

**PUNTLAND STATE OF SOMALIA**  
**DISTRICT AUDIT COMMITTEE MANUAL**



FINAL (March, 2016)

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## Acronyms

<b>DAC</b>	District Audit Committee
<b>DAF</b>	Director of Administration and Finance
<b>HoD</b>	Head of Department
<b>IIA</b>	Institute of Internal Auditors

# **1 Introduction**

In these modern days, Districts face more knowledgeable stakeholders, scrutinising media as well as transparency and accountability requirements. In order to remain viable and continue to bring value, Puntland Districts have to respond to these environments, by taking on board a number of good practices in other Countries' Local Government's governance. This includes, among other things, creation of Audit Committees which will be charged with oversight responsibilities towards these new and improved governance initiatives.

## **1.1 What is an Audit Committee?**

An Audit Committee is a specialist and independent oversight body of a District designed to improve the District's overall governance framework. In a District Council, the Audit Committee plays an advisory role as provided for in Chapter 11 of the Puntland Local Government Finance Policy (2016).

## **1.2 Legal framework**

District Audit Committee (DAC) is provided for in Chapter 11 of the Puntland Local Government Finance Policy (2016). According to the Puntland Local Government Finance Policy (2016) the District Audit Committee shall play an advisory role and generally helps in achieving the following:

- (i) Improved accountability;
- (ii) Strengthening internal control environment; and
- (iii) Supporting District Councils and/or Executive Secretaries to fulfil their stewardship, leadership and funds control responsibilities.

## **1.3 Benefits of District Audit Committee**

Effective operationalisation of the Audit Committee will enable the District Councils to achieve the following benefits:

- (i) Obtain assurance from District management that all financial and non-financial internal controls and risk management functions are operating effectively and reliably;
- (ii) Provide an independent review of the District's reporting functions to ensure the integrity of financial reports;
- (iii) Monitor the effectiveness of District's performance management;
- (iv) Provide strong and effective oversight of District's internal audit function;

- (v) Provide effective liaison and facilitate communication between District's management and external auditors;
- (vi) Provide oversight of the implementation of accepted audit recommendations; and
- (vii) Ensure the District effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.

## 1.4 Composition of Audit Committee

The Audit Committee should be composed of members who have the appropriate skills and experience. Local Government Audit Committee sizes range from a minimum of three (3) and maximum of seven (7) members depending on the complexity and/or diversity of functions of the District.

In Puntland Districts, there should be no less than 3 members of an Audit Committee for grade B, C and D Districts, and no less than 5 members of an Audit Committee for grade A Districts. The Mayor appoints members of the Audit Committee for District Council's approval and may consider the following factors as per requirements of laws:

- (i) At least one member is drawn from senior management team (Heads of Departments) within the District;
- (ii) Two members from outside the District (one should resign from DAC if recruited to become District employee);
- (iii) At least one member should have experience in accounting and auditing;
- (iv) The Audit Committee Chairman and Secretary shall be nominated amongst members appointed; and
- (v) The tenure of Audit Committee office shall be three (3) years and may be re-appointed for a maximum of one (1) further three (3) year period.

Other factors which may be taken into account while appointing the Audit Committee members are:

- (i) Understanding of the core activities of the District;
- (ii) A commitment to the continual improvement of District's financial performance; and
- (iii) Understanding of best practice internal controls.

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

- (i) Strong ethical values, including a thoughtful approach to ethical issues that might be faced;
- (ii) A sense of integrity and an ability to give direct and honest opinions; and
- (iii) Ability to be open to, accept and foster change.

## **2 Functions and responsibilities of District Audit Committee**

### **2.1 Introduction**

DAC plays oversight functions, which can be broadly put into four oversight categories:

- (i) Internal control;
- (ii) Financial reporting;
- (iii) Internal and external audit processes; and
- (iv) Compliance with regulatory/ legal requirements.

Other areas that could be included in the DAC's functions are the effectiveness of District's governance arrangements.

### **2.2 Internal control oversight**

The DAC will generally be responsible for reviewing the adequacy of the Districts' internal control environment to provide assurance that the Districts' key controls are designed appropriately and are operating as intended. In fulfilling this responsibility, the DAC will 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, DAC members are expected to have a good understanding of the Districts' internal control framework, including its internal policies or equivalent, and mechanisms in place to periodically assess compliance with the Districts' financial management responsibilities.

### **2.3 Financial reporting oversight**

The DAC's reporting oversight responsibilities include but are not limited to:

- (i) Obtaining assurance from management that the financial statements comply with all prescribed accounting requirements, regulations and are materially correct prior to recommending the financial statements for certification by the accountable officer;
- (ii) Assessing the appropriateness of the District's internal accounting policies;
- (iii) Assessing the process used by management in making material estimates and judgments in financial reports, for example, writing-off bad debts;
- (iv) Identifying and actively assessing any unusual financial or operational trends or variations from forecasts;

- (v) Reviewing the impact of any materially adverse audit findings on the integrity of the District's financial statements; and
- (vi) Performing other due care and diligence processes, including whether the statements are complete and operationally accurate and provide a 'true and fair view' of the activities of the District for the period under review and the state of its affairs at balance date, of particular relevance are the various notes and other disclosures that complement the statements, including any performance indicators.

## **2.4 Internal audit oversight**

The key role of internal audit is to provide greater assurance to the Secretary for Local Government, management and the DAC that Districts' internal controls and governance systems are effective, efficient and economical and that its operations are performed properly.

In general, the DAC should assume the following responsibilities in relation to internal audit function:

- (i) Act as a forum for communication between the Secretary for Local Government, senior management and internal and external audit;
- (ii) Review internal audit coverage and ensure the internal audit plan is aligned with the District's risks;
- (iii) Advise the Secretary for Local Government on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan;
- (iv) Review all audit reports and provide advice to the Secretary for Local Government on significant issues identified and action to be taken on issues raised that are relevant to the District, including the identification and dissemination of good practice;
- (v) Monitor management's implementation of internal audit recommendations;
- (vi) Review the internal audit charter to ensure appropriate authority, access and reporting arrangements are in place; and
- (vii) Periodically review the performance of internal audit.

## **2.5 External audit oversight**

The DAC's responsibility to the external audit process would include:

- (i) Act as a forum for communication between the Secretary for Local Government, senior management and external auditors;
- (ii) Liaising with external auditors regarding the progress of the audit and monitoring issues that may impact on external audit's ability to complete the audit within agreed timeframes;

- (iii) Review all external audit reports in respect of planned or completed audits and monitor management implementation of audit recommendations; and
- (iv) Provide advice to the Secretary for Local Government on action to be taken on significant issues raised in relevant external audit across-institutional reports or better practice guides.

## **2.6 Compliance oversight**

DAC should 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 District's enabling legislation, environmental laws, code of ethics, occupational and health safety.

In general, the DAC should consider the following responsibilities in relation to compliance:

- (i) 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;
- (i) Obtain regular updates from management regarding compliance;
- (ii) Assess whether all regulatory compliance matters have been considered in the preparation of the financial statements;
- (iii) Review the findings of any examinations by regulatory/inspection agencies; and
- (iv) Review any steps taken by the management to establish, implement and monitor a formal written code of conduct/ customer charters.

## **2.7 District Audit Committee's other responsibilities**

Other responsibilities of DAC include the review of overall District's governance arrangements/issues which include the following:

- (i) District has appropriate mechanisms in place to review and implement projects;
- (ii) District has a performance management framework that is linked to its objectives and outcomes; and
- (iii) District management has in place appropriate processes to develop performance indicators<sup>1</sup> and procedures to report against them in its annual report.

In order to discharge effectively its roles and responsibilities, the DAC needs to have an Audit Committee charter as well as a clear understanding of its roles and responsibilities. The key responsibility of the DAC

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<sup>1</sup> Reference is made in the Puntland Local Government Financial Management Manual (2016) paragraph 4.2.3 (Medium Term Sector output targets), and should be made in the District Development Plan.

falls in the functional areas of internal control, financial reporting, internal and external audit, compliance and other governance arrangements of the District Council.

## **2.8 District Audit Committee remuneration and facilitation**

The members of DAC will be eligible for seating allowance, paid in accordance with the District's approved rates of similar committee members. The district shall provide sufficient office space and transport to DAC.

## 3 The Audit Committee charter

### 3.1 Introduction

The DAC before the commencement of its duties and functions 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 DAC. The Committee's charter should define the following:

- (i) DAC authority/ mandate;
- (ii) Overall purpose and objectives/ mission;
- (iii) Composition and requisite skills;
- (iv) Duties and responsibilities of the Audit Committee;
- (v) Meetings and notification;
- (vi) Decision-making process;
- (vii) Relationship with Secretary for Local Government, Director of Administration and Finance (DAF) and auditors (internal and external auditors);
- (viii) Code of conduct and ethics;
- (ix) Reporting requirements;
- (x) Evaluation of Committee activities;
- (xi) Review of the charter; and
- (xii) Approval of the charter.

### 3.2 Audit Committee charter template

The recommended DAC's charter template is presented in table 1, below:

**Table 1: District Audit Committee charter template**

**(1) Audit Committee authority**

The Mayor of the *[insert name of District Council]* has established an Audit Committee to assist the District in the oversight of internal controls, financial reporting, compliance internal and external audit functions and other governance arrangements. In accordance with Puntland Local Government Finance Policy (2016), the role of an Audit Committee shall be advisory.

**(2) Mission/overall objective/ purpose**

The Audit Committee will assist the Secretary for Local Government to provide independent advice, assistance, and recommendations on internal controls, financial reporting, compliance internal and external audit functions and other governance arrangements of the council.

**(3) Composition and requisite skills**

The *[insert name of District]* Audit Committee is comprised of *[insert number of members- must be at least three]*. The Committee shall include:

*[Insert composition of the Audit Committee]*.

The Audit Committee’s members, collectively, should:

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

**(4) Duties and responsibilities**

The duties and responsibilities of the *[insert name of District]* Audit Committee includes the following:

**(i) Internal controls**

- Review the adequacy of the Districts’ internal control environment to provide assurance that the Districts’ key controls are designed appropriately and are operating as intended.

**(ii) 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 Secretary for Local Government on the preparation and review of financial statements of the Council.

**(iii) 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.
- Review significant findings and recommendations made by internal auditors in their internal audit reports.
- Monitor implementation of the internal auditor's recommendations by District management.
- Provide advice to the Secretary for Local Government on action to be taken on matters of concern raised in a report of internal auditor concerning the District.

**(iv) External audit focus**

- 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 Secretary for Local Government on action to be taken on matters of concern raised in a report of the Auditor General concerning the District.

**(v) 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 any regulatory agencies.

**(vi) Other governance arrangements**

- The District's governance arrangements remain relevant and responsive to business developments and change in business risks.
- The District has appropriate mechanisms in place to review and implement, where appropriate, relevant parliamentary Committee reports and recommendations.
- The District 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 District's annual report.

**(vii) Administrative**

- Meet at least quarterly and produce quarterly reports.
- Prepare an annual report on its functions, copies of which shall be sent to the Council, Ministry of Interior, Ministry of Finance and the Auditor General.

**(5) Meetings and notification**

The *[insert name of District]* Audit Committee shall meet a minimum of *[insert number]* time each year. An agenda of each meeting should be clearly determined in advance and the Audit Committee should receive supporting documents in advance.

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

- (i) The meeting agenda;
- (ii) Date, attendance and location of the meeting; and
- (iii) 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) Decision-making process (quorum and majority)**

All decisions shall be reached by vote of a simple majority *[insert number]* 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) Role of the Secretary for Local Government**

The Secretary for Local Government shall among others ensure that:

- (i) District officials comply with relevant laws and regulations;
- (ii) District's funds, property and resources are properly managed;
- (iii) District officials produce reports promptly as required by the laws and regulations;
- (iv) Internal and external audit queries are responded to promptly;
- (v) Plans and budgets are produced within the prescribed time;

- (vi) Payments of district creditors promptly;
- (vii) Collection of districts own source; and
- (viii) Establishment of internal controls.

**(8) Role of the Director of Administration and Finance (DAF)**

The role and responsibility of DAF among others are:

- (i) Control and management of District's expenditure as well as assets and liabilities;
- (ii) Receipt, control and accounting of all District's income including development partners funding;
- (iii) Maintenance of proper books of account and records of revenue, receipts and other funds;
- (iv) Preparation of annual accounts;
- (v) Expenditure forecasts and monitoring, prioritisation of projects and activities for the purpose of financial allocations in the budget;
- (vi) Oversight of commitment of funds and expenditure trends;
- (vii) Budget preparation, monitoring and reporting;
- (viii) Financial management and control of voted funds;
- (ix) Producing cash flow budgets and statements; and
- (x) Ensuring effective cash management.

**(9) Role of the internal auditors**

The role and responsibilities of the internal audit unit includes the following among others:

- (i) Performs both pre and post-transaction audits of sampled financial transactions;
- (ii) Performs routine compliance auditing and especially checks on compliance with the law and regulations;
- (iii) Reviews the financial and accounting systems in place to ensure that they are adequate;
- (iv) Audit of revenue collection;
- (v) Ensures that budgetary control systems are in place and are followed;
- (vi) Audits the assets of the district to ensure efficient use and custody;
- (vii) Prepares annual and quarterly reports;

- (viii) Regular reviews to ascertain the district receives value for money in all its activities.
- (ix) Conducts on spot cash checks; and
- (x) Carries out special investigations when called upon.

**(10) Role of the external auditors**

The role and responsibility of external auditors among others are:

- (i) Audit of district financial statements;
- (ii) Produces an independent opinion on whether or not the district's financial statements are relevant, accurate, complete, and fairly presented;
- (iii) Adds credibility to the financial transactions undertaken by the district; and
- (iv) It assures district's stakeholders that the financial statements fairly represent.

**(11) Code 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 Secretary for Local Government, management and other employees in the District. To ensure that all Committee members embrace and promote sound ethical practices, the Committee requires that all members agree that he or she will:

- (i) Act with honesty and integrity, avoiding actual or apparent conflicts of interest in person and professional relationship;
- (ii) Comply with the relevant financial laws, regulations and manuals;
- (iii) 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
- (iv) Objectively advise the Secretary for Local Government.

**(12) Reporting requirements**

The *[insert name of District]* Audit Committee has the duty and responsibility to report its activities to the Council, Ministry of Interior, Ministry of Finance and the Auditor General. 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:

- (i) Report on the scope and breadth of Committee activities so that the Council, Ministry of Interior, Ministry of Finance and the Auditor General are kept informed of its work;
- (ii) Provide minutes or a summary of minutes of meetings which clearly record the actions and recommendations of the Committee;
- (iii) Report on their review of the District's draft annual audit report and accompanying management letter and their review of significant findings;
- (iv) Report on suspected fraud, waste or abuse, or significant internal control findings and activities of the internal control function;
- (v) Report on indications of materials or significant non-compliances with laws, regulations and policies; and
- (vi) Report on any other matters that the Committee believes should be disclosed to the Secretary for Local Government/Council.

**(13) Review of the charter**

The *[insert name of District]* Audit Committee shall assess and report to the Ministry of Interior, Ministry of Finance and the Auditor General adequacy of this charter not less than an annual basis or as necessary. charter modifications and amendments will be discussed and approved by *[title of the Mayor]*

**(14) Approval of the charter**

*[Insert name of District]* Audit Committee charter is endorsed by the Chairperson of the Committee and approved by *[Title of the Mayor]*

.....

.....

Signature, Chairperson Audit Committee

Signature, Mayor

## **4 Management of District Audit Committee**

### **4.1 Introduction**

In order to realise effective management of DAC, it is important that there is an effective Chairperson being supported with appropriate Secretariat arrangements.

### **4.2 Election of Committee Chairperson**

The Committee Chairman shall be selected by the Committee members among themselves in the first Committee meeting chaired by the Mayor.

### **4.3 Functions of the District Audit Committee Chairperson**

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 is the most important appointee. The Chairperson needs to have expertise and experience in governance and to bring personal qualities and independence to the role that will openly and effectively involve all those the DAC needs to work with.

The DAC Chairperson's responsibilities will generally be to:

- (i) Assist Committee members to maintain a good understanding of the District's objectives, operational needs, risks and priorities;
- (ii) Settle the agenda for each meeting with the Committee Secretariat;
- (iii) Lead discussion and encourage the participation of other members, and focus the Committee's deliberations on the most important issues;
- (iv) Seek the input of observers or other experts to maximise their contribution to the deliberations of the Committee;
- (v) Summarise discussion outcomes and actions, including assigning responsibility and timeframes for actions;
- (vi) Report formally and informally to the Secretary for Local Government;
- (vii) Attend formal and informal meetings with senior management, the DAF, the internal auditor and external auditors as may be required;
- (viii) Signing/approving Committee minutes, and quarterly and annual Committee reports;

- (ix) Ensure quarterly DAC reports are submitted timely to the relevant authorities (within 15 days after the meeting); and
- (x) 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 District Committees, and the internal and external auditor.

#### **4.4 The Committee Secretariat**

The Internal Audit department shall be the Audit Committee Secretariat and shall be available to record and produce necessary documents for the Audit Committee.

#### **4.5 Functions of the Committee Secretariat**

Effective functioning of the Audit Committee Chairperson is largely obtained through the support of effective Secretariat arrangements. It is expected that the Secretariat works closely with the Committee Chairperson and Secretary to assist in ensuring that:

- (i) 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;
- (ii) Minutes for the meeting held are maintained properly and systematically; and
- (iii) Members are kept abreast of key developments in the District.

The responsibilities of the Committee Secretariat are:

- (i) Liaising with the Committee Chairperson to prepare meeting agendas and generally Committee action plan;
- (ii) Coordinating the preparation and circulation of Committee papers (with invitation letters) to Committee members within agreed timeframes;
- (iii) Preparing minutes of Committee meetings, including action points arising from meetings and details of actions to be undertaken by management;
- (iv) Supporting the Chairperson in the preparation of DAC reports for submission to the Secretary for Local Government with copies relevant officials/organs specified in the laws and regulations;
- (v) Maintaining a record of when members' terms of appointment are due for renewal or termination;

- (vi) Ensuring that new members receive appropriate induction training, and that all members are supported in identifying and participating in on-going training; and
- (vii) Managing expenditures relating to the Committee's operations.

The Secretariat also has an important role in assisting the DAC to maintain communication channels between the internal and external auditors and to assist the Committee in keeping the Secretary for Local Government informed of the Committee's activities.

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

- (i) A progress report from the District's internal auditor summarising:
  - Work performed (and a comparison with work planned);
  - Key issues emerging from internal audit work;
  - Management responses to audit recommendations; and
  - Any resourcing issues affecting the delivery of internal audit.
- (ii) A report from external audit summarising work done, financial statements, performance audits, cross-sectional audits, better practice guides and emerging findings.

## 4.6 Principles for effective working of District Audit Committee

There are mainly four key principles for ensuring effective working of an Audit Committee:

- (i) **Independence:** most of the members of an Audit Committee need to be independent of the management team;
- (ii) **Competence:** Members need to have relevant experience and expertise. The personal qualities, skills, experience in governance and independence of the Chairperson are important;
- (iii) **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; and
- (iv) **Open and effective relationship:** An Audit Committee needs to encourage open and transparent communication and effective ways of working with its stakeholders.

Other recommended good practices for the successful DAC includes:

- (i) The Chairperson being responsible for setting and approving the agenda, which would have been prepared with senior staff;
- (ii) The Chairperson and the Head of Internal Audit having regularly scheduled meetings, outside DAC meetings;
- (iii) The Audit Committee ensuring that requests it makes of management are reasonable and cost-effective to implement; and
- (iv) The Audit Committee members shall observe the code of ethics provided in the local government Human Resources guidelines.

## **5 District Audit Committee action plan**

### **5.1 Introduction**

Production of the DAC action plan helps the DAC to discharge its responsibilities in orderly, structured and timely manner. The DAC's annual action plan should be tailored to its charter. The DAC action plan is useful for agenda setting.

### **5.2 Purpose of District Audit Committee action plan**

The DAC action plan serves the following purposes among others:

- (i) The Audit Committee action plan, like any other plan, is the schedule Committee activities that include dates, location and agenda items for each meeting and covers all the Committee's responsibilities as outlined in its charter;
- (ii) The action plan helps the Audit Committee to discharge its responsibilities in a structured and timely manner; and
- (iii) Good practices indicates that the action plan should be prepared over the next 12 months (1 year) time period.

### **5.3 Preparation of District Audit Committee action plan**

The following should be observed while preparing the DAC action plan:

- (i) Prior to preparation of the action plan, all DAC members should be consulted with regards to their commitments and/or other assignments they may have over the year;
- (ii) The Committee Secretariat in consultation with the chairperson should discuss with members of District management with a view of establishing the timings of important events for Districts' activities, for example, preparation and submission of budgets, preparation and submission of annual financial statements and receiving Districts' audit reports;
- (iii) The Committee Secretariat prepares the draft Audit Committee action plan – in this regard, the Committee should have in place a calendar, and Audit Committee charter. It should also ensure that all Committee responsibilities as provided in the charter are included in the action plan;
- (iv) The draft Audit Committee action plan is then presented in a format (presented in Table 2 below) for easy reference;
- (v) 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 District management; and
- (vi) Final version is produced, signed by the Committee Chairperson and secretary.

- Sufficient copies should be produced so that each Committee member receives a copy;
- The Secretary for Local Government is also furnished with the copy of the Committee action plan.

#### **5.4 Format of District Audit Committee action plan**

The format of the Audit Committee action plan is normally presented in a tabular format with the months spread over the year. Timing of the Committee activity is shaded on a respective month. The cumulative activities in a month indicate the items of agenda that will be discussed during the Committee meeting.

The Audit Committee's action plan should have name and logo of the District as well as title. The spread of activities over the month should be considered in quarterly basis i.e. ensure at least one meeting in a quarter. The format of the Committee action plan is presented in table 2, below.

**Table 2: Format of District Audit Committee’s action plan**

**Name and Logo of District**

**Audit Committee Annual Action Plan for the Year Ending 31st December 20XX**

Key responsibilities	Sub-activities	1 <sup>st</sup> Quarter			2 <sup>nd</sup> Quarter			3 <sup>rd</sup> Quarter			4 <sup>th</sup> Quarter		
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Internal controls	Briefings from assurance providers e.g. Internal Audit/External Audit/Management												
Financial reporting	Review of financial reports												
	Review management compliance/representations												
	Review significant accounting and reporting issues e.g. Financial Reporting Requirements												
	Update on significant issues in relation to commitments and contingencies, unusual and/or material items/trends												
Internal audit	Review internal audit reports		4 <sup>th</sup> Q			1 <sup>st</sup> Q			2 <sup>nd</sup> Q			3 <sup>rd</sup> Q	
	Review performance and resourcing of Internal Audit												
	Review annual Internal Audit plan and Internal Audit charter												
	Chair member meeting with Internal Auditor												

Key responsibilities	Sub-activities	1 <sup>st</sup> Quarter			2 <sup>nd</sup> Quarter			3 <sup>rd</sup> Quarter			4 <sup>th</sup> Quarter		
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
External audit	Briefing from External Auditor on review of financial reports, audit findings and follow up with management						■						
	Share with External Auditor on the progress of audit						■						
	Chair and independent member meet with External Auditor						■						
	Discuss findings from the external audit report						■						
Regulatory compliance	Review reports on legal and regulatory matters		■							■			■
Effectiveness of Audit Committee	Review Committee and member performance						■						■
	Review or confirm Audit Committee charter	■											
Production and submission of reports	First quarter report					■							■
	Second quarter report								■				■
	Third quarter report		■									■	■
	Fourth quarter report												■
	End of Year report (annual)						■						■

**Keynotes:**

	= Audit Committee Meeting		= Results of discussions may be noted in the meeting /Submission of reports	
<b>1<sup>st</sup> Q= 1<sup>st</sup> Quarter report</b>	<b>2<sup>nd</sup> Q = 2<sup>nd</sup> Quarter report</b>	<b>3<sup>rd</sup> Q = 3<sup>rd</sup> Quarter report</b>	<b>4<sup>th</sup> Q = 4<sup>th</sup> Quarter report</b>	

.....

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**Signature, Chairperson Audit Committee**

**Signature, Secretary, Audit Committee**

In preparing the Audit Committee action plan, it is important to have on hand a calendar and the Audit Committee charter. This will ensure the good structuring and the inclusion of all Committee activities as contained in the Committee charter.

## **6 District Audit Committee working relationships with key stakeholders**

### **6.1 Introduction**

In order for the DAC to discharge effectively its responsibilities as well as play its part as key organ in the governance arrangements in the District, there is need to have smooth working relationships with its key stakeholders namely Secretary for Local Government, DAF, internal auditor, external auditors, other Heads of Departments (HoDs)/Sections/Units and other District Committees.

The relationships that should exist between the DAC and its stakeholders are explained in detail below.

### **6.2 District Audit Committee working relationships with the Secretary for Local Government**

The Secretary for Local Government has a key role in supporting the effectiveness of the Audit Committee. Thus the relationship between Audit Committee and the Secretary for Local Government should be effective and sound to include:

- (i) Audit Committee requesting brief meetings with the Secretary for Local Government, at least once a year to share strategic issues that have impact on the District, for example, significant risks, significant projects, technological and legislative changes and policy development;
- (ii) Chairperson of the Audit Committee arranging formal and informal meetings with the Secretary for Local Government after each Audit Committee meeting to discuss key issues; and
- (iii) Chairperson of the Audit Committee meeting the Secretary for Local Government 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. Also, discuss key issues and plans of the Audit Committee for the fourth coming year.

### **6.3 Working Relationships with the Director of Administration and Finance**

There should be open and effective relationships between the DAC and the DAF as one of the DAC's roles is financial reporting oversight. As such, the relationship entails the following:

- (i) The DAF 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 Committee regarding financial reporting and other related matters, for example, challenges encountered in the preparation of financial reports of the District; timings and timetable for preparing financial statements; and

- (ii) In addition, both the Chairperson of the Committee at the DAF may arrange formal and/or informal meetings to discuss issues relating to financial reporting for the benefit of the District.

#### **6.4 Working relationships with Head of Internal Audit**

The relationship between Audit Committee and the Head of Internal Audit should be bilateral and symbiotic. Given its functions in the District, the Audit Committee should view the internal audit unit as an important and significant source of information about what is going on within the District.

The Head of Internal Audit 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 District.

#### **6.5 Working relationships with the external auditors**

Audit Committees should “own” the relationship with the external auditors. Some of these roles were hitherto performed by management and management should support the Audit Committee oversight role by facilitating discussions with the external auditors on the audit scope and audit results. The relationship with the external auditors should include:

- (i) There should be strong and effective relationship between the Audit Committee and external auditors. Open, regular, frank and confidential dialogue should exist between both organs. This will help in utilising the technical knowledge and experience of external auditors to understand for example, the quality of District’s internal control systems, financial reports and value for money audits;
- (ii) The external auditor should normally be invited as an “observer” in the Audit Committee meetings on an on-going basis, for instance, giving technical advices on matters relating to external audit but not allowed to vote. Other issues such quality of information provided by the District to the external auditors, disagreements or unresolved matters with management in relation to audit findings or recommendations, cooperation and assistance provided by the District in the course of audits, relationship between internal and external audit may be of interest in this relationship;
- (iii) The Chairperson of the Committee may arrange both informal and formal meetings with the external auditor to discuss matters geared towards improving District’s functions.

#### **6.6 Working relationships with other Heads of Departments/Units**

HoDs, being part of management are responsible for establishment of the whole system of internal controls. The Audit Committee has the responsibility of advising management on matters of internal control, including the following:

- (i) The Audit Committee relationship with other HoDs will primarily focus on management's response to audit findings and recommendations;
- (ii) The Audit Committee should determine whether management's response to address the audit findings is satisfactory and cost-effective;
- (iii) The role of the Audit Committee is to ensure that the recommendations will enhance the effectiveness and efficiency of District's delivery of services; and
- (iv) The Audit Committee may invite any HoDs if considered necessary, to attend the meeting for further discussion on a particular matter.

## **7 Procedures of District Audit Committee meetings**

### **7.1 Introduction**

The procedures on Audit Committee meetings should demonstrate a role model in governance starting from time for starting meetings, attendance and documentation. The District Audit Committee shall meet a minimum of four times each year, at least once in every quarter to oversee the District financial statements and audit reports.

### **7.2 District Audit Committee meeting 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.

### **7.3 Documenting minutes of the District Audit Committee meeting**

Documentation of minutes of the meeting should start immediately when the Chairperson declares the meeting opened. The Secretariat is responsible for taking records of the minutes and should note the following:

- (i) The minutes should cover each agenda item and documents the discussion held and the outcome or conclusion from the discussions. This includes any recommendations, action points, allocation of tasks to relevant people, 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;
- (ii) 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 DAC secretary should sign the minutes being distributed;
- (iii) 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;
- (iv) After the minutes are confirmed as an accurate record of the meeting, they should be signed by the Chairperson; and
- (v) All members of the Audit Committee should receive a copy of the minutes of all meetings.

The order of the minutes of the Committee meeting should be in the format presented in table 3 below.

**Table 3: Format of Audit Committee meeting minutes**

<b>The minutes of an Audit Committee meeting should include the following agenda items:</b>	
(i)	Agenda no. 1: <b>Opening of the meeting:</b> The chairperson declares the meeting opened by welcoming all members to the meeting and wishing them constructive discussions. Any other announcement such as new member and apologies will be made;
(ii)	Agenda no. 2: <b>Adoption of the agenda:</b> The Chairperson reads the agenda prepared by the Secretariat and asks members if they adopt them. (Any amendment, if any, will be made);
(iii)	Agenda no. 3: <b>Declaration of conflicts of interest by members of the Audit Committee and invitees/ observers.</b> Declaration of conflicts of interest will be made on a particular agenda so that the member(s) should not form part of the decisions;
(iv)	Agenda no. 4: <b>Confirmation of the minutes of the previous meeting.</b> Minutes are confirmed page after page on their correctness (This will not be an agenda item of the special meeting);
(v)	Agenda no. 5: <b>Matters arising from the previous meeting.</b> Issues that were directed for follow-up or actions are given report of their status or implementation. Presentation is done on <i>one issue after another</i> basis. (This will not be an agenda item of the Special Meeting).
<i>From Agenda 6 onwards, the order of the discussions will be as per the agreed annual Audit Committee action plan.</i>	
(vi)	Agenda no. 6: <b>Reports to be tabled.</b> Reports will be tabled with regards to the main functions of the Audit Committee (financial reporting, internal controls, internal audit, external audit, compliance and other governance issues).
The Secretariat summarises issues discussed on each main function.	
(vii)	Agenda no. 7: <b>Review of Audit Committee charter (annual item);</b>
(viii)	Agenda no. 8: <b>Audit Committee self-assessment (annual item);</b>
(ix)	Agenda no. 9: <b>Review of Audit Committee annual action plan (annual item);</b>
(x)	Agenda no. 10: <b>Any Other Business (AOB)</b> (This will not be an agenda item of the Special Meeting);
(xi)	Agenda no. 11: <b>Next Meeting</b> (This will not be an agenda item of the Special Meeting);
(xii)	Agenda no. 12: <b>Closing of the Meeting.</b> The Chairperson thanks all members for their active and constructive discussions and declares the meeting closed.

## **7.4 Obtaining evidence**

The DAC has authority to access:

- (i) Any District staff. The DAC may identify a particular staff as important to getting information which will help them to decide on that particular issue. The DAC Chairperson will request the Secretary for Local Government to make such staff available in the meeting for the intended agenda only;
- (ii) Expert or specialist. Where advice is required in relation to matter which is being considered by the DAC and it is considered sufficiently material to require such services of the expert or specialist, the Audit Committee may request the Secretary for Local Government to make such expert/specialist available in the meeting for the intended agenda only; and
- (iii) All relevant information and reports of the District to enable effective discharge of duties.

# 8 District Audit Committee guide on decision making methods

## 8.1 Introduction

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 DAC, two commonly used methods are consensus and voting including consideration of legal provisions are discussed below. It is important that the Committee employs a particular method governed by the principle that the same addresses the Committee’s goal for the decision-making process.

## 8.2 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 synthesised 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. The strengths and weaknesses of consensus are presented in table 4, below.

**Table 4: Strengths and weaknesses of consensus**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>a) Most effective method of Committee/team decision making.</li> <li>b) All Committee/team members express their thoughts and feelings.</li> <li>c) Committee/team members “feel understood”.</li> <li>d) Active listening used.</li> </ul>	<ul style="list-style-type: none"> <li>a) Takes more time than other methods of decision making.</li> <li>b) Requires commitment and responsibility to the group by its members. It can be negative if individual team members are not committed to the process.</li> </ul>

## 8.3 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, that is, more than half. For 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. The strengths and weaknesses of voting is presented in table 5, below. It is advisable for the Audit Committee to agree on what happens in a split vote situation. Some Audit Committees may give the Chairperson the deciding vote, others

will require the motion to be re-presented until a majority is realised. The approach should be agreed at the outset and included in the charter.

**Table 5: Strengths and weaknesses of voting**

Strengths	Weaknesses
<p>a) Useful when there is insufficient time to make decision by consensus.</p> <p>b) Useful when the complete team-member commitment is unnecessary for implementing a decision</p>	<p>a) Voting does not take into account individual feelings or needs.</p> <p>b) The team or Committee is viewed as the “winners and the losers”; reduces the quality of decision</p> <p>c) Minority opinion is not discussed and may not be valued.</p> <p>d) May have unresolved and unaddressed conflicts.</p> <p>e) Full group interaction is not obtained.</p> <p>f) Taken for granted as the natural, or only, way for teams to make a decision.</p>

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, some circumstances may warrant the Audit Committee to use voting in arriving at its decisions.

## 8.4 Consideration of legal provision

Where legal provisions exist, the Audit Committee decisions should be guided by such legal provisions in arriving at its decisions.

## 9 District Audit Committee review of internal audit reports

### 9.1 Introduction

DAC should understand and appreciate the purpose and contents of internal audit reports before the review.

The primary purpose of internal audit reports is to provide management with an opinion on the adequacy of the internal control system and to inform management of significant audit findings, conclusions and recommendations. 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 Puntland Local Government Finance Policy (2015).

### 9.2 Contents of internal audit reports

Internal auditing is defined as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s (District) 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).

At the end of each quarter, District internal audit must produce reports on the activities that were performed during the quarter. Internal audit reports can be grouped into the following main types:

- (i) **Engagement reports:** reports on individual assurance audit assignments;
- (ii) **Special audit reports:** reports on special audit arrangements by management and other special investigations; and
- (iii) **Periodic reports, such as:**
  - *Quarterly audit reports* summarising the audit and non-audit activities performed by the internal audit unit over the period (quarter). It is a summary of the *individual engagement reports and other non-audit activities* that were undertaken during the quarter;
  - *Annual reports* summarising the audit activities or services that were undertaken by the internal audit department during the year. It is prepared based on quarterly reports.

### 9.3 Audit evidence

In the process of reviewing internal audit reports, DAC should pay attention to the audit evidence presented. Audit evidence consists of all those matters that tend to support a point or position that is assumed by an auditor. Audit evidence may be categorised as follows:

- (i) *Physical*: Direct inspection or observation of activities of people, property or events. This can be documented in the form of memoranda, photographs, charts, maps or other types of physical evidence;
- (ii) *Documentary*: Created information such as accounting records, invoices, letters, contracts and management information on performance;
- (iii) *Testimonial*: Responses to inquiries of through interviews. These need to be confirmed when possible with additional evidence; and
- (iv) *Analytical*: Analysis or verification of information. For instance, computations, comparisons with past operations, standards, laws/regulations and evaluations of physical, documentary or testimonial information.

## **9.4 Audit recommendation**

Audit recommendations are a summary of solutions for fixing the weaknesses that were identified by the auditors in the course of audit. They are a result of in-depth analytical thinking. DAC applies the following summary of recommendations review checklist.

### **9.4.1 Summary of recommended review steps**

The following steps are important for Audit Committee to produce recommendations for Secretary for Local Government's action:

- (i) Members of the Audit Committee should be familiar with the formats of internal audit reports which have been agreed for use by auditors in Puntland Districts;
- (ii) During the Committee meetings, it is good practice to invite the Head of Internal Audit to present the internal audit report;
- (iii) The Head of Internal Audit 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. The Head of Internal Audit should then take through Committee members on all key sections of the report;
- (iv) The 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;
- (v) The Audit 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 Secretary for Local Government; and

While reviewing all key sections of the internal audit report, the Audit Committee members should pay particular attention to the adequacy of both audit recommendations and management responses.

**The following steps are important for audit recommendations:**

- (i) Members of the Audit Committee should be familiar with the formats of internal audit reports which have been agreed for use by auditors in Puntland Districts;
- (ii) During the Committee meetings, it is good practice to invite the Head of Internal Audit to present the internal audit report;
- (iii) The Head of Internal Audit 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. The Head of Internal Audit should then take through Committee members on all key sections of the report;
- (iv) The 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;
- (v) The Audit 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 Secretary for Local Government; and
- (vi) While reviewing all key sections of the internal audit report, the Audit Committee members should pay particular attention to the adequacy of both audit recommendations and management responses.

## 10 District Audit Committee review of external audit reports

### 10.1 Introduction

The DAC review of external audit reports should focus on non-compliance issues. After completion of the audit, the Auditor General produces and issues:

- Report on the financial statements for the year in question; and
- Management letters on the financial statements for the year in question.

It is important for DAC to review the report and management letter, focusing on non-compliance issues.

### 10.2 District external audit and audit opinion

External or Auditor General's audit of Districts is generally an audit of financial statements:

- (i) It is the examination by an independent third party of District's financial statements;
- (ii) It results in the publication of an independent opinion on whether or not those financial statements are relevant, accurate, complete, and fairly presented;
- (iii) Exists to add credibility to the financial transactions undertaken by the District;
- (iv) It assures stakeholders that the financial statements fairly represent the District's position and performance during a stated period; and
- (v) The Auditor General ends his work by providing an opinion on the fairness of financial statements of the District. Types of opinion issued may fall under the following categories:

- **Unqualified Opinion** - The external auditor is satisfied that the financial statements present a 'true and fair view' of the state of affairs of the District. There was consistency in adhering to laid down rules and regulations and insignificant material misstatement in the financial statements. The financial statements of the District can be relied on by users.
- **Qualified Opinion with 'Subject or 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 on clerical mistakes which do not impact on making sound decisions based on the financial statements. The financial statements of the District 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 and fraud and/or misappropriation of funds. The financial statements of the District cannot be relied on by users.

- **Disclaimer of Opinion** - In this case, the scope was limited, for example, the books of accounts were not provided for audit. Therefore, the auditor cannot form any opinion on the financial statements of the District. The financial statements of the District cannot be relied on by users.

### 10.3 Contents of Auditor General report

The Auditor General report contains the following three (3) key sections.

(i) Background and general information

This section generally includes introduction, brief history of the District's 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/period in question

- Normally addressed to the Mayor/Chairperson of the District;
- The opinion, with a sub- title of either unqualified opinion or qualified opinion or adverse opinion (whichever might have been given);
- The opinion followed by emphasis of matter, being matters which are drawn to the attention of the users of the report. These matters will also be critical for the Audit Committee to focus on to ensure their implementation by management; and
- Report on other legal and regulatory requirement, for example, compliance with the Public Procurement, Accounting Act and Regulations. The opinion 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 Secretary for Local Government;
- Annex II: Audited financial statements and notes to the financial statements should be read thoroughly by members of the Committee; and
- Annex III: District's organisational structure.

## 10.4 Management letter on the financial statements for the year in question

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

- (i) Follow-up on the implementation of previous years' auditors recommendations; and
- (ii) 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.

## 10.5 Advisory role of the Audit Committee

After reviewing the report from the external auditors, 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 of giving advice/recommendation by the Audit Committee to the Secretary for Local Government is presented in table 7, below.

**Table 7: 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)

# 11 Guide on how District Audit Committee should advise the Secretary for Local Government

## 11.1 Introduction

DAC shall provide advice to the Secretary for Local Government on various matters that it reviews in respect of financial reporting, internal controls, audit functions and reports, compliance with legal and other regulatory requirements for the District.

## 11.2 Audit Committee recommendations

- (i) Audit Committee recommendations are the result of the work performed by the Committee from its mandated functions during a specific time period;
- (ii) These functions are carried out over the year, being distributed on a quarterly basis with at least one meeting taking place per quarter;
- (iii) 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 District;
- (iv) 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;
- (v) 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; and
- (vi) Recommendations should be clearly documented in brief reports after each Committee meeting.

An example of summarising Audit Committee opinions/advice/recommendations is shown in table 8, below:

**Table 8: Example for summarising Audit Committee recommendations**

<b>Example: Summarising Audit Committee opinions/ advice/ recommendations</b>	
<b>(i) Internal controls</b>	The Audit Committee noted with concern regarding lack of segregation of duties in financial management systems of the District. This may result in misuse of District funds and endangers successful achievement of its objectives. The Committee advised to management immediate put in place segregation of duties in financial management, revenue cash collectors should not be allowed to make payments from cash collection as well as record payment cash books.

**(ii) Financial reporting**

The Audit Committee was generally satisfied with the quality of financial reporting in the District, however, it noted and advises on the following areas:

- Rectify all errors in the year-end adjustments before final accounts are submitted to Auditor General for audit; and
- Ensure consistent application of double entry bookkeeping system.

### 11.3 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 applicable Puntland the laws, regulations, For instance:

- Financial management matters – Laws of the District Councils (Law no.7/ 2003), Districts’ Accounting manual, the Public Finance Management and Accountability Act (2011), District Public Expenditure Management (2012) and the Ministerial Decree of 2011, District Councils’ Budgeting and Accounting Systems Regulations; and
- Matters relating to procurement – Procurement regulations and guidelines.

It is important for the Audit Committee to cite specific provisions of the laws/regulations/manual or guide which have been breached and/or are being recommended for adherence.

Audit Committees have generally an advisory role reporting to District Council. The Chairman of the Committee should arrange formal and informal meetings with the Secretary for Local Government to give briefings and before the submission of the Audit Committee recommendations/Report to Council. The Audit Committee recommendations (see table 9, below) 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.

**Table 9: Format for Audit Committee recommendations**

S/N or MIN. NO.	Audit Committee Concern on Financial Reporting	Audit Committee Advice/Recommendation	Responsible Official (Organ)	Implementation Status (by Management)
12/2015	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 office of Auditor General for audit	DAF	Not implemented

13/2015	Expressed concern about the inconsistent application of accrual accounting basis	Ensure consistent application of Cash basis accounting	DAF	Not implemented
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## 12 The District Audit Committee's report

### 12.1 Introduction

DAC has a duty to report its activities to the District Council quarterly, copies of the report to the Secretary for Local Government, Ministry of Interior, Ministry of Finance and the Auditor General. The DAC report is a public document and should be availed to the public.

### 12.2 Format of the District Audit Committee report

The key steps for preparing the Committee audit report are:

- (i) Preparation of the Audit Committee annual report starts immediately after the end of the year and after production of 4<sup>th</sup> quarterly Audit Committee report. The DAC Secretariat is responsible for preparing the draft report;
- (ii) Well prepared/documented quarterly report of the Committee will normally lead to timely and quality production of annual Audit Committee report;
- (iii) Ensure that the report is clearly written, with brief summaries/opinions/recommendations and in simple language. Grammar and other considerations in effective report writing should be observed;
- (iv) All members of the Committee should be given opportunity to read and comment on the draft Committee report before production of the final version for submission to all relevant organs;
- (v) The final version of the report must be signed by the Chairperson of the Committee; and
- (vi) It is good practice that the report should also be produced within the second month after the end of the year.

The DAC's annual report should be presented in a format presented in table 10, below;

**Table 10: Format of the Audit Committee annual report**

<b>The Audit Committee annual report includes the following:</b>
<p><b>Preliminaries:</b></p> <ul style="list-style-type: none"><li>• Cover page</li><li>• Submission (transmittal) letter – includes also Chairperson's remarks and should be signed by the Chairperson.</li><li>• Table of content</li></ul>

**The Audit Committee annual report includes the following:**

- 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. Should be kept short preferably a maximum of two pages. May not be required if the report is short i.e. 1 to 5 pages.
- *(In Roman numbers starting page (i) from the table of content up to the executive summary)*  
*Main document (in Arabic Numbers- Starting Page 1 from Section 1 up to the Appendices)*

SECTION. 1: **Introduction:** This section will include establishment of the Audit Committee in District, legal mandate and general purpose of the Audit Committee.

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.

SECTION. 3: **Audit Committee responsibilities.** Under this section, the key responsibilities of the Audit Committee will be mentioned.

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, that is,

- a. Financial Reporting including Audited Financial Statements
- b. Relationships with management, internal and external auditors
- c. Compliance with legal and other regulatory requirements
- d. Other Governance Issues

SECTION. 5: **Successes, 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. (that is, improvement of the Audit Committee services in the next year).

**Appendices** (if any)

The preparation of the Audit Committee quarterly/annual report is important because it shows to various stakeholders how the Audit Committee discharged its responsibilities. It also improves communications to the District and Public. It is therefore critical for the Audit Committee to prepare timely and quality annual report on its activities.

## Appendix 1: Glossary

Secretary for Local Government	The most senior official responsible for the management of the administration of the local government of the district as appointed by the Minister of Interior and approved by the District Council. He/she is the District's accounting officer.
Budget	Budget is an annual plan of how the district income and all monies received from other sources will be spent in accordance with district goals and priorities District/District
Department	Means a functional or sectorial administrative area of the District Council for which a senior officer is responsible as a Director e.g. Department of Finance and Administration.
District Council	The body periodically elected by the voters in a district, to form a council to administer that district for a period of five years as established under Article 123 of the Constitution.
District	Means the districts set out in this Law and into which the regions of the Puntland State of Somalia are sub-divided.
Expenditure	Refers to the different ways in which funds are allocated and spent from the district's budget.
Head	Means head of sections and departments which the local government establishes.
Revenue	Money coming in to a government from sources such as taxes.
The Act	Means the Puntland Law no.7/ 2003 - Laws of the District Councils