if possible) as a means of assisting the Accounting Officer;
- ▶ Implementation status by management will be followed-up by the audit committee in its next meeting.

Table 12: Example for Statement of Financial Position

THE UNITED REPUBLIC OF TANZANIA
 PRIME MINISTER'S OFFICE-REGIONAL ADMINISTRATION AND LOCAL GOVERNMENT
 BAHARI MUNICIPAL COUNCIL
 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 20X2

		20X2	20X1
ASSETS	Notes	TZS	TZS
Current assets			
Cash and cash equivalents	xx	1,799,763,375	1,132,892,899
Receivables and prepayments	xx	147,682,268	373,824,223
Inventories	xx	108,229,420	36,805,000
Other financial assets	xx	-	-
		<u>2,055,675,063</u>	<u>1,543,522,122</u>
Non-current assets			
Other financial assets	xx	76,053,660	76,053,660
Investments in associates	xx	-	-
Property, plant and equipment	xx	20,915,546,018	5,512,250,611
Intangible assets	xx	-	-
Investment property	xx	-	-
		<u>20,991,599,678</u>	<u>5,588,304,271</u>

Non-current assets held for sale	xx		
TOTAL ASSETS		<u>23,047,274,742</u>	<u>7,131,826,393</u>
LIABILITIES			
Current liabilities			
Payables	xx	384,757,836	459,570,684
Short-term borrowings	xx	-	-
Long-term borrowings	xx	-	-
Employment benefit/Deposit	xx		
Provisions	xx	-	-
Deferred income (Grant)	xx	686,092,000	94,350,440
		<u>1,070,849,837</u>	<u>553,921,124</u>
Non- current liabilities			
Long-term borrowings	xx		
Employee benefits	xx		
Provisions	xx		
Deferred income (Grant)	xx	6,107,750,163	5,614,038,586
		6,107,750,163	5,614,038,586
TOTAL LIABILITIES		<u>7,178,600,000</u>	<u>6,167,959,710</u>
NET ASSETS		<u>15,868,674,742</u>	<u>963,866,683</u>
NET ASSETS			
Accumulated surplus/(deficit)		737,962,208	963,866,683
Available for sale financial assets		-	
Revaluation surplus		15,130,712,534	
TOTAL NET ASSETS		<u>15,868,674,742</u>	<u>963,866,683</u>

These financial statements were authorized for issue by full council on
And signed on its behalf by:

P.K. Sangara
Municipal Treasurer

J. Pelege
CMT Secretary

M.B. Sato
Municipal Director

Table 13: Example for Statement of Financial Performance

THE UNITED REPUBLIC OF TANZANIA
 PRIME MINISTER'S OFFICE-REGIONAL ADMINISTRATION AND LOCAL GOVERNMENT
 BAHARI MUNICIPAL COUNCIL
 STATEMENT OF FINANCIAL PERFORMANCE – BY NATURE
 FOR THE YEAR ENDED 30 JUNE 20X2

REVENUE	Notes	20X2	20X1
		TZS	TZS
Local taxes	xx	743,958,557	604,331,111
Fees, fines, penalties and licenses	xx	1,362,223,980	753,350,159
Recurrent grants amortized	xx	16,042,211,916	11,978,090,376
Transfer from other Government entities	xx	130,165,900	74,561,631
Revenue from exchange transactions	xx	-	-
Finance income	xx	-	-
Gain on foreign currency translation	xx	-	-
Amortisation of capital grant		1,809,847,521	393,765,018
Other own revenue	xx	118,988,418	131,225,519
		20,207,396,292	13,935,323,814
Expenses			
Wages, salaries and employee benefits	xx	14,934,774,014	10,883,290,381
Supplies and consumable benefits	xx	2,343,414,893	1,194,940,408
Maintenance expenses	xx	770,545,728	1,288,422,092
Grants and other transfer payments	xx	574,718,610	609,495,678
Finance costs	xx	-	-
Loss on foreign currency translation	xx	-	-
Depreciation of property, plant and equipment	xx	1,809,847,521	393,765,018
Impairment of property plant and equipment	xx	-	-
Amortisation of intangible assets	xx	-	-
		20,433,300,767	14,369,913,578
Share of associates surplus/(deficit)			
Surplus/(deficit) during the year		(225,904,475)	(434,589,764)

Table 14: Example for Statement of Financial Performance

THE UNITED REPUBLIC OF TANZANIA
 PRIME MINISTER'S OFFICE-REGIONAL ADMINISTRATION AND LOCAL GOVERNMENT
 BAHARI MUNICIPAL COUNCIL
 STATEMENT OF FINANCIAL PERFORMANCE – BY FUNCTION
 FOR THE YEAR ENDED 30 JUNE 20X2

		20X2	20X1
REVENUE	Notes	TZS	TZS
Local taxes	xx	743,958,557	604,331,111
Fees, fines, penalties and licenses	xx	1,362,223,980	753,350,159
Recurrent grants amortized	xx	16,042,211,916	11,978,090,376
Transfer from other Government entities	xx	130,165,900	74,561,631
Revenue from exchange transactions	xx	-	
Finance income	xx	-	
Gain on foreign currency translation	xx	-	
Amortisation of capital grant		1,809,847,521	393,765,018
Other own revenue	xx	118,988,418	131,225,519
		<u>20,207,396,292</u>	<u>13,935,323,814</u>
Expenses			
Administration	xx	2,043,330,077	1,436,991,358
Human Resource Management and Development	xx	1,021,665,038	718,495,679
Finance	xx	204,333,008	143,699,136
Trade and Economic Affairs	xx	163,466,406	114,959,309
Agriculture	xx	204,333,008	143,699,136
Livestock	xx	40,866,601	28,739,827
Education	xx	7,151,655,268	5,029,469,752
Health	xx	4,086,660,153	2,873,982,716
Water	xx	1,021,665,038	718,495,679
Works	xx	3,064,995,115	2,155,487,037
Lands	xx	510,832,519	359,247,839
Natural Resources	xx	715,165,527	502,946,975
Community Development, Gender and Children	xx	204,333,008	143,699,136
		20,433,300,767	14,369,913,578
Share of associates surplus/(deficit)			
Surplus/(deficit) during the year		<u>(225,904,475)</u>	<u>(434,589,764)</u>

8.7 Review Questions

- (i) Explain the main components of financial statements of an LGA.
- (ii) What is the role of audit committee regarding review of financial statements of the LGA?

Session 9

9 Guide on Reviewing Internal Audit Reports

9.1 Introduction

This session discusses key steps on how the audit committee should review internal audit reports. The primary purpose of internal audit reports is to provide assurance to management with regards to effectiveness of risk management, control, and governance processes in the organisation. Preparation of internal audit reports is the compulsory requirement of both internal audit standards (Performance Standard 2400 of the Institute of Internal Auditors (IIA)) and local laws and regulations [Order No 14 (6) - 9 of the LAFM (2009)].

9.2 Session Objectives

At the end of this session, participants will be able to:

- ▶ Explain the contents of internal audit reports;
- ▶ Define an audit evidence;
- ▶ Define and understand presentation of audit recommendations in internal audit reports;
- ▶ Understand and apply steps in reviewing internal audit reports.

9.3 Definitions

"Internal Auditing" is defined as "... an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control, and governance processes" (IIA- 1999).

9.4 Contents of Internal Audit Reports

In the end, internal audit must produce reports on the activities that were performed by the Unit for particular assignments and/or over a given period of time;

Internal audit reports can be grouped into the following main types:

- ▶ Engagement reports: reports on individual assurance audit assignments; e.g. Revenue Audit, Human Resources Audit, Procurement Management Audit etc
- ▶ Special audit reports: reports on special audit arrangements by management and other special investigations;
- ▶ Periodic reports, such as:
 - Quarterly audit reports summarizing the audit and non-audit activities performed by the internal audit unit over the period (quarter). i.e. It is a summary of the individual engagement reports and other non-audit activities that were undertaken during the quarter;

- Annual reporting summarising the audit activities or services that were undertaken by the Internal Audit Unit (IAU) during the year. It is prepared based on quarterly reports.

Note: In most cases, the quarterly internal audit reports will be presented in the audit committee meetings (see also formats of the engagement as well as quarterly/annual internal audit report: Appendices C.1 and C.2.).



By coverage of its scope i.e. broad and virtually auditing all operations of the LGA, the audit committee should view the internal audit unit as an important and significant source of information about what is going on within the LGA

9.5 Audit Evidence

Evidence consists of all those matters that tend to support a point or position that is assumed by an auditor;

Audit evidence may be categorized as follows:

- ▶ **Physical:** Direct inspection or observation of activities of people, property or events. Can be documented in the form of memoranda, photographs, charts, maps or other types of physical evidence;
- ▶ **Documentary:** Created information such as accounting records, invoices, letters, contracts and management information on performance;
- ▶ **Testimonial:** Responses to inquiries of through interviews. These also need to be confirmed when possible with additional evidence;
- ▶ **Analytical:** Analysis or verification of information. For instance computations, comparisons with past operations, standards, laws/regulations and evaluations of physical, documentary or testimonial information. [Sawyer's Internal Auditing (2005), The Practice of Modern Internal Auditing, The IIA]

9.6 Audit Recommendation

Audit recommendations are a summary of corrective actions to address shortcomings that were identified by auditors in the course of audit. They are a result of in-depth analytical thinking. They follow a logical analysis of an audit finding termed as the “five attribute of an audit finding” as explained below

1. Condition: “What happened” or “what is happening now”; facts determined by the Internal Auditors’ observations, questions, analysis, verification and investigation. They may include problems or opportunities plus evidence. Example: From the review of six bank accounts, only four accounts had bank reconciliation up to date. Bank reconciliation has not been done for the past three months for two accounts i.e. deposits and projects accounts;
2. Criteria: “What should be”; these include applicable regulations, rules, standards, policies, procedures, practices etc. Example: Order No. 29 (2) of the Local Authority Financial Memorandum (2009) requires that bank reconciliation be carried out at not more than monthly intervals;
3. Cause: Reasons for “what happened” or “what is happening now” i.e “why” the deviations from the criteria occurred.

Example: Auditors established that (i) management has not assigned responsibility for performing reconciliations and that (ii) management has not been monitoring reconciliations;

4. Effects: Cost, exposure, risk or timeliness issues that are actual or potential effects of what was observed.
Example:(i) Lack of accurate information for the LGA on which to base decision; (ii) financial statements of the LGA may be distorted and (iii) possible frauds may not be spotted on time;
5. Recommendation(s): Suggestions or solutions for potential improvements, acknowledgments of satisfactory performance and corrective actions
Example: (i) Management should assign responsibility for performing account reconciliations; and (ii) management should monitor the process of account reconciliations;
6. Management Response or Action Plan: Management has agreed with the auditors' findings and is committed to start implementing the recommendation immediately (within one week)

[Sawyer's Internal Auditing (2005), The Practice of Modern Internal Auditing, The IIA]

Note: The audit recommendation is normally found in the "AUDIT FINDING AND RECOMMENDATIONS" section within the internal audit report.

Table 15: Summary review checklist for Audit Committee

The following steps are important for audit recommendations:

- ▶ Members of the audit committee should be familiar with the formats of internal audit reports which have been agreed for use by auditors in the Government of Tanzania both for MDAs and LGAs;
- ▶ During the committee meetings, it is good practice that the CIA is invited to present the internal audit report;
- ▶ The CIA should present and highlight on the critical issues in relation to audit findings included in the reports; key strengths and challenges faced during implementation of the internal audit plan etc. The CIA should then take through committee members on all key sections of the report;
- ▶ Audit committee members should critically review on the sections of "status of implementation of previous audit recommendations" and "current audit findings and recommendations". Members should evaluate the adequacy of both audit recommendations and management responses;
- ▶ The committee member with accounting and auditing background will guide other committee members in the discussions and reaching at conclusions and/or advice to be submitted to the Accounting Officer.

9.7 Review Questions

- (i) Explain the key sections of concern to audit committee in the internal audit reports.
- (ii) What steps should be followed to enable audit committee members produce recommendations on internal audit reports?

Session 10

10 Guide on Reviewing External Audit Reports

10.1 Introduction

This session discusses practical steps for reviewing external audit reports with emphasis on non-compliance issues as well as the manner in which the audit committee should play its advisory role to the Accounting Officer.

10.2 Session Objectives

At the end of this session, participants will be able to:

- ▶ Understand in broad terms external audit and its opinions;
- ▶ Explain and apply procedures for focusing on non-compliance issues from audit reports;
- ▶ Explain and apply procedures for giving advice to the Accounting Officer.

10.3 Definitions

“Audit Opinion” is a statement recorded in an auditor’s report by the external auditor. It is provided after audit of the LGA’s financial statement and its related financial records stating whether or not the same present a true and fair view of the LGA’s state of affairs.

10.4 Understanding of External Audit and its Opinions

An External Audit can be characterised as follows:

- ▶ An External Audit is generally an audit of financial statements:
 - It is the examination by an independent third party of the financial statements of the organisation;
 - It results in the publication of an independent opinion on whether or not those financial statements are relevant, accurate, complete, and fairly presented;
- ▶ External audits exist to add credibility to the financial transactions undertaken by the LGA;
- ▶ It assures stakeholders that the financial statements fairly represent the LGA’s position and performance during a stated period;
- ▶ As mentioned before, the responsible organ for carrying out annual audits in LGAs is the NAO;
- ▶ External auditors normally end their work by providing opinion (report) on the fairness of financial statements of the LGA. Types of opinion issued may fall under the following categories:
 - **Unqualified Opinion:** Here the external auditor is satisfied that the financial statements present “True and Fair View” of the state of affairs of the LGA. That is, there was

consistency in adhering to laid down rules and regulations and insignificant material misstatement in the financial statements. The financial statements of the LGA can be relied on by users.

- **Qualified Opinion with “Except for...”:** Where the auditors have found some departure from prescribed rules, regulations, generally accepted principles and material misstatements BUT the departure is not significant, they issue a qualified opinion i.e. clerical mistakes which do not impact on decision making based on the financial statements. Some examples include immaterial book-keeping errors. The financial statements of the LGA can be relied on by users.
- **Adverse Opinion:** In this case, the departure from prescribed rules, regulations, generally accepted principles and material misstatements is significant. Financial statements cannot be relied upon for making sound decisions. Examples include significant sums of missing payment vouchers, non-banking of cash receipts, frauds and/or misappropriation of funds etc. The financial statements of the LGA can NOT be relied on by users.
- **Disclaimer of Opinion:** In this case, the scope was limited e.g. books of accounts were not provided for audit, all financial records documents destroyed by fire etc. Thus the auditor cannot form any opinion on the financial statements of the LGA.

10.5 Focusing on non-compliance issues

After completion of the audit, the following reports are issued by the auditors:

- ▶ Report of the CAG on the Financial Statements for the year ;
- ▶ Management Letter on the Financial Statements for the year.

It is important for the audit committee to review both reports and focus on non-compliance issues as explained in the following chapters.

10.5.1 Report of the CAG on the Financial Statements for the Year

The audit report of the CAG contains the following three (3) key sections:

- (i) **Background and General Information:**
 - ▶ Generally includes introductions, brief history of the LGA establishment, function and operational objectives, financing, audit mandate, audit objectives, audit methodology and audit scope.
- (ii) **Audit Report on the Financial Statements for the Year:**
 - ▶ Normally starts from page 6 of the report and addressed to the Hon. Mayor/ Chairperson of the LGA Council;
 - ▶ The opinion of the CAG is given on page 7 - with a sub- title: unqualified opinion or qualified opinion or adverse opinion etc. (whichever might have been given);
 - ▶ The opinion of the CAG is followed by Emphasis of Matter - matters which are drawn attention to the users of the report. These matters will also be critical for the audit committee to focus on to ensure their implementation by management;
 - ▶ Report on other legal and regulatory requirement e.g. compliance with the Public Procurement Act, Environmental Laws etc. The opinion of the CAG on this area should also be the focus of the audit committee for action;

(iii) Annexures to the Audit Report:

▶ The annexures include:

Annex I: Statement of responsibility on the financial statements which is signed by the Accounting Officer;

Annex II: Audited financial statements and notes to the financial statements- should be read thoroughly by members of the committee;

Annex III: LGA's organization structure.

10.5.2 Management Letter on the Financial Statements for the Year in Question

The management letter contains detailed audit findings, responses by management and auditors' recommendations for each audit finding. The audit findings are grouped into two sections viz.:

- ▶ Follow-up on the implementation of previous years' auditors recommendations;
- ▶ Current years' audit findings and recommendations.
- ▶ The audit committee should review all audit findings contained in the management letter, particularly management commentary, and consider whether the information is adequate to ensure rectification of the audit finding (non-compliance issue);
- ▶ The audit committee should consider inviting the external auditor to present and highlight on the key critical issues of concern to the committee.

Table 16: Example for the presentation of audit findings in the management letter

Findings are presented in the management letter in the following way:

Audit Issue: Delayed remittance of cash collection to the Council's headquarters for banking Tshs. 1,000,000

During the surprise cash survey at Mtoni and Mchanga Wards on 21/7/20X2 TShs. 1,000.000 was found at the Wards without being submitted to the Council headquarter for banking since 15/6/20X2 contrary to order No. 50(5) of LAFM (2009)

Cause: Non adherence to order 50 (5) of LAFM (2009).

Effect/Implication: Non-banking of large amount of cash for a long of time may result into loss or misappropriation of cash.

Recommendations:

- ▶ The LGA management should ensure that the revenue collected is remitted on time and banked.
- ▶ The LGA management should ensure adherence to LAFM (2009).

Management Response

The wards have been directed by the LGA's management to remit collections of cash in time.

Audit comment: Management effort will be verified during the next audit.

10.6 Advisory Role of the Audit Committee

After reviewing the report from the external auditor, the audit committee will discuss, deliberate and agree on key issues of concern that will require further follow-up to management. This is to ensure full and adequate implementation of the audit issues that were raised.

The format for providing advice/recommendation by the audit committee to the Accounting Officer is as per the format below.

Table 17: Format for recommendations by the Audit Committee

S/N or MIN. NO.	Audit Issue	Audit Committee Advice/ Recommendation	Responsible Official (Organ)	Implementation Status (by Management)
26/2013	Lack of risk Management Policy	Management is advised to implement risk management system immediately starting from...	Council Planning Officer	



The following should be noted regarding the format for recommendations:

- ▶ The responsible official/organ may be identified by the audit committee (if possible) as a means of assisting the Accounting Officer;
- ▶ The implementation status by the management will be followed-up by the audit committee in its next meeting;
- ▶ The matrix should be appended to a brief report for submission to the Accounting Officer.

10.7 Review Questions

- (i) Explain the main types of audit opinion that are issued by external auditors.

Session 11

11 Guide on How to Take Committee Decisions

11.1 Introduction

This session discusses methods which will enable the audit committee to arrive at its decisions. Understanding decision making methods allows teams to make intentional choices about which method might be most appropriate for the various decisions that the committee will make. There are many methods used in decision making but for the purpose of this session, two commonly used methods: consensus and voting including consideration of legal provisions are discussed.

11.2 Session Objectives

At the end of this session, participants will be able to:

- ▶ Explain different methods which the committee can use in arriving at its decisions;
- ▶ Understand the strengths and weaknesses of decision making process methods;
- ▶ Apply the appropriate decision making process method(s) to suit the particular situations they face.

11.3 Consensus

Consensus is a process for group decision-making. It is a method by which an entire group of people can come to an agreement. When using consensus, the inputs and ideas of all participants are gathered and synthesized to arrive at a final decision acceptable to all. Through consensus, the committee not only works to achieve better solutions, but also promotes trust amongst all members.



Consensus decision making is a creative and dynamic way of reaching agreement between all members of a group. Instead of simply voting for an item and having the majority of the group getting their way, a group using consensus is committed to finding solutions that everyone actively supports, or at least can live with.

Table 18: Strengths and Weaknesses of Consensus

Strengths	Weaknesses
<ul style="list-style-type: none">▶ Most effective method of committee/team decision making▶ All committee/team members express their thoughts and feelings▶ Committee/team members "feel understood"▶ Active listening used	<ul style="list-style-type: none">▶ Takes more time than other methods of decision making▶ Requires commitment and responsibility to the group by its members. Difficulties can however occur if individual team members are not committed to the process.

11.4 Voting

Voting is a win or lose model, in which people are more often concerned with the numbers it takes to “win” than with the issue itself. The decision is arrived when there is majority vote i.e. more than half. Example, if total members are 5, then majority vote will be 3 members (60%). In essence, it is a quantitative, rather than qualitative, method of decision-making.

Table 19: Strengths and Weaknesses of Voting

Strengths	Weaknesses
<ul style="list-style-type: none">▶ Useful when there is insufficient time to make decision by consensus;▶ Useful when the complete team commitment is unnecessary for implementing a decision.	<ul style="list-style-type: none">▶ Voting does not take into account individual feelings or needs;▶ The team or committee is viewed as the “winners and the losers”; reduces the quality of decision;▶ Minority opinion not discussed and may not be valued;▶ May have unresolved and unaddressed conflicts;▶ Full group interaction is not obtained;▶ Taken for granted as the natural, or only, way for teams to make a decision.

11.5 Consideration of Legal Provision

Where legal provisions exist, audit committee decisions should be guided by such legal provisions in arriving at its decisions.



Both methods (consensus and voting) have their own strengths and weaknesses. However, decision by consensus has positive long-standing results regarding committee/team decision making. At times, circumstances may warrant the audit committee to use voting in arriving at its decisions.

11.6 Review Questions

- Explain the two (2) key methods that are used by the audit committee in arriving at its decisions. Which method is most preferred and why?
- Explain circumstances that may call for voting among audit committee members in order to arrive at a decision.

Session 12

12 Guide on Advising the Accounting Officer

12.1 Introduction

This session discusses steps to guide the audit committee on how it should advise the Accounting Officer. It has already been provided in the laws [Order No. 12(5) d and f of the LAFM (2009)] that the audit committee shall provide advice to the Accounting Officer on various matters that it reviews in respect of financial reporting, internal controls, risk management, audit functions and reports, compliance with legal and other regulatory requirements etc. for the LGA.

12.2 Session Objectives

At the end of this session, participants will be able to:

- ▶ Explain and prepare audit committee recommendations
- ▶ Appreciate the need for observing relevant laws and regulations in their recommendations
- ▶ Understand how audit committee advice should be given to the Accounting Officer.

12.3 Audit Committee Recommendations

Audit committee recommendations are the result of the work performed by the committee from its mandated functions during a specific time period (refer also to session 2 which covered the roles and responsibilities of the audit committee). The following points should be noted:

- ▶ The mandated functions are carried out over the year, being distributed on a quarterly basis with at least one meeting taking place per quarter [Order No 12 (5)a of the LAFM (2009)];
- ▶ Normally the audit committee recommendations will arise from discussions and deliberations of issues that have been raised in the auditors and/or other regulatory reports concerning improvement of systems and procedures in the LGA;
- ▶ Conclusions, opinions and/or way forward arising from discussions and deliberations by members of the committee will form part of the recommendations of the audit committee;
- ▶ The recommendations given should be specific, feasible, realistic and/or practical geared towards improving the desired situation in a cost effective manner. Where possible, time frames should be considered in the audit committee recommendations;
- ▶ Recommendations should be clearly documented in brief reports after each committee meeting (refer also to session 5 for issues discussed regarding documentation);
- ▶ Chairman of the committee should arrange formal and informal meetings with the Accounting Officer to give briefings and ultimately submission of the audit committee recommendations to him/her.

Table 20: Example for summarizing Audit Committee recommendations

Example: Summarising Audit committee opinions/advices/recommendations

RISK MANAGEMENT

- ▶ The audit committee noted with concern regarding lack of risk management systems at the LGA. This endangers successful achievement of LGA objectives as risks which the LGA is likely to face are not managed. The committee advised to management immediate implementation of risk management systems i.e. preparation and implementation of risk management framework and risk registers for the LGA.

FINANCIAL REPORTING

- ▶ The audit committee was generally satisfied with the quality of financial reporting in the LGA. However, it noted and advised on the following areas:
 - ▶ Rectify all errors in the year-end adjustments before final accounts are submitted to the CAG for audit;
 - ▶ Ensure consistent application of accrual basis of accounting.

12.4 Relevant Laws and Regulations

Laws and regulations contain procedures and generally the way things ought to be done. While giving its recommendations, the audit committee should be guided by the laws, regulations, and standards including best practices in that specific area. For instance:

- ▶ Financial management matters – Public Finance Act (2001) amended 2004 and 2010; Local Government Finance Act (1982); Local Authority Financial Memorandum (2009) IPSAS etc.;
- ▶ Matters relating to procurements – Public Procurement Act (2011) and its related Local Government Procurement Regulations;

It is important for the audit committee to cite specific provisions of the laws which have been breached and/or are being recommended for adherence.



Audit committees have generally an advisory role reporting to the Accounting Officer. The Chairman of the committee should arrange formal and informal meetings with the Accounting Officer to give briefings and ultimately submission of the audit committee recommendations to him/her.

The audit committee recommendations should be clearly written and above all they should be specific, feasible, realistic and/or practical geared towards improving the desired situation in a cost effective manner.

12.5 Review Questions

- (i) Explain the procedures on how the audit committee should go about advising the Accounting Officer.
- (iii) Explain some of the relevant laws and regulations that should be taken into account by the audit committee while giving its advice to the Accounting Officer.

Session 13

13 The Audit Committee Annual Report

13.1 Introduction

This session discusses format, content and ultimately preparation of the annual audit committee report. Because they have been delegated oversight responsibilities, audit committees have a duty to report their activities to the Appointing Authority. Order No 12 (5) g of the LAFM (2009) requires the audit committee to prepare annual report on its activities and submit it to the Accounting Officer with copies to the Regional Secretariat, Internal Auditor General (IAG), CAG and Minister responsible for Local Governments. The IAG is copied with the report in relation to Section 38 (2) g of the PFA (2001) as revised in 2004 and amended in 2010.

13.2 Session Objectives

At the end of this session, participants will be able to:

- ▶ Explain the reporting responsibilities of audit committee in the LGA;
- ▶ Prepare the audit committee annual report based on agreed format and content.

13.3 Definitions

The "Audit committee Annual Report" is a statement showing the audit committee's activities that were performed during the year.

13.4 Format of the Audit Committee Annual Report

Before discussing the format of the audit committee annual report, let's remind ourselves on the key practical steps for preparing the committee audit report:

- ▶ Preparation of the audit committee annual report starts immediately after the end of the year and production of 4th quarter committee minutes. The secretariat is responsible for preparing the draft report;
- ▶ Well prepared/documented quarterly minutes of the committee will normally lead to timely and quality production of committee audit report;
- ▶ Ensure that the report is clearly written, with brief summaries/opinions/recommendations and simple language. Grammar and other considerations in effective report writing should be observed;
- ▶ All members of the committee should be given opportunity to read/comment on the draft committee audit report before production of the final version for submission to all relevant organs;
- ▶ The final version of the report must be signed by the Chairperson of the Committee;
- ▶ It is good practice that the report should also be produced within the prescribed time of producing LGA's financial statements.

Table 21: Format of the Audit Committee annual report

The audit committee annual report includes the following chapters:
<p>PRELIMINARIES</p> <ul style="list-style-type: none"> ▶ COVER PAGE ▶ SUBMISSION (TRANSMITTAL) LETTER – includes also chairperson's remarks and should be signed by the Chairperson. ▶ TABLE OF CONTENT ▶ ACKNOWLEDGEMENT- General Acknowledgement for the officials and organs that helped the audit committee to perform its activities during the year. ▶ LIST OF ABBREVIATIONS ▶ EXECUTIVE SUMMARY – highlights on key issues of the report. Kept short preferably a maximum of two pages. May not be required if the report is short i.e. 1 to 5 pages. <p>(In Roman numbers starting page (i) from the table of content up to the executive summary)</p> <p>MAIN DOCUMENT (in Arabic Numbers – Starting Page 1 from Section 1 up to the Appendices)</p> <p>SECTION. 1: INTRODUCTION: This section will include establishment of the audit committee at the LGA, legal mandate and general purpose of the audit committee.</p> <p>SECTION. 2: AUDIT COMMITTEE MEMBERS AND ATTENDANCE: Under this section, members of the audit committee will be listed. Also, position of each member in the committee as well as number of meetings attended.</p> <p>SECTION. 3: AUDIT COMMITTEE RESPONSIBILITIES. Under this section, the key responsibilities of the audit committee will be mentioned.</p> <p>SECTION. 4: AUDIT COMMITTEE ACTIVITIES PERFORMED AND/OR ADVICE GIVEN DURING THE YEAR. This is the key section which will highlight the audit committee's opinion, advice/ recommendation given arising from its mandated activities during the year i.e.</p> <ul style="list-style-type: none"> a. Risk Management and Internal Controls b. Financial Reporting including Audited Financial Statements c. Relationships with management, internal and external auditors d. Compliance with legal and other regulatory requirements e. Other Governance Issues <p>SECTION. 5: SUCCESSSES, CHALLENGES AND WAY FORWARD. Under this section, the successes, challenges and proposed recommendations for overcoming the challenges that were encountered by the committee during the period are mentioned. (i.e. improvement of the audit committee services in the next year).</p> <p>APPENDICES (if any)</p>

13.5 Content of the Report

As discussed in section 13.1 above, the content of the audit committee Annual report includes:

- ▶ Authority/mandate of the audit committee;
- ▶ The composition and affiliation of audit committee members.

Example:

Name of Member Attended	Position	Number of Meetings
John Mabula	Chairman	4
Mussa Mapunda	Member	4
Sally Manen	Member	3
Tom Mwakalindile	Member	4
Zuena Massawe	Member	4

- ▶ Audit committee's purpose, objectives, and responsibilities- as provided in the charter;
- ▶ Audit committee activities performed during the year. This will basically be the summarized audit committee opinions and/or advices/recommendations given for the following areas of responsibilities of the audit committee:
 - Risk management: to what extent is the LGA implementing effective risk management systems;
 - Internal controls: whether the system of internal control is effective or not. Areas requiring improvement are listed;
 - Financial reporting including audited financial statements- quality of financial statements, any accounting issues that arose, accounting policies and practices, auditor's management letter, audited financial statements of the LGA;
 - Description of its relationship with executive management, internal and external auditors;
 - Compliance with legal and other regulatory requirements; and
 - Other governance issues in the LGA.

(Note: Refer also to sessions 5 and 12 for writing summaries of opinions/advices/recommendations).



Good practice has shown that:

- ▶ the report makes the audit committee more visible as well as improve communications with its stakeholders;
- ▶ the report also reinforces the audit committee members' awareness and acceptance of their charter responsibilities.

13.6 Review Questions

- (i) Explain the main components of the audit committee annual report.
- (ii) Discuss and make improvements on the audit committee annual report of your LGA for the year 2011/12. (NB. If there was no report, using the quarterly minutes of the committee for the year 2011/12, prepare the annual audit committee report).

References

- 1 Braiotta, et al (2010), Audit Committee Handbook.
- 2 Commonwealth of Australia (2011), Public Sector Audit Committees: Better Practice Guide.
- 3 Deloitte (2005), Public Sector Audit Committee: Resource Guide.
- 4 Sawyer's Internal Auditing (2005), The Practice of Modern Internal Auditing, The IIA.
- 5 The IIA, International Professional Practices Framework (2011) version 2013.
- 6 URT (2013) Guidelines for Audit Committees in the Public Sector.
- 7 URT (2013) Internal Audit Manual for Local Government Authorities.
- 8 URT (2010) The Public Finance Act, 2001 as revised 2004 and amended 2010.
- 9 URT (2009) the Local Government Financial Memorandum.
- 10 Verschoor, C (2008), Audit Committee Essentials (USA).

APPENDICES

Appendix A: Sample Letter of Appointment³

(LGAs Letterhead)

(Date)

(Member name and address)

APPOINTMENT AS AUDIT COMMITTEE MEMBER

I am pleased to confirm your appointment as a member of the (XYZ LGA) audit committee. I am writing to set out the terms of your appointment. Please note that this is a contract for services and is not a contract of employment.

Duration of Appointment

The appointment is for an initial terms of (...years) commencing on (date), contingent on the appointment not otherwise terminating in accordance with the (committee's charter).

Audit committee members are typically expected to serve (expected term), although the (Accounting Officer) may invite you to continue on as a member for an additional period thereafter.

Role of the audit committee

The audit committee acts as an advisory body independent of management and internal and external audit, reporting directly to the (Accounting Officer) on accountability and audit related matters. In particular, it assists the Accounting Officer to:

- ▶ Provide an independent review of the LGA's reporting functions to ensure the integrity of the financial report.
- ▶ Ensure all internal control and risk management functions are operating effectively and reliably.
- ▶ Provide strong and effective oversight of the LGA's internal and external audit functions.

A copy of the Audit Committee Charter is included in the attached binder of reference material.

Committee Members

The members and secretary of the committee are as follows:

Name	Position	Phone	Email
	Chair		
	Secretary		
	External Member		
	External Member		
	Internal Member		
	Internal Member		

³ Adapted from the Guidelines for Audit committee 2013 issued by Ministry of Finance, IAGD (Template2)

Commitment

Your duties as an audit committee member are expected to typically take (number) days per year, including time to read papers in preparation for meetings and a programme of activity to keep you in touch with the LGA's activities and priorities.

Remuneration**Conflicts of Interest**

All possible conflicts of interest are to be notified to the Chair of the audit committee prior to the first meeting of the committee. If during the period of appointment to the audit committee your personal circumstances change in any way that may result in a conflict of interest for you in your audit committee role, you are to immediately declare the circumstances to the Chair of the audit committee.

In addition, each member is required to declare all conflicts of interest at the beginning of every audit committee meeting if an agenda item indicates a conflict. If a conflict of interest arises during a meeting you are required to disclose the conflict immediately. All conflicts of interest and all pecuniary interests of all members are to be recorded in a Register of conflicts of Interest which will be available at each audit committee meeting.

Induction Process

In preparation for your role as audit committee member, I have enclosed a binder of reference material to assist you in familiarizing yourself with the workings of (XYZ LGA).

Confidentiality

All information acquired during your term of office is confidential to the agency and should not be disclosed either during your appointment or after termination (by whatever means) to third parties except as permitted by law and with prior clearance from the Chair.

Enclosed is a Confidentiality Acknowledgement form. Please sign and return the form prior to the first meeting of the committee.

Termination

If you choose to resign from this appointment, you will be expected to give (number) months' notice, unless your circumstances have changed in a way that makes it appropriate for you to resign immediately. If your performance as an audit committee member is determined to be unacceptable or if your conduct (including conflicts of interest) is unacceptable, your appointment may be terminated by the (Accounting Officer).

Should you have any further questions, please do not hesitate to contact me.

Yours sincerely

(Name)

Accounting Officer

Encl.

Appendix B: Typical Example/Illustration of how complete Temperate⁴ 1: Audit Committee Charter

1.0 Audit Committee Authority

Pursuant to Order No 12 (1) and (2), the Accounting Officer of the Umoja City Council has established an audit committee to assist the LGA in the oversight of the risk management, controls, financial reporting, compliance internal and external audit functions and other governance arrangements. In accordance with regulations, the role of an audit committee shall be advisory to the Accounting Officer.

2.0 Purpose of an Audit Committee

The audit committee will assist the Accounting Officer to provide independent advice, assistance, and recommendations in the oversight of the risk management, controls, financial reporting, compliance internal and external audit functions and other governance arrangements of the council.

3.0 Composition and Requisite Skills

Umoja City Council audit committee is comprised of five (5) members. The Committee shall include three (3) members within the council and two (2) members outside the council.

The Committee members collectively should possess basic knowledge in accounting/ financial management needed to understand and evaluate the council's financial statements, the external audit and the internal audit activities. Accordingly, the audit committee's members, collectively, should:

- ▶ Possess the requisite knowledge necessary to understand key financial reporting issues;
- ▶ Have the ability to communicate with auditors and management;
- ▶ Be knowledgeable about internal controls, financial statement audits and management/ operational audits.

4.0 Duties and Responsibilities

The duties and responsibilities of Umoja City Council audit committee include the following:

Risk Management

- ▶ Review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures designed to ensure that the identification and management of the council's operational and financial risks, including fraud, are effective;
- ▶ Determine whether a sound and effective approach has been followed in managing the council's major risks including those associated with individual projects, programme implementation, and activities;
- ▶ Assess the impact of the council's enterprise risk management framework on its control environment and insurance arrangements;
- ▶ Determine whether a sound and effective approach has been followed in establishing the council's business continuity planning arrangements, including whether business

⁴ Adapted from the Guidelines for Audit committee 2013 issued by Ministry of Finance, IAGD

- continuity and disaster recovery plans have been periodically updated and tested;
- ▶ Review quarterly reports on implementation of risk management strategies.

External Audit Focus

- ▶ As far as practicable, coordinate audit programmes conducted by the Controller and Auditor General;
- ▶ Review external audit reports involving matters of concern to senior management of the Council including the identification and dissemination of good practices;
- ▶ Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis;
- ▶ Ensure that management responds to recommendations by the external auditors;
- ▶ Provide advice to the Accounting Officer on action to be taken on matters of concern raised in a report of the Controller and Auditor General concerning the Council.

Internal Audit Focus

- ▶ Assist in the oversight of the internal audit function, including reviewing the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested, and reviewing the results of internal audit activities;
- ▶ Be responsible for the approval of internal annual and strategic audit plans of the Council;
- ▶ As far as practicable, coordinate audit programmes conducted by internal auditors;
- ▶ Review significant findings and recommendations made by internal auditors in their internal audit reports;
- ▶ Monitor implementation of the internal auditor's recommendations by management;
- ▶ Provide advice to the Accounting Officer on action to be taken on matters of concern raised in a report of internal auditor concerning the Council.

Financial Reporting

- ▶ Gain an understanding of the current areas of greatest financial risk and how management is managing these effectively;
- ▶ Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements of the Council;
- ▶ Provide advice to the Accounting Officer on the preparation and review of financial statements of the Council.

Compliance with Laws and Regulations

- ▶ Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance;
- ▶ Be satisfied that all regulatory compliance matters have been considered in the preparations of the financial statements of the Council;
- ▶ Review the findings of any examinations by regulatory agencies.

Other Governance Arrangements

- ▶ The council's governance arrangements remain relevant and responsive to business developments and change in business risks;

- ▶ The council has appropriate mechanisms in place to review and implement, where appropriate, relevant parliamentary committee reports and recommendations;
- ▶ The council has a performance management framework that is linked to organisational objectives and outcomes;
- ▶ Management has in place appropriate processes to develop performance indicators, and systems and procedures to report against them in the council's annual report.

Administrative

- ▶ Meet at least quarterly;
- ▶ Prepare an annual report on its functions, copies of which shall be sent to the Accounting Officer, Paymaster General through Internal Auditor General, the Controller and Auditor General and Regional Commissioner.

5.0 Meetings and Notification

Umoja City Council audit committee shall meet a minimum of four (4) times each year. An agenda of each meeting should be clearly determined in advance and the audit committee should receive supporting documents in advance, for reasonable review and consideration.

The audit committee shall give notice and prepare minutes of each meeting. At a minimum, the minutes will include the following:

- ▶ The meeting agenda;
- ▶ Date, attendance and location of the meeting;
- ▶ Except as otherwise provided by law in connection with executive sessions, summaries of the topics discussed, and all motions, proposals, resolutions and any other matters formally voted upon and the vote thereon, including recommendations agreed to by the committee.

6.0 Decision-Making Process (Quorum)

All decisions shall be reached by vote of a simple majority (3) of the total membership of the committee. A quorum constitutes a simple majority of the total membership and meetings will not be conducted unless a quorum is present.

7.0 Role of the Accounting Officer

- ▶ The Accounting Officer is responsible and accountable for the establishing an audit committee and appointing its members.
- ▶ Has the key role in supporting the effectiveness of the audit committee.
- ▶ Accountable in the recommendations and advice made by the audit committee members.
- ▶ Recipient of the quarterly minutes of audit committee meeting.
- ▶ Discuss and share strategic key and plans issues with the audit committee e.g. Risks management, significant projects etc.
- ▶ Discuss performance and achievements of the audit committee during the year.

8.0 Role of the City Treasurer

- ▶ Preparation of the Council financial reports
- ▶ Discussion with the audit committee members on the financial reports.

- ▶ An invitee to the audit committee meetings to present financial reports and discuss related matters.

9.0 Role of the City Internal Auditor

- ▶ Preparation of the Quarterly Internal Audit reports
- ▶ An invitee in the audit committee meetings to present the Internal Audit reports.
- ▶ Discuss with the audit committee members on matters relating to improving effectiveness of internal controls of the Council.

10.0 Role of the External Auditor

- ▶ To conduct external audit for the Council.
- ▶ An invitee to the audit committee meetings as an observer
- ▶ Give the audit committee members technical advice on matters relating to the external Audit.
- ▶ Discussion with the audit committee members on matters geared toward improving Council functions.

11.0 Codes of Conduct and Ethics

The Committee requires careful observance of applicable laws and regulations. High standards of conduct and personal integrity are essential for the Committee to maintain the confidence of the Accounting Officer, Management and other employees in the Council. To ensure that all Committee members embrace and promote sound ethical practices, the Committee requires that all members agree that he or she will:

- ▶ Act with honesty and integrity, avoiding actual or apparent conflicts of interest in person and professional relationship.
- ▶ Comply with the LAFM (2009), directives/circulars from Prime Minister's Office Regional Administration and Local Government (PMO-RALG)/Treasury and Committee terms of reference/charter
- ▶ Act in good faith, responsibly and with due care, competence and diligence, without misrepresenting material facts or allowing one's independent judgment to be impaired and
- ▶ Objectively advice the Accounting Officer.

12.0 Powers

The audit committee has no executive powers. It reports to and makes recommendations to the Accounting Officer.

13.0 Reporting Requirements

Umoja City Council audit committee has the duty and responsibility to report its activities to the Accounting Officer copies to the Paymaster General through Internal Auditor General, Controller and Auditor General, Regional Commissioner as needed, but not less than annually. Periodic written reports of audit committee activities are an important communication link between the audit committee and the Appointing Authority on key decisions and responsibilities. The audit committee's reporting requirements are to:

- ▶ Report on the scope and breadth of committee activities so that the Accounting Officer/ Paymaster General through Internal Auditor General, Regional Commissioner and Controller and Auditor General are kept informed of its work;
- ▶ Provide minutes or a summary of minutes of meetings which clearly record the actions and recommendations of the Committee;
- ▶ Report on their review of the Council’s draft annual audit report and accompanying management letter and their review of significant findings;
- ▶ Report on suspected fraud, waste or abuse, or significant internal control findings and activities of the internal control function;
- ▶ Report on indications of materials or significant non-compliances with laws, regulations and policies;
- ▶ Report on any other matters that the committee believes should be disclosed to the Accounting Officer.

14.0 Evaluation of Committee Activities

- ▶ The committee will undertake an annual self-assessment of its performance for the previous twelve months in June each year.
- ▶ The committee will provide a report of the annual review outcomes to the City Director.
- ▶ At least once every three years the committee will arrange for an external peer review of its operations and activities. The results of this review are to be provided directly to City Director.
- ▶ The Chairperson will provide each individual member with feedback on that person’s contribution to the committee’s activities at least once during each member’s term of office. This assessment will include a review of any training needs of the member.

15.0 Review of the Charter

Umoja City Council audit committee shall assess and report to the Accounting Officer/ Paymaster General through Internal Auditor General, Regional Commissioner and Controller and Auditor General on the adequacy of this Charter not less than an annual basis or as necessary. Charter modifications and amendments will be discussed and approved by the City Director.

16.0 Approval of Charter

Umoja City Council audit committee charter is endorsed by the Chairperson of the Committee and approved by the City Director.

.....
 T. R. Mjamaa
 Chairperson, Audit Committee

.....
 Kujitegemea Maendele
 City Director

Appendix C: Financial Reporting Checklist⁵

Financial Reporting	Yes	No	Comment
<p>Timing</p> <p>Are there processes in place to ensure that the audit committee is being advised of all significant financial statements issues, on an ongoing basis throughout the year?</p> <p>Are arrangements in place to ensure the financial statements are available for audit and completed within the timeframes agreed with the external auditors to ensure legislated requirements are met?</p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	
<p>Presentation and Disclosure</p> <p>Have any changes in the Financial Reporting Requirements and relevant accounting standards been identified and reflected in the LGA's financial statements?</p> <p>Do the financial statements comply with all reporting and disclosure requirements?</p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	
<p>Accounting Policies</p> <p>Are accounting policies disclosed for all significant items or transactions?</p> <p>If any accounting policies changed during the year:</p> <p>Is the change in accounting policy considered appropriate?</p> <p>Are the effects of the change in accounting policy adequately disclosed?</p> <p>Were all alternatives considered when selecting the most appropriate accounting policies?</p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	

⁵ Adapted from the Guidelines for Audit committee 2013 issued by Ministry of Finance, IAGD (Temperate 4)

Financial Reporting	Yes	No	Comment
Content of Financial Statements			
Were significant accruals or adjusting entries made as part of the year end accounting process?	<input type="checkbox"/>	<input type="checkbox"/>	
Have there been any significant post-balance date events that should be disclosed?	<input type="checkbox"/>	<input type="checkbox"/>	
Has the financial impact of any outstanding contractual or legal matters been identified and reflected in the financial statements?	<input type="checkbox"/>	<input type="checkbox"/>	
Has the financial impact of cross institutional governance arrangements and any contractual matters been appropriately reflected in the financial statements?	<input type="checkbox"/>	<input type="checkbox"/>	
Have there been any irregularities or fraud during the year which could impact on the financial statements?	<input type="checkbox"/>	<input type="checkbox"/>	
Have all issues that were raised by auditors in the previous year regarding financial reporting been considered in the financial statements?	<input type="checkbox"/>	<input type="checkbox"/>	

Appendix C.1: Format of the Individual Engagement Report

LOGO and Particulars of the Organisation

SUBJECT:

SUBMISSION LETTER

MAIN REPORT

EXECUTIVE SUMMARY

(May not be required when reports can be kept short i.e. 1-5pages). The executive summary should:

- ▶ General objective and scope of the engagement and include brief descriptions of the audit entity.
- ▶ The rationale for the audit, and the criteria and approach employed, including references to professional standards.
- ▶ Summative conclusion or opinion (which will also include an assurance statement).
- ▶ Key observations, recommendations and management responses may also be included.
- ▶ Does not exceed two pages.

INTRODUCTION

- ▶ May cover general information on the area being audited e.g. a project, organisation etc.
- ▶ Also its establishment law, objectives and functions.

OBJECTIVE

- ▶ Reason for the engagement and the specific objectives.

SCOPE

- ▶ Context of the subject matter (e.g. a description of the programme, activity, issue, organization, or system examined, its place within the department or agency, and its importance or a description of exclusions).
- ▶ Timing (the period covered by the evidence examined).

APPROACH OR METHODOLOGY

- ▶ Criteria (against which the observations and assessments were made and conclusions were drawn).
- ▶ Work conducted.
- ▶ Standards used (any professional standards, e.g. IIA, governing how the work was done).
- ▶ Timing (the period during which the work was done).

FINDINGS AND RECOMMENDATIONS

- ▶ For each area of observation:
 - (A topic sentence may be employed to introduce the essence of the observation)
 - Condition
 - Criteria
 - Cause
 - Effect/Impact and Exposure to risk = sub-heading.
 - Recommendation (action required and responsibility) = sub-heading.
 - Management (Auditee/Head of Unit/Department) Response and Action Plan (or as a separate section as below) = Sub- heading.
 - Action to be taken for each recommendation and timing

CONCLUSIONS OR OPINIONS

- ▶ Conclusions on objectives and any qualifications.
- ▶ Compliance with relevant laws, regulations, policies, and standards.
- ▶ A summative conclusion may be desirable.
- ▶ A statement of assurance may be included or may be referenced if it is addressed in a covering memorandum.
- ▶ Other higher level results relative to engagement objectives.

COMPLIANCE PLAN

- ▶ In the final conclusion of the audit, the following compliance plan was agreed between the auditors and management.

Actionable Area	Person Responsible	Action Plan	Due Date

We have no further comments and agree to the action plan as committed above.

	Auditor	Auditee
Name		
Signature	Signed in original	Signed in original

ACKNOWLEDGEMENT

APPENDICES

Appendix C.2: Format of Internal Audit Quarterly/Annual Report⁶

PRELIMINARIES

- ▶ OVER PAGE
- ▶ TABLE OF CONTENT
- ▶ ACKNOWLEDGEMENT
- ▶ LIST OF ABBREVIATIONS
- ▶ LIST OF FIGURES & TABLES
- ▶ EXECUTIVE SUMMARY

MAIN DOCUMENT

1.0 INTRODUCTION AND BACKGROUND INFORMATION

May cover the following:

- Internal Audit Function- mandate and key functions
- Internal audit staff at the organization
- Vision, mission and key functions of the organisation

2.0 PROGRESS ON IMPLEMENTATION OF THE ANNUAL AUDIT PLAN

This chapter should highlight the following:

- Planned audit activities/services during the quarter or year
- Activities/Services implemented during the quarter (can also quantify in percentage)
- Successes and challenges encountered so far in implementing the annual audit plan

3.0 OF PREVIOUS QUARTER'S/YEAR'S AUDIT RECOMMENDATIONS

List the recommendations which were outstanding during the previous quarter/year and indicate their status of implementation

Report Date	Report Title	High Level Audit Objective(s)	Audit Issue(s)	Recommendation(s)	Status of Implementation	Any Other Remark(s)

⁶ Adapted from the Internal Audit Manual 2013 issued by Ministry of Finance IAGD (Temperate33)

4.0 AUDIT ACTIVITIES/SERVICES PERFORMED DURING THE QUARTER/YEAR

The key chapter showing summary of the following:

Audit activities/services performed by the Internal Audit Unit during the quarter/year. The audit activities/services should be grouped into two categories viz. Audit Services (Assurance & Consulting Services) and Non-Audit Activities/Services

4.1 Audit Services (Assurance & Consulting Services)

4.1.1 Assurance Activities/Services

- ▶ Payroll Audit
- ▶ Human Resources Audit
- ▶ Procurement Audit
- ▶ Budgeting Audit
- ▶ etc.

NB. Provide summary audit issues, recommendations, management response and agreed action plans for each audit assignment either using narratives or tabular form

4.1.2 Consulting Services

Detail other consulting services that were performed by the Unit (i.e. special audits requested by management and other consulting services)

Examples:

- ▶ Special Audit on
- ▶ Risk Management and Development Risk Register Training
- ▶ Facilitate training in preparation of final accounts to finance staff etc.

4.2 Non-Audit Activities

List all non-audit activities that were performed by the Unit during the quarter (e.g. attending non-audit meetings etc.)

5.0 CONCLUSION AND RECOMMENDATIONS

Conclusion and proposed recommendations for overcoming the obstacles that were encountered by the IAU during the period (i.e. improvement of audit services in the next quarter/year).

APPENDICES

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