



Government of Jamaica

Audit Committee Handbook for Ministries, Departments and Executive Agencies

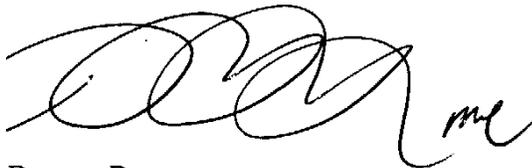
May 7, 2013

Foreword

The Government of Jamaica's governance machinery must keep pace with emerging trends and best practices on governance, risk and control within the Public Sector. Since 2004, the role and responsibilities of audit committees have been promulgated in policies and legislations designed to ensure that the highest professional standards are maintained.

The promulgation of this Handbook on audit committee procedures is indicative of the Government's commitment to ensuring that these committees are equipped with the tools needed to discharge their oversight responsibilities in a transparent, effective and efficient manner.

I trust that audit committee members, in Ministries, Departments and Agencies will find this to be a useful reference in performing their oversight responsibilities.

A handwritten signature in black ink, consisting of several loops and a trailing 'me' at the end.

Devon Rowe,
Financial Secretary

May 2013

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PREFACE

Introduction

The Government of Jamaica (GOJ) is committed to improving the governance structure within all Ministries, Departments and Executive Agencies and has established several corporate bodies, legislations, policies and procedures to guide this machinery. One such body is the GOJ Audit Commission. The Commission is a promulgator of International Standards and best practices in Audit and is committed to providing codified procedures to strengthen and advance the Audit function within Central Government.

The 2009 Amendments to the Financial Administration and Audit (FAA) Act now provides comprehensive detail on the structure and procedures of audit committees and gives statutory strength to the guidelines. As such, the original Audit Committee Policy has been made redundant with its passing. This Audit Committee Handbook is intended to be used as a supplement to the FAA Act which is the premier guide on all Audit Committee related issues. This Handbook also provides samples of standard forms which should be utilized by all Audit Committees.

Application

The Audit Committee Handbook is issued by the Financial Secretary and Audit Commission and should be used by all Audit Committees established within Ministries, Departments and Executive Agencies in accordance with Section 33 of the FAA Act (Amendment). The specimen documents provide a guide to the formats for reports, the audit committee charter, audit committee and internal audit unit evaluation and the standardized letter head format for presenting written communication.

N.B. The narratives contained within Specimens 1 - 3 are not intended to be prescriptive but are to be used as guides to formulating the required documents.

Meeting Procedures

The Audit Committee may regulate its proceedings subject to the provisions of the First Schedule to the Financial Administration and Audit (FAA) Act. Notwithstanding, committees are expected to meet at least quarterly at a time and place determined by the committee.

The quorum of the Audit Committee shall be **three (3)** members.

All meetings should be properly documented with the following information being recorded:

- ❖ Members in attendance and absent
- ❖ Agenda items for discussions
- ❖ Decisions taken and recommendations made
- ❖ An action list to follow-up on queries issued to management of the internal audit unit. This action list should be disseminated to these individuals prior to the next meeting so that appropriate action can be taken.

The Audit Committee is required to submit to the Audit Commission a report following each meeting which provides a summary of the significant discussions and decisions of the meeting. This report should be submitted no later than two (2) weeks after the meeting has been held and does not replace the comprehensive annual report which is due four (4) months after the end of the financial year. Specimen 2 represents a sample of this report.

Specimen 1

Generic Audit Committee Charter

The Audit Committee of the Ministry of shall consist of a minimum of five or a maximum of seven members. Audit committee members shall be appointed by the Audit Commission. A minimum of two thirds of the members of the audit committee shall be independent that is, these persons should not be employees or affiliates of the entity and its associated subsidiaries (departments and executive agencies).

The audit committee shall have a mixture of analytical, accounting financial and managerial experience to enable them to discharge their responsibilities.

The purpose of the committee shall be to assist the entity in its oversight of the integrity of the financial statements, compliance with the relevant Acts and policies, and the performance of the entity's internal audit function and external auditors.

In furtherance of this purpose, the committee shall have the following authority and responsibilities:

- ❖ To review the entity's internal system of audit and financial controls and the results of internal audits
- ❖ To review the annual audit plan and periodic status report
- ❖ To review and investigate any matter pertaining to the integrity of management, including conflicts of interest or adherence to standards of business conduct as required in the policies of the entity.
- ❖ To review the entity's financial reporting and accounting standards and principles.
- ❖ To discuss with management and the chief internal auditor, as appropriate, any audit problems or difficulties and management's response to issues raised in audit reports.
- ❖ To discuss with management and the external auditor the annual audited financial statements.

The committee shall meet quarterly to discuss issues pertaining to any of the above.

The committee shall have authority to retain such outside counsel, experts and other advisors, as the committee may deem appropriate. The committee is dedicated to discharging its duties with due diligence and care, with the highest degree of confidentiality being upheld at all times.

Where applicable, the committee may give advice on the retention terms of the external auditors.

The committee shall report its recommendations to the Accounting Officer. The annual report of the committee's activities will be submitted to the Audit Commission.

The committee shall review at least annually, the adequacy of this charter and recommend any proposed changes to the Accounting Officer.

The committee shall be subject to an annual evaluation by the Audit Commission.

Specimen 2

Generic Audit Committee Meeting Report

This generic report should not be viewed as prescriptive but is intended to be a guide. The Audit Committee report may include areas of concerns or observations as considered appropriate, that have not been outlined in this template.

Report to the Permanent Secretary and Audit Commission of meeting held on April 1, XXXX

The committee met on April 1, XXXX and discussed the items listed on the agenda of the meeting for action. These included the following:

- Audit of the
The Internal Audit Function as part of its annual audit program, conducted an audit of the Head Office of the Entity for the period September 1, XXXX to February 28, XXXX. The audit evaluated the effectiveness of the control environment, compliance with the relevant Acts and policy guidelines issued and the integrity of the financial reports. The report highlighted a generally acceptable level of internal controls except in the area of disbursements where sporadic deviations from management's control policy were noted. The Committee concurred with the recommendation given that senior management should ensure that all internal controls are adhered to prior to approval.
- Internal Audit Plan and Status Report
The CIA presented the Internal Audit Status report for the period January 1, XXXX to March 31, XXXX pointing out key audits and initiatives undertaken in the department. All regulatory and financial audits were completed as required. The Internal Audit Unit remains on target based on the annual audit plan.

Management Response Update

Management's response to internal and external audit queries is outstanding in a number of cases. (These outstanding audit queries should be highlighted.) The committee continues to emphasize the urgency and importance of these responses and urges the CIA to maintain dialogue with the respective individuals to this end. Management response to the audit report for the first quarter has been received. (The audit committee should evaluate and comment on whether the responses to both

the internal and external audit reports adequately address the concerns of the auditor and where necessary communicate this to management as well as the Accounting Officer.)

Audit Planning Overview

The audit approach by the internal/external auditors was presented. This highlighted the continued use of the business risk approach for the financial year XXXX/YYYY. The audit is expected to commence on February 15, XXXX and the first draft of the financial statements and management letter are expected by March 7, XXXX.

Specimen 3

Generic Annual Audit Committee Report

These generic reports should not be viewed as prescriptive but are intended to be a guide. The Audit Committee report may include areas of concerns or observations as considered appropriate, that have not been outlined in these generic reports.

Name of MDA

Report of the Audit Committee

We are pleased to present our report for the financial year ended March 31,XXXX.

Audit Committee members and attendance

The audit committee consists of the members listed below. Quarterly meetings were held as per the approved charter and during the current year four meetings were held:

Name of Member	Number of Meetings Attended
John Doe (Chairman)	4
Brigg Holms	4
Sally Botha	3
T. Hindi	4
A. Khan	4

Audit Committee Responsibility

The Audit Committee reports that it has adopted a charter that has been approved by the Accounting Officer. The affairs of the committee are in compliance with the charter and the committee has discharged all its responsibilities as contained therein.

The Effectiveness of Internal Control (select the appropriate paragraph below)

The system of internal control is effective as the various reports of the Internal Auditors, the matters of emphasis and management letter of the external auditors have

not reported any significant or material non-compliance with prescribed policies and procedures. The audit activities for the year have been guided by the results of periodic risk assessment.

OR

The system of internal control is not effective as compliance with prescribed policies and procedures is lacking. During the year under review, several instances of non-compliance were reported by internal and external auditors, which resulted from a breakdown in the functioning of controls. The weaknesses previously reported have not been addressed satisfactorily by the Accounting Officer. This is evidenced by the lack of response to the audit committee's queries and the non-implementation of recommendations made by the auditors.

(It is very important that the audit committee substantiate these statements and should, where necessary sight instances of the failure by the Accounting Officer and his/her management to be responsive to audit or the audit committee queries etc.)

The Quality of the Current Year Internal Audit and Management Quarterly/Monthly Reports in Accordance with Government Guidelines
(Select the appropriate paragraph below)

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Internal Audit Unit and the Ministry (via other units) during the year under review. However, it was noted that..... (e.g. reconciliations are not prepared on a timely basis for several accounts). *(State here e.g. weakness identified; areas that require improvement; solutions or recommendations that would aid in the overall improvement of the internal or external audit function.)*

OR

The committee is not satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Internal Audit Unit and the Ministry (via other units) during the year under review. Critical issues noted are:.....

Evaluation of Financial Statements

The Audit Committee has:

- Reviewed and discussed with the Accounting Officer and where applicable, the Principal Financial Officer/Director of Finance, the audited/un-audited annual financial statements to be included in the annual report.
- Reviewed the Auditor-General’s Annual Audit Report (management letter) and management responses.
- Reviewed changes in accounting policies and practices.
- Reviewed significant adjustments resulting from the audit

The Audit Committee concurs and accepts the conclusions of the Accounting Officer or where applicable the Board of Directors, on the annual financial statements and is of the opinion that the audited annual financial statements can be accepted and read together with the annual report.

.....

Chairperson of the Audit Committee

Date:.....

Specimen 4

Evaluation of Internal Audit Units

Evaluation of Internal Audit Unit	YES	NO	Comments (Please attach additional pages for comments, if needed)
1. Are the Unit's size and structure adequate to meet its established objectives?			
2. Is the experience level of the internal auditors adequate?			
3. Is the technical knowledge of the Internal Auditors sufficient to ensure that duties are performed appropriately?			
4. Does planning of the Unit's work include written audit plans and programs?			
5. Are the internal audit reports issued on a timely basis?			
6. Do the internal audit reports include sufficient detail for effective action by management and or the audit committee?			
7. Does management respond in an appropriate and timely fashion to recommendations and comments made by the internal auditors?			
8. Do internal audit activities encompass operational, compliance, financial areas including the quality of internal controls, the risk of fraud, and governance matters?			
9. Is there anything that could be done in the future to maximize the Unit's			

effectiveness and efficiency?			
10. Does the internal audit team have a periodic 'peer review' performed and, if so, in summary what were the results of the latest review?			
11. Is the Unit's work concentrated in areas of high risk and sensitivity?			
12. Does the internal audit unit maintain a database of recurring findings and uses this to evaluate the quality of internal controls?			
13. Does the internal audit team keep itself informed of, and involved in professional activities?			
14. Has the charter of the internal audit unit been evaluated by the CIA and management to determine if it is still appropriate?			
15. Has the Unit established performance measures that are specific to the areas of efficiency, effectiveness, quality and productivity			
16. Has the Unit produced an actual report on its activities and performance measures			

Specimen 4

Evaluation of Audit Committee to be completed by Audit Commission

	<u>Rating</u> 5 – Very Strong 4 – Strong 3 – Satisfactory 2 – Adequate, improvement needed 1 – Significant improvement needed	Comments (Please attach additional pages for comments, if needed)
Organization		
1. The audit committee charter clearly sets forth the nature and scope of responsibilities, and has been approved by the committee and the Accounting Officer.	5 4 3 2 1	
2. The audit committee's actions reflect independence from management, ethical behaviour, and the best interest of stakeholders.	5 4 3 2 1	
Oversight of the Financial Reporting and Audit Process		
3. Minutes and reports to the Accounting Officer reflect the significant activities, actions, and recommendations of the committee.	5 4 3 2 1	
4. There is meaningful discussion and consideration of the entity's financial reporting	5 4 3 2 1	

risks and the related internal controls, which are reflected in the audit committee's discussions and agenda items.		
	Rating 5 – Very Strong 4 – Strong 3 – Satisfactory 2 – Adequate, improvement needed 1 – Significant improvement needed	Comments(Please attach additional pages for comments, if needed)
5. The audit committee's actions demonstrate its direct responsibility for the oversight of the work of the internal and external auditors.	5 4 3 2 1	
6. There is appropriate consideration of the internal audit department's annual audit plans, resources, and ability.	5 4 3 2 1	
7. There is appropriate consideration of the internal audit department's reports, management response, and improvement actions.	5 4 3 2 1	
8. There is appropriate consideration of the reports and other communication from the external auditors.	5 4 3 2 1	
9. Any and all matters identified that require follow-through are resolved.	5 4 3 2 1	
Overall Evaluation		
10. What is your overall assessment of the performance of the audit committee?	5 4 3 2 1	

Specimen 5

Sample Letterhead

The Audit Committee is being advised that all correspondence originating from the Committee should be placed on the letterhead of the relevant Ministry, Department or Agency. This letterhead should be amended to include the names of the committee members. Please see an example, below.



MINISTRY OF WATER AUDIT COMMITTEE

Audit Committee Members: John Doe (Chairman), Brigg Holms, Sally Botha, T. Hindi, A. Khan