Government of Rwanda
Audit Committee Handbook

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Government of Rwanda Audit Committee Handbook

Foreword

This handbook has been prepared to elaborate the responsibilities of audit committees in Government as contained in Article 3 of Ministerial Instructions N°004/09/10/MIN of 01/10/2009 for the establishment of the audit committees in public entities, local government entities and autonomous and semi-autonomous public entities and the Audit Committee Charter issued in July 2011.

The handbook provides leading practices guidance to audit committees in central Government entities, local Government entities, subsidiaries and Public Enterprise where the Government of Rwanda has the controlling interest. The handbook contains illustrative examples and questions intended to guide audit committees members in discharging their responsibilities. The handbook is not a checklist and examples presented are not meant to be exhaustive and cover every possible scenario. A degree of flexibility is therefore required in using the handbook to suit each institution’s individual circumstances.

The Government entity management is accountable for the resources it is authorized by the Parliament or the Supervisory Board to spend or manage to achieve the entity’s objectives. Stakeholders use the entity’s financial reports to assess the performance of the executive and make decisions on how to allocate resources obtained through taxes, grants and government enterprises to provide services to the population.

Audit committees are primarily responsible for overseeing and promoting accountability and transparency in public financial management. In particular audit committees oversee the integrity of the financial reporting controls and the procedures implemented by the management of the entity to protect the interests of stakeholders. Audit Committees do not conduct audits; however they use information provided by internal audit, information provided by external audit and information provided by management to advise the supervisory board.

The handbook has been developed to provide guidance to Audit Committees in Ministries, Districts, Agencies and Government Business Enterprises in the Government of Rwanda.

For any clarifications or guidance the reader should contact us via gcia@minecofin.gov.rw email address.

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1 | Page
# TABLE OF CONTENTS

**Definitions and Acronyms**............................................................................................................ 4  

1. **Introduction** ................................................................................................................................. 7  

2. **Oversight responsibility over the financial reporting process** ................................................. 9  
   2.1. Entity Management responsibility for preparation of financial statements .................................... 9  
   2.2. Entity Management Statement of Responsibility ........................................................................ 9  
   2.3. Roles of the audit committee over financial reporting .................................................................. 9  
   2.4. Accounting Framework .............................................................................................................. 11  
   2.5. Understanding Financial Statements .......................................................................................... 11  
   2.6. Illustrative questions for reviewing financial statements ............................................................ 12  

3. **Monitoring Internal Controls and Risk Management**............................................................. 16  
   3.1. Internal controls........................................................................................................................... 16  
   3.1.1. Internal control laws and regulations ....................................................................................... 16  
   3.1.2. Responsibilities for Internal Control ...................................................................................... 17  
   3.1.3. Illustrative questions for Internal control ............................................................................... 18  
   3.1.4 Illustrative questions for IT Governance ............................................................................... 18  
   3.2. Risks and Risk Management ...................................................................................................... 19  
   3.2.1. Entity Management responsibility in relation to risk management ........................................ 19  
   3.2.2. Internal audit responsibility in relation to risk management ................................................ 19  
   3.2.3. Audit Committee responsibilities in relation to risk management .......................................... 19  
   3.2.4 Illustrative questions for risk management ............................................................................. 20  

4. **Monitoring Compliance to Laws and Regulations**.................................................................... 21  
   4.1. Illustrative questions for regulatory, compliance & ethical matters ............................................. 22  

5. **Considering External Auditors’ Reports** ............................................................................... 23  
   5.1. External Auditors’ mandate ....................................................................................................... 23  
   5.2. Audit committee’s role in relation to external auditors ................................................................ 23  
   5.3. Illustrative questions to ask external auditors .......................................................................... 25  

6. **Supervising the Internal Audit Function** .................................................................................. 26  
   6.1. Audit Committee responsibilities for internal audit ................................................................. 26  
   6.2. Illustrative questions for internal audit ................................................................................... 28
7. Audit Committee Relationship with Management .......................................................... 29
8. Special Investigations ...................................................................................................... 30
9. Annual Audit Committee Evaluation ............................................................................ 30
10. Reporting Responsibilities ........................................................................................ 31
    10.1 Quarterly report .................................................................................................... 31
    10.2 Audit Committee Annual Report ............................................................................ 31
    10.3 Illustrative questions for audit committee reporting ............................................. 32
11. Collaboration with the Office of the Government Chief Internal Auditor ............ 33
Appendix 1: People and Institutions Consulted ............................................................ 34
Appendix 2: References ................................................................................................ 35
Audit Committee Handbook Tools ................................................................................ 36
Definitions and Acronyms

Annual report – a document, which contains audited financial statements and an audit opinion on the entity’s internal control over financial reporting, issued annually to entity stakeholders or shareholders in accordance with laws and regulations.

Entity Stakeholders – Entity stakeholders are those who are entitled by various laws and regulations to receive financial information on the public entity and may include but is not limited to supervising government entity, legislative assembly or other representatives of the public and contributing development partners.

Audit committee annual report – a section of the annual report prepared by the audit committee that describes how Audit Committee members have discharged their responsibilities.

Assurance - an evaluated opinion, based on evidence gained from review, on the entity’s governance, risk management and internal control framework.

Auditor’s report – a report containing the external auditor’s opinion or disclaimer to give an opinion.

- **Unqualified audit opinion** - means a clean audit report in layman terms, which implies that the Auditor did not find any material findings during the audit. However, Auditor will provide any findings and recommendations in the report.

- **Qualified audit opinion** – means that the auditor came across material findings in the course of the audit. These findings and recommendations are included in the report.

Corporate governance – a term used to describe the responsibility for the supervision, control, and direction of an entity by its supervisory board.

Disclosure – the public dissemination of material information in the notes to the financial statements.

Engagement letter – a letter that documents the requirements that an external auditor establishes an understanding with the client regarding the services to be performed.

External auditor – The Office of the Auditor General (Rwanda’s supreme audit institution) or a firm of certified public accountants that audits and reports on the financial statements of an entity in accordance with the authorized auditing standards, and audits and reports on the compliance of the entity’s financial reporting controls to IPSAS, IFRS or existing laws and regulations, as applicable.

Internal auditing - Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
Internal control – a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives.

Internal control over financial reporting - is the process designed and maintained by an entity’s management to provide reasonable assurance about the reliability of financial reporting.

Management representation letter – required written representation obtained from management by the external auditor as part of the audit of audit evidence.

Materiality – a matter is material if it can influence decision making of stakeholders who rely on the financial statements.

Risks - are uncertain future events that could affect the entity’s strategic objectives. Risks may arise from both external and internal events.

Risk appetite – The broad based amount of residual risk that an institution is willing to accept in pursuit of its mission.

Risk management - a process to systematically identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the entity’s objectives.

Supervisory Board- The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, or a board of governors, Council or trustees). If such a group does not exist, the “board” may refer to the head of the organization. “Board” may refer to an audit committee to which the governing body has delegated certain functions. (IIA Definition)

Tone at the top- the tone set by top management, including the supervisory board and its audit committee, that influences the corporate environment within which financial reporting occurs.

Public Sector Governance - Governance is defined as the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the organization’s activities toward the achievement of its objectives. In the public sector, governance relates to the means by which goals are established and accomplished. It also includes activities that ensure a public sector entity’s credibility, establish equitable provision of services, and assure appropriate behavior of government officials — reducing the risk of public corruption.

Accounting Officers – Chief Budget Managers, Director Generals, Chief Executive Officers, Executive Secretaries or similar positions

Head of Risk Management – person heading the risk management function if one has been established.

Head of Compliance – Position for someone in charge of legal and regulatory compliance, and legal cases, mostly in regulated industries. Role may be played by legal office in other entities.
ACRONYMS

CPA – Certified Public Accountant
DF – Director of Finance
GBE – Government Business Enterprises
IFAC – International Federation of Accountants Council
IFRS – International Financial Reporting Standards
IIA – The Institute of Internal Auditors
IPSAS – International Public Sector Accounting Standards
IFMIS – Integrated Financial Management Information System
MINECOFIN – Ministry of Finance and Economic Planning
MIFOTRA – Ministry of Public Service and Labour
OAG – Office of the Auditor General
OGCIA – Office of the Government Chief Internal Auditor
1. Introduction

The purpose of audit committees as provided in Article 2 of Ministerial Instructions N°004/09/10/MIN of 01/10/2009 is to provide oversight over the financial management of the entity on behalf of the Supervisory Board. The responsibilities of audit committees as provided for in Article 3 of the above Ministerial Instructions and in the Audit Committee Charter include:

- Provide advisory support to management of the entity to improve operational efficiency;
- Oversight on the financial reporting process;
- Monitoring Internal Controls;
- Supervision of the Internal Audit function;
- Considering audit reports from the Office of the Auditor General and the internal audit function;
- Follow up implementation of agreed recommendations;
- Monitoring Compliance to laws and regulations;
- Discuss with management the entity’s major policies with respect to risk assessment and risk management; and
- Other responsibilities as may be delegated by the Supervisory Board.

In carrying out their work audit committees should develop a work plan at the beginning of each financial year scheduling different activities they will conduct with internal audit, external audit, management and communicate their work plan. A sample Audit Committee Action Plan is attached as Tool 1.

Audit committees should then monitor the areas within their responsibilities and periodically report to the supervisory board on accomplishment of delegated tasks. A sample Quarterly Audit Committee Report is attached as Tool 2. Audit Committees should prepare an annual report to be included in the entity annual report describing how they have discharged their responsibilities. A sample Audit Committee Annual Report is attached as Tool 3.

It is not the duty of the Committees’ members to conduct audits or review accounts of the Government agency. Audit committees review information received from internal and external auditors, other assurance providers or management. Article 3 gives audit committee authority to commission any appropriate special audits and investigations on the budget agency and lead the
appointment of independent auditors to conduct such audits where necessary. Audit committee members should therefore ask management and auditors direct questions and insist on straight answers.

This handbook contains a list of illustrative questions for audit committees to consider. The list is not exhaustive or restrictive nor should it be treated as a tick list substituting detailed consideration of issues and judgment. Rather it is intended to act as a “prompt” to help Audit Committee members ensure that their work is comprehensive. A degree of flexibility is required in applying it to each entity circumstances.

Audit Committees need adequate resources to support them in fulfilling their responsibilities effectively and should articulate their needs to the entity management and or supervisory board. The entity’s board secretariat or Accounting Office’s Office should provide the committee with administrative support to coordinate meetings, develop agendas, distribute meeting materials in advance, draft minutes and follow up the committee’s queries with management. Tool 5 contains a listing of responsibilities of the Audit Committee Secretary. However where there is no board, administrative support may be provided by a designated contact person or the head of internal audit as appropriate.

The Accounting Officer, the DF and other managers should routinely be invited to attend audit committee meetings, to provide information, and to participate in discussions, either for the whole duration of a meeting or for particular agenda items. The Audit Committee however should arrive at its decision independently.

The Management and the internal auditors may prepare board papers to the audit committee for consideration and advice to the supervisory board. The purpose of the board paper and a brief background of the point to be discussed should be included to guide the committee. Tool 7 contains a sample layout of papers to be presented to the audit committee.

The Chairperson of the committee has a particular responsibility of ensuring that the work of the committee is effective, the committee is appropriately resourced and is maintaining effective communication with its stakeholders. The Chairperson ensures close follow up is being done and actions plans arising from the committee business are appropriately pursued. All the decisions made and recommendations for implementation are properly communicated to all members and
especially to those who were absent during the meeting. Tool 4 contains a listing of Responsibilities of the Audit Committee Chairperson.

2. Oversight responsibility over the financial reporting process

2.1. Entity Management responsibility for preparation of financial statements

The preparation of financial statements is the responsibility of the entity’s management. Management designs and implements the system of internal control over financial reporting; evaluates the effectiveness of the entity’s internal control over financial reporting and provides a public report, “statement of responsibility”, on that assessment.

2.2. Entity Management Statement of Responsibility

This comprises of:

- Statement of management’s responsibility for establishing and maintaining adequate internal control over financial reporting.
- Management’s assessment of the effectiveness of the entity’s internal control over financial reporting as of the end of the entity’s most recent fiscal year, including an explicit statement as to whether the financial statements reflect a true and fair view of the state of financial affairs of the entity and that control is effective and disclosing any material weakness identified by management in that control.

2.3. Roles of the audit committee over financial reporting

Audit committees oversee the integrity of the financial statements on behalf of the Supervisory Board. The Supervisory Board represents the interests of stakeholders. Before the establishment of audit committees, the external audit process may have been overseen by management and it is important that the audit committee takes responsibility of overseeing the external audit process and that management facilitates the audit committee to perform this role. In addition to reviewing the annual financial reports, the audit committee should review all financial reports prepared by the entity. The Audit Committee should recruit a financial expert to the committee if the Supervisory Board does not have someone with these skills. Tool 6 provides criteria the committee can use in recruiting a financial expert.
The audit committee should understand the draft financial statements to satisfy itself that management has rigorously applied various financial reporting controls and that the financial statements are understandable, reliable and consistent with information known to committee members.

To discharge this mandate audit committees should carry out the following activities:

(i) Understand the financial reporting process and be comfortable that the supporting information systems are reliable;

(ii) Understanding significant accounting policies as well as estimates and other areas where management applies judgment;

(iii) Review significant accounting and reporting issues, and ensure compliance to existing laws and regulations and professional and regulatory pronouncements, as appropriate;

(iv) Ensure that significant adjustments, unadjusted differences, disagreements with management and external auditor on critical accounting policies and practice are discussed;

(v) Review significant accounting and reporting developments and issues and understand their impact on the financial statements;

(vi) Understand significant risks, including fraud risks and plans to mitigate those risks;

(vii) Review disclosures on notes to the financial statements and consider consistency with financial statements;

(viii) Read and discuss financial statements with management and the external auditors before finalization of audit;

(ix) Review the other sections of the annual report, including the draft statement on responsibility, before its release and consider whether the information is understandable and consistent with members’ knowledge about the entity and its operations and lacks bias;

(x) Recommend to the supervisory board or council in the case of a district, the financial statements for approval.
2.4. Accounting Framework

The audit committee should be familiar with the accounting framework used by the entity. In the case of Ministries and Districts, the accounting framework is comprised of:

i) Article 70 of the Organic Law N° 37/2006 of 12/09/2006 on State Finances and Property, as may be amended;

ii) Ministerial Order N° 002/07 of 09/02/2007 relating to financial regulations;


iv) Circular on year end closing procedures;

v) Standard reporting template prescribed by MINECOFIN;

vi) IFMIS user manuals;


In the case of GBE, Government Business Portfolio Policy guidelines stipulate that financial statements should be prepared in accordance with International Financial Reporting Standards (IFRS). This should be read together with Organic Law No. 14/2004 of 26/5/2004 establishing the general public enterprises, applicable laws and regulations and entity accounting policies.

2.5. Understanding Financial Statements

The financial statements are comprised of:

(i) **Statement of Revenue and Expenditure** - which reports the results of an entity’s operations for a period of time.

(ii) **Statement of financial position** (financial assets & liabilities) – which presents an entity’s financial condition at a given point in time.

(iii) **Statement of cash flows** – which reports the entity’s cash receipts and cash payments over a period of time from operating activities, investing activities and financing activities.

(iv) **Notes to the financial statements** - these are presented immediately after the financial statements and comprise (i) the summary of significant accounting policies; (ii) notes about amounts in the financial statements; and (iii) notes about other information requiring disclosure.
(v) **Supporting information** - including (i) Budget Execution report by government by nature and programme; and (ii) Bank reconciliation statement (for each bank account), (iii) Trial Balance; (iv) Petty cash certificate.

The audit committee should also review the **Annual report** that contains management’s discussion and analysis of results of operations reported together with the financial statement to ascertain itself on the reliability of reported information.

### 2.6. Illustrative questions for reviewing financial statements

#### 2.6.1. Financial reporting process

(i) What are the current areas of greatest financial risk, and how are these being managed?

(ii) Are the accounting systems (controls over financial reporting processes) adequate and appropriate?

(iii) What significant recommendations have been made to management (by external and/or internal auditors) for improvements to the reporting process? How has management responded? Are there any significant areas that have not been attended to and that still require attention?

(iv) Have significant variances under the budget execution report being investigated and explained?

(i) Is the entity’s accounting department staffed with adequate and skilled staff?

(v) Has the entity maintained subsidiary records such as stock cards, fixed asset registers, asset ownership titles up to date?

#### 2.6.2. Accounting policies

(i) Are the accounting policies applied as per the government accounting manual and standard reporting template?

(ii) Did any accounting policies change this year? If so, for what reasons, and what were the effects of the changes? If yes, have the changes been disclosed appropriately in the financial statements? Were the changes consistent with required accounting framework and if not was MINECOFIN approval obtained?

(iii) Were there any disagreements between management and the auditors on accounting policies or principles? Were they satisfactorily resolved?

(iv) Do the financial statements contain a clear reference to the accounting framework adopted (existing laws and regulations, IPSAS, IFRS)?
2.6.3. Financial statements

2.6.3.1. Overall

(ii) Have the financial statements been signed by the Accounting Officer on or before the date of the audit report?

(iii) Are there suitable processes to ensure accurate financial records are kept? That suitable processes are in place to ensure fraud is guarded against and regularity and propriety is achieved? Has any losses occurred in the year?

(iv) Are there significant fluctuations on account balances in the financial statements between current and prior periods? What caused them?

(v) What significant accruals or adjusting entries were made as part of the year-end closing process?

(vi) Is cut off properly applied on revenue and expenditure?

(vii) Have amounts denominated in foreign currency been restated at the year-end exchange rate?

(viii) Have relevant taxes been deducted and remitted? Are there any significant amounts in dispute?

(ix) Were there any prior-period adjustments? Are the circumstances leading to the prior-year adjustments justified?

(x) Do the financial statements agree with the general ledger and have all entity financial transactions processed through the general ledger?

(xi) Were any significant issues raised by management, entity’s legal counsel, or outside legal counsel concerning litigation, contingencies, claims or assessments? How are such matters reflected in the financial statements?

(xii) Is there due process in preparing the monthly financial reports and annual report and is that process being followed?

(xiii) Do financial reporting controls, including the structure of delegations, enables the organization to achieve its objectives?

(xiv) Have the financial statements and annual report been subjected to sufficient review by management (Accounting Officer and Director of Finance)?

(xv) Are there any issues likely to lead to qualification of the accounts? What action has management taken to address this?

(xvi) If the accounts were previously qualified, what appropriate action has been taken to deal with the reason for the qualification?
2.6.3.2. Illustrative questions for financial statement disclosures

(i) Are other relationships of the entity with unconsolidated entities or other persons appropriately disclosed?
(ii) Are there any other significant related party transactions that require disclosure?
(iii) Do the disclosures meet regulatory requirements?

2.6.3.3. Illustrative questions for Transparency

(i) Overall, does the annual report give a transparent view of the entity’s performance?
(ii) From a review of the financial statements, is there any indication of possible deficiencies in internal control or fraud and error?

Accrual basis of accounting (entities using International Financial Reporting Standards)\(^1\)

Audit committee members from entities that use accrual basis of accounting should ask the following additional questions. This may apply to Government Business Enterprises and other semi autonomous entities that are not fully depend on Government budget support to fund their operations.

(i) What evidence has management considered to satisfy itself that the entity is a going concern (that the basis of preparing financial statements is that the entity will continue to operate for the foreseeable future)?
(ii) Are the earnings sustainable (where applicable)?
(iii) How has management satisfied itself regarding the value of assets and impairments?
(iv) Are accounts receivable recoverable and disclosed at realizable values?
(v) Have any significant events occurred after the reporting date and, if yes, are these adequately disclosed or adjusted?
(vi) Were any significant transactions completed during the year that are not evident from the financial statements? How were they accounted for? Did any of these transactions involve related parties?
(vii) Are there appropriate disclosures regarding going concern issues, if any?
(viii) Is there adequate disclosure of financial risks, if any?

\(^1\) This may apply to Government Business Enterprises and other semi autonomous entities that are not fully depend on Government budget support to fund their operations.
(ix) Are there material off-balance sheet transactions, arrangements and obligations (including contingent obligations) and are they appropriately accounted for and disclosed?

(x) Are there any significant or unusual amounts due from officers or employees?

(xi) What significant changes have taken place during the year in the business environment the entity operates in? Is this reflected in the management commentary?

(xii) Is the management commentary consistent with the financial statements? Is it balanced, comprehensive and understandable?

(xiii) Are there any situations developing that do not require accounting recognition or disclosure this year, but may next year if conditions do not improve?

2.6.4. Measurement and recognition

The audit committee should satisfy itself about assumptions used in measurement and recognition of the following accounting area that may involve estimates:

- Likely uncollectable accounts receivable;
- Slow moving or obsolete inventory;
- Income taxes;
- Financial instruments;
- Long term investments;
- Tangible and intangible assets impairments; and
- Commitments and contingencies.
3. Monitoring Internal Controls and Risk Management

3.1. Internal controls

Internal controls include any action taken by management to enhance the likelihood that established objectives and goals will be achieved.

Internal controls are an important component of risk management. It helps to ensure management responses to risks are effective. Internal controls comprise five primary components:

- **Control environment** – the individual attributes of an entity’s people and appropriateness of the environment in which they operate. Ex. Competent people, segregation of responsibilities, management philosophy, policy direction, ethics etc.
- **Risk assessment** – the process of identifying and prioritizing risks relative to objectives.
- **Control activities** – policies and procedures developed to address risks. Ex. authorizations, verifications, asset security and segregation of duties etc.
- **Information and communication** – processes and systems implemented to capture and exchange the information needed in an internal control system.
- **Monitoring** – the processes and procedures designed to help ensure internal controls continue to operate effectively. Ex. performance contracts, internal audit, external audit

3.1.1. Internal control laws and regulations

The Government has prescribed internal controls to be implemented in public entities through various laws and regulations (as may be amended) including:

i) Organic Law N° 37/2006 of 12/09/2006 on State Finances and Property,

ii) Ministerial Order N° 002/07 of 09/02/2007 relating to financial regulations.


v) Law N°05/2013 of 13/02/2013 modifying and completing the Law n°12/2007 of 27/03/2007 on Public Procurement

vi) Ministerial order N° 001/08/10/MIN of 16/01/2008 establishing regulations on public procurement and standard bidding documents.

vii) Tax laws

viii) MIFOTRA guidelines for fixing salaries in the Rwandan public sector
Audit Committee members should be familiar with the principles enunciated in the various laws and regulations that should guide management of their entities.

### 3.1.2. Responsibilities for Internal Control

#### 3.1.2.1. Management responsibility

The Accounting Officer in the “statement of responsibility” acknowledges responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, ensuring adequate systems of internal control and safeguarding the assets of the entity. Management responsibilities for internal control include:

(i) Establishing and maintaining an adequate internal control structure and procedure for financial reporting;

(ii) Ensuring compliance to laws and regulations;

(iii) Evaluating the effectiveness of internal control;

(iv) Identifying promptly material weaknesses in internal controls and taking corrective steps;

(v) Notifying external auditor and audit committee of significant internal control deficiencies, and any instances of fraud.

#### 3.1.2.2. Internal audit responsibility

Article 9 of, Ministerial Order N°002/09/10/GPIA of 12/02/2009, the Head of Internal audit should review internal controls and give an annual overall opinion on the effectiveness of internal controls based on the results of various audits conducted during the year.

#### 3.1.2.3. Audit Committee responsibilities

Audit committees should ensure management’s reporting on the effectiveness of the entity’s internal controls is complete and understandable, not only internal controls over financial reporting. The Audit Committee should:

(i) Evaluate whether management is setting the appropriate ‘control culture’ by communicating the importance of internal control and management of risk.

(ii) Understand the internal controls systems implemented by management for the approval of transactions and the recording and processing of transactions in different areas.

(iii) Understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.
(iv) Evaluate the overall effectiveness of the internal control and risk management frameworks.

(v) Consider whether recommendations made by the internal and external auditors have been implemented by management.

(vi) Obtain assurance from internal audit and external audit as to the effectiveness and efficiency of the control framework implemented by management.

(vii) Review whether there is adequate segregation of duties.

(viii) Review external reporting on internal controls.

(ix) Report on committee’s assessment of internal controls in the annual report.

### 3.1.3. Illustrative questions for Internal control

(i) Are there clear line of responsibilities with respect to Risk and Control?

(ii) Are areas of key risks covered by internal auditor and external audit scope?

(iii) Are there related party transaction; do the transactions serves the best interest of the entity?

(iv) Has the entity been subjected to inspection by the regulator and is there an adequate action plan to address any compliance issues?

(v) Is the entity’s annual ‘Statement of responsibility’ meaningful, and what evidence underpins it?

(vi) Does management take appropriate action to appropriately address any control weakness issues raised in internal and external audit reports?

### 3.1.4 Illustrative questions for IT Governance

(i) Is there a formal IT governance framework, driven by business goals and strategy with an explanation of how it supports the achievement of organizational objectives?

(ii) Has the IT governance framework been approved by the Accounting Officer and the Supervisory Board?

(iii) Is the IT governance framework reviewed and monitored on a regular basis?

(iv) Has the IT governance framework been communicated to management and other personnel?

(v) Is IT an integral part of the entity risk management framework?
3.2. Risks and Risk Management

Risks are uncertain future events that could affect the entity’s strategic objectives. Risks may arise from both external and internal events. Risks are measured in terms of impact and likelihood.

Risk management is a process to systematically identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.

It is the responsibility of the supervisory board to determine the risk appetite of the entity and set risk management policy to guide the institution. Management is responsible for identifying and assessing the risks the entity may be exposed to and for developing procedures for managing risks in line with the supervisory board policy.

3.2.1. Entity Management responsibility in relation to risk management
Responsibilities include:

- Establish risk management system including processes, structure and systems.
- Identifying, assessing and developing risk mitigation strategies
- Coordinating risk management processes
- Assessing the efficiency and effectiveness and improving the system of risk management process.

3.2.2. Internal audit responsibility in relation to risk management
Responsibilities include:

- Providing independent assurance on the effectiveness of the ERM processes
- Developing a risk based internal audit plan and leverage on the risk management framework in conducting risk assessments.
- May with limitation (due to independence) facilitate some risk management activities.

3.2.3. Audit Committee responsibilities in relation to risk management

The audit committee should:

(i) Understand management’s process to identify events that put the entity at risk.

(ii) Understand the entity process to assess risks.

(iii) Understand who is responsible for risk identification, assessment, and management throughout the entity.

(iv) Understand and concur with the supervisory board’s appetite to risk and the policies established to ensure management operates within these parameters.
(v) Understand internal auditor’s role and planned coverage in relation to risks.

(vi) Review the entity’s major risks profile and ensure that risk management strategies are in place to monitor and control those risks.

(vii) In reviewing financial statements and other financial information, be alert to possible indications of fraud. **Tool 8, Fraud Risk Factor,** contains examples fraud risk factors to look out for.

(viii) Concur in the appointment, promotion or dismissal of the head of risk management, if the entity has a risk management function.

(ix) Meet separately with the head of risk management without management personnel being present.

In regulated sectors where a separate risk committee has been established, the audit committee should understand the role and activities of the risk committee and, through the board, ensure there is regular contact with the risk committee. The audit committee should however oversee the risk management issues relating to financial reporting. Ultimately the board is responsible for risk management and it should ensure that all risks are monitored somewhere at the board level.

### 3.2.2. Illustrative questions for risk management

(i) Is there a risk management process in place and is it tailored to the needs of the entity?

(ii) Is there a comprehensive process for identifying and evaluating risk, and for deciding what levels of risk are tolerable?

(iii) Has a risk assessment been conducted and how are the areas of greatest risk being dealt? Is the risk assessment continuously updated?

(iv) What is the possibility of fraud, illegal acts or deficiencies in internal control?

(v) What are the significant accounting and reporting issues and what is their likely impact on the financial statements?

(vi) Is there a risk register and does it appropriately reflect the risks facing the entity?

(vii) Does the entity have clear risk mitigating strategies and policies?

(viii) Do entity’s processes incorporate effective risk management?

(ix) Is the risk management framework appropriate?

(x) Is there appropriate ownership of risks in place?

(xi) How well is staff equipped and supported to manage risk?

(xii) Is the organisation as a whole aware of the importance of risk management and of the organisation’s risk priorities?
4. Monitoring Compliance to Laws and Regulations

Audit Committees are responsible for overseeing compliance to legal, regulatory and industry standards, internal policies, other stakeholder requirements, and ethical matters. Audit Committees in regulated industries should monitor applicable regulatory requirements (e.g. banks and insurance). All of these can have a potential financial, non-financial or reputational impact. The reputation of an entity is a critical factor in determining its value and the committee should ensure management devotes adequate resources to ethical programs and guidelines for acceptable business practices. Audit committees should:

(i) Review and recommend for approval of policies, processes and framework for identifying, analyzing and addressing complaints (including whistle blowing) and for reviewing material complaints and their resolution.

(ii) Review the effectiveness of the system for monitoring compliance with laws, regulations, internal policies and industry standards and the results of management’s investigation and follow-up (including disciplinary action) of fraudulent acts or non-compliance. Ensure staff who are aware of possible financial malpractice have a safe channel through which to report their concerns.

(iii) Obtain regular updates from management and the head of compliance about compliance matters that may have a material impact on the entity’s financial statements, strategy, operations or reputation.

(iv) Be satisfied that all regulatory and legal compliance matters related to the entity have been considered in the preparation of the financial statements.

(v) Review the findings of any examination by the regulators.

(vi) Participate in the appointment, promotion or dismissal of the head of compliance and legal counsel, if any.

(vii) Meet separately with the head of compliance and legal counsel without management personnel being present, if these functions are in place.

In regulated industries such as banks and insurance, a head of compliance may be appointed to monitor the entity compliance to laws and regulations.
4.1. Illustrative questions for regulatory, compliance & ethical matters

4.1.1. Code of ethics

(i) Does the entity have a code of ethics?
(ii) Is the code accessible?
(iii) Does the code address all policy issues mandated by legislation or industry bodies?
(iv) Does an effective implementation process support the code?
(v) Who is required to certify that staff have read, understood, and are in compliance with the code’s provisions?
(vi) Does the entity actively promote the code of ethics and is there a process to report violations anonymously?
(vii) Has there been any violation and how were they dealt with?

4.1.2. Compliance

(i) What are the different laws and regulations that govern the institution and are these being complied with?
(ii) Does a formal compliance policy and framework exist?
(iii) What is the scope of the compliance framework?
(iv) How do you know if the entity is compliant?
(v) How do we get staff buy-in to make compliance ‘stick’?
(vi) What resources exist to develop and maintain the compliance framework?
(vii) Do we take a risk-based approach to compliance?
(viii) Is the effectiveness of the compliance framework assessed?
5. Considering External Auditors’ Reports

5.1. External Auditors’ mandate

The Office of the Auditor General of State Finances (OAG) was established by Law no 05/98 of 4 June 1998 and following the enactment 2003 Constitution of the Republic of Rwanda the Office attained the status of Supreme Audit Institution (SAI) of Rwanda reporting to Parliament. The OAG also has the mandate to authorize other qualified auditors to audit Government entities on its behalf.

The objective of independent audit is to determine whether, in the auditor’s opinion, the financial statements present fairly in all material respects or show a true and fair view, of the entity’s financial position, results of operations, and cash flows in conformity with existing laws and regulations or generally accepted accounting standards.

Specifically, the mandate of the Office of the Auditor General is to conduct audit of Government agencies to satisfy itself that:

- Proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the government entity as at the reporting date and of its receipts and expenditure for the financial period and comply with existing laws and regulations;
- Controls to safeguard the receipt, custody and proper use of public funds were put in place and that the laws and regulations in force were duly observed;
- The expenditure incurred was necessary and in conformity with the laws and regulations in force and sound management; and
- The Government entity acquired and utilized human, material and financial resources economically, efficiently and effectively.

In accordance with International Standards on Auditing (ISA), the Auditor General issues an opinion based on audit evidence obtained on whether or not proper books of account have been maintained and the financial statements give a true and fair view of the state of the financial affairs of the Government entity as at the period end date and of its receipts and expenditure for the period then ended and comply with the existing laws and regulations.

5.2. Audit committee’s role in relation to 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.
Audit committee should interact with external auditors throughout the audit process. Audit committees activities have been categorized into three phases: **planning**, activities performed by the committee at the beginning of the audit process; **monitoring**, activities performed by the committee during the course of the audit process; and **reporting**; activities performed by the committee during the end of the audit process. The committee may be represented in meetings with the External Auditor. The following are the activities the committee can perform in each phase:

5.2.1. Planning phase

(i) Participate in opening meetings and other planning meetings organized by OAG Auditors, to understand the scope of audit and planned approach for the audit.

(ii) Share with the external auditors, the Committees understanding of the risk environment and suggest risks and locations to be incorporated in the audit plan.

5.2.2. Monitoring Phase

(i) Discussing with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.

(ii) Meeting separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

(iii) Discuss disagreements between the auditor and management about matters that, individually or in aggregate, could be significant to the entity’s financial statements or the auditors’ report.

5.2.2. Reporting Phase

(i) Follow up on external audit findings and recommendations and ensure a clear action plan is put in place by management and implemented.

(ii) Reviewing and commenting on the entity’s quarterly, annual reports and accounts.

(iii) Reviewing the representation letters given by management to the external auditors and ask whether any difficulties were encountered in obtaining the letter or any specific representation therein.
5.3. Illustrative questions to ask external auditors

(i) Did the actual scope of the audit differ from the audit plans? Did management restrict or limit the scope of the audit in any way?

(ii) What areas do you consider to be at higher risk of having ineffective controls?

(iii) Were there any material errors, fraud, or illegal acts?

(iv) Was there any difficulty in obtaining written representations from management?

(v) Were any significant adjustments to the financial statements made as a result of the audit?

(vi) Are there any unrecorded adjustments resulting from the audit? What is the materiality of these adjustments?

(vii) What are the most significant judgmental areas in the accounts and how was assurance obtained in these areas?

(viii) Would you consider the accounting policies prudent or aggressive?
6. Supervising the Internal Audit Function

Internal audit is an important resource for the audit committee. It assists the committee to meet its responsibilities in the areas of internal control, governance, risk management and fraud investigations. Internal audit conducts an objective assessment of risk and control in operational, compliance, and reporting areas.

Internal audit can also be charged with the role of assisting in coordinating external or regulatory audit efforts, organize audit committee meetings and materials and arrange in house or external training for audit committee members subject to its capability.

The head of internal audit should present the internal audit charter, annual internal audit action plan and risk assessment to senior management and the audit committee for approval. The Internal audit function should prepare a quarterly report to the Audit Committee or supervisory board (as the case may be) summarizing the activities carried out during the quarter; progress in implementing the annual action plan, audit findings, implementation of agreed recommendations, significant changes to the annual action plan, significant issues, results of quality assurance review and any other matter for the audit committee consideration. Tool 9, Quarterly Internal Audit Report to Audit Committee, gives a sample.

To be effective an internal audit function needs to have the active support of both management and the audit committee. The Head of Internal Audit should have an open line of communication with the audit committee and should attend committee meetings by invitation and should meet privately with the audit committee at least once a year as circumstances dictate.

The Head of Internal Audit is required to give an overall opinion on internal controls in the entity annually. There is a lot of synergy between the role of internal audit and that of the audit committee. Metaphorically, internal auditors are the “eyes and ears” of the audit committee but they are not the only source of information the audit committee relies on.

6.1. Audit Committee responsibilities for internal audit

Audit committee review and report to the Supervisory Board their assessment on the effectiveness of the internal audit function. Tool 10 provides a list of questions the Audit Committee can use to assess internal audit performance.
6.1.1. During Planning

(i) Participate in the appointment, promotion or dismissal of the Head internal audit and discuss with the external auditor the standard of work of internal audit staff.

(ii) Review and approve the internal audit charter.

(iii) Review and approve the proposed annual internal audit plan and ensure that it addresses key areas of risk and that there is appropriate coordination with the external auditor.

(iv) Ensure internal audit has adequate skills and resources to review key operations.

(v) Review significant changes to the internal audit plan.

(vi) Maintain a constructive professional relationship with the Head of Internal Audit.

6.1.2. During Monitoring

(i) Review the activities, resources and organizational structure of the internal audit function and ensure no unjustified restrictions or limitations are made.

(ii) Ensure appropriate audit approach is used to address specific risks.

(iii) Review the effectiveness of the internal audit function and ensure that it has appropriate standing within the entity.

(iv) Meet separately with the head of internal audit to discuss any matters that the committee or internal auditors believe should be discussed privately.

(v) Review the independence and objectivity of the internal auditors.

6.1.3. During Reporting

(i) Ensure that significant findings and recommendations made by the internal auditors and management’s proposed response are received, discussed and appropriately acted on.

(ii) Review periodic reports on the results of internal audit work.

(iii) Review top risks identified by internal audit.

(iv) Evaluate performance of the internal audit function.

(v) Receive internal audit quality assurance reports.

(vi) Monitor implementation of recommendations.
### 6.2. Illustrative questions for internal audit

(i) Is the internal audit mandate appropriate? Has its mandate kept pace with the entity’s activities, information and control systems?

(ii) Does internal audit have adequate resources, both in terms of skills, numbers and funding?

(iii) How is the internal audit plan determined? Does it cover areas of significant risk?

(iv) Are significant findings and recommendations or other reports presented by the internal auditors received and discussed on a timely basis?

(v) Does the entity act on recommendations from internal audit and monitor the changes made?

(vi) Are significant risks accepted by management escalated for audit committee’s consideration?

(vii) Do the internal auditors have an effective working relationship with the external auditors, and with entity personnel involved in risk management processes?

(viii) Is the internal audit function structured in a manner that achieves organizational independence and permit full and unrestricted access to top management, the audit committee, and the supervisory board?

(ix) Does internal audit operates in accordance with appropriate standards, policies and procedures, e.g. internal audit regulations and the Institute of Internal Auditor’s “Standards for the Professional Practice of Internal Auditing”.

(x) What are top risks identified by Internal Audit?

(xi) Has a quality and improvement program been implemented?

(xii) Does internal audit receive the appropriate level of management support and cooperation?

(xiii) Does internal audit perform in accordance with its charter?

(xiv) Is the range of assurances available sufficient to facilitate the drafting of a meaningful Statement responsibilities for Internal Control?
7. Audit Committee Relationship with Management

Management is responsible for establishment of the whole system of internal controls. Audit committees have the responsibility of advising management and the supervisory board on matters of internal control. The audit committees have the responsibility of monitoring the implementation of external and internal audit recommendations to ensure improvement of the entity internal controls. Tool 11, Audit Committee Monitoring, provides a template audit committees can use to monitor implementation of agreed recommendations.

Balancing audit committees responsibility for advising management and their fiduciary duty to monitor and oversee management can be a challenge. Audit committees should review information carefully and challenge management where necessary but should not be involved in making management decisions. Both management and the audit committee should understand and respect where management responsibility ends and where audit committees responsibility starts.

Audit committees should:

(i) Maintain a productive relationship with management, with open lines of communication and ongoing dialogue.

(ii) Meet privately with management as appropriate to discuss appointment and dismissal of the Head of internal audit in consultation with Office of the Government Chief Internal Auditor.

(iii) Assess the qualifications and performance of key finance managers in financial reporting.

(iv) Obtain regular briefings from management in order to understand the entity operations. Committee can obtain briefings on such areas as:

- Risks facing the entity and mitigation plans.
- New laws or accounting standards or regulations.
- Updates on pending legal cases and contingent events that could affect financial performance etc.
- Regulatory review findings and action plans.
- Significant entity transactions in a timely manner.
- Change in accounting policies.
- Significant estimates and judgments used in preparation of financial statements.
- Any other matters that may be relevant to the committee’s responsibilities.
8. Special Investigations

As provided in Article 3 of Ministerial Instructions N°004/09/10/MIN of 01/10/2009, Audit Committees may commission special investigations regarding possible fraud and illegal acts, violations of the code of ethics, and material unintentional accounting errors. The committee can use internal audit or external resources especially where management involvement is suspected.

9. Annual Audit Committee Evaluation

The audit committee should periodically appraise its performance and adequacy of the audit committee charter and report the findings to the supervisory board. Both individual members and collective performance should be assessed at least annually.

Audit committee evaluations may indicate areas for improvement and training needs. A questionnaire should be used in a formal audit committee meeting to assess performance. The questionnaire should assess areas such as:

(i) Complied with audit committee charter.
(ii) Understanding of committee’s responsibilities.
(iii) Coverage of audit committee’s work plan.
(iv) Whether sufficient time is given to discussing committee’s business.
(v) Whether the audit committee raises the right questions and obtains the right answers from management.
(vi) Committee’s level of interaction with internal audit, external auditors and management.
(vii) Audit committee responsiveness to issues raised by auditors.
(viii) Members’ performance.
(ix) Effectiveness and frequency of meetings.
(x) Robustness of training and induction.
(xi) Adequacy of resources available to the committee.
(xii) Whether each member feels free to speak their minds and to pursue issues through to their conclusion.
(xiii) Mix of experience and skills of committee members.
(xiv) Board assessment of the Audit Committee work and reports.
(xv) Level of understanding of the purpose and operations of the entity.
(xvi) Independence of committee members from management.
(xvii) Impact of the committees work on the entity.

A sample questionnaire is attached as Tool 12, Audit Committee Self Assessment questionnaire.

The Chairperson should lead in the evaluation of the individual audit committee member. Tool 13, Individual Audit Committee member Performance Assessment can be used for assessment of individual audit committee members. The Chairperson may seek the views of the external auditor, Accounting Officer and the Head of internal audit as appropriate.

10. Reporting Responsibilities

10.1 Quarterly report

As provided by Article 14 of Ministerial Instructions N°004/09/10/MIN of 01/10/2009, Audit Committees shall report on a quarterly basis to their respective supervisory board summarizing business transacted, offer views and advice. A copy of the report should also be sent to the Accounting Officer. The committee should:

(i) Regularly update the supervisory board about committee activities and make appropriate recommendations.

(ii) Ensure the supervisory board is aware of matters that may significantly impact on the financial condition or affairs of the entity.

(iii) Prepare any reports required by law or listing rules or requested by the board, for example a report on the audit committee’s activities and duties to be included in the section on corporate governance in the annual report.

The same Article also gives the Government Chief Internal Auditor and the Auditor General of State Finance access to audit committee reports upon request. Tool 2, Quarterly Audit Committee report to the Supervisory Board gives a layout of the contents such a report.

10.2 Audit Committee Annual Report

Each Audit committee should prepare an annual report to be included in the entity annual report. The Audit Committee annual report should describe how Audit Committee members have discharged their responsibilities and should cover the following:
(a) Members of the Audit Committee and their participation in various meetings;
(b) Assessment of the adequacy and effectiveness of the internal control system
(c) Assessment of the adequacy, reliability and accuracy of financial information provided by the entity;
(d) Review of management report and audit report
(e) Review and consideration of accounting policies applied
(f) Assessment of the effectiveness of the Internal Audit Unit;
(g) Any key issue that needs special attention.

**Tool 3, Audit Committee Annual Report**, contains an outline of an audit committee annual report.

### 10.3 Illustrative questions for audit committee reporting

(i) Does the audit committee report to the supervisory board in writing?

(ii) Are most committee meetings scheduled in advance of the corresponding supervisory board meeting to facilitate timely reporting to the board?

(iii) Does the committee provide the board with regular reports on its activities, key issues and major recommendations?

(iv) Does the committee provide stakeholders with reports on its responsibilities and other matters as required by legislation, regulation or its charter?
11. Collaboration with the Office of the Government Chief Internal Auditor

As provided in Article 3 of Ministerial Instructions N°004/09/10/MIN of 01/10/2009, in fulfilling their responsibilities, Audit Committees shall liaise with the Government Chief Internal Auditor and collaborate with the Auditor General of State Finances as appropriate. The Office of the Government Chief Internal Auditor shall:

(i) Review and propose audit committee regulations to be published by the Minister in charge of Finance;
(ii) Propose audit committee tools and guidelines to be published by the Minister;
(iii) Coordinate the appointment of audit committee members in Ministries;
(iv) Provide induction training to all audit committee members;
(v) Provide continuous training to audit committee members; and
(vi) Provide technical support to audit committees as necessary.

The entity internal auditor shall facilitate the induction of audit committees to the entity. Tool 14 provides a sample of documents that should be provided to each new audit committee member.
### Appendix 1: People and Institutions Consulted

<table>
<thead>
<tr>
<th>No.</th>
<th>Name and title</th>
<th>Institution</th>
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<tbody>
<tr>
<td>1</td>
<td>Patrick Shyaka- Accountant General</td>
<td>MINECOFIN</td>
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<tr>
<td>2</td>
<td>John Munga – Deputy Accountant General, Public Accounts Unit</td>
<td>MINECOFIN</td>
</tr>
<tr>
<td>3</td>
<td>Paul Chege – Consultant, Accountant General’s Office</td>
<td>MINECOFIN</td>
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<tr>
<td>4</td>
<td>Alice Ntamitondero– Secretary General</td>
<td>OAG</td>
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<tr>
<td>5</td>
<td>Grace Rwaka – Director of Audit</td>
<td>OAG</td>
</tr>
</tbody>
</table>
Appendix 2: References

1. Government of Rwanda Audit Committee Charter, July 2011
2. The IIA international internal auditing standards
3. Government of Rwanda Internal audit charter, July 2011
4. International auditing standards
5. Article 70 of the Organic Law N° 37/2006 of 12/09/2006 on State Finances and Property
6. Ministerial Order N° 002/07 of 09/02/2007 relating to financial regulations
8. Current circular on year end financial closing procedures
9. Current Standard financial reporting template prescribed by MINECOFIN
10. Ministerial Order N°002/09/10/GPIA of 12/02/2009 setting out regulations for internal control and internal audit in Government
11. Law n°05/2013 of 13/02/2013 modifying and completing the Law n°12/2007 of 27/03/2007 on public procurement
12. Ministerial order No001/08/10/MIN of 16/01/2008 establishing regulations on public procurement and standard bidding documents
14. MIFOTRA guidelines for fixing salaries in the Rwandan public sector
Audit Committee Handbook Tools

The following are suggested tools that could be used to facilitate an audit committee’s activities.

Tool 1: Audit committee Annual Action Plan
Tool 2: Quarterly Audit committee report to the supervisory board
Tool 3: Audit Committee annual report
Tool 4: Responsibilities of the Audit Committee Chairperson
Tool 5: Responsibilities of audit committee Secretary
Tool 6: Financial Expert
Tool 7: Format of papers to be presented to the audit committee
Tool 8: Illustrative Fraud Risk Factors
Tool 9: Quarterly Internal Audit Report to Audit Committee
Tool 10: Internal audit assessment by the audit committee
Tool 11: Audit Committee Monitoring template
Tool 12: Audit Committee Self-Assessment questionnaire
Tool 13: Individual Audit Committee Member Performance Assessment
Tool 14: List of suggested Audit Committee induction materials and topics
Tool 2: Quarterly Audit committee report to the Supervisory Board

The audit committee should develop its annual action plan at the beginning of each financial year to maintain regular contact with internal auditors, external auditors and management, and to coordinate its activities. The annual action plan will assist in developing agenda items.

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<th>Frequency</th>
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<tr>
<td>A-At least annually</td>
<td>Q-Quarterly</td>
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<td>AN- As Necessary</td>
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### Financial reporting, risk management and internal controls

1. Hold executive meetings with management

2. Draft year-end financial statements
   - Review draft year-end financial statements
   - Review any changes to accounting policies
   - Review draft statement on management responsibility for internal control
   - Discuss control deficiencies
   - Review management representation letter
   - Recommend to the supervisory board that the financial results be published (if appropriate)
   - Management assessment of internal controls

3. Discuss quarterly financial closing process and financial statements if these are published

4. Discuss significant accounting estimates and judgments and rationale for those judgments

5. Discuss contingencies and complex transactions and their effect to the financial statements

6. Discuss the materiality of any identified audit differences not corrected by management.

7. Discuss management remediation to internal control weaknesses over financial reporting

8. Discuss new accounting policies, and accounting and financial reporting requirements

9. Understand the entity strategy and operations

10. Understanding of internal control systems of the entity

11. Evaluate internal control culture and environment

12. Discuss risk management guidelines and policies to manage risks within the entity risk appetite
### Tool 2: Quarterly Audit committee report to the Supervisory Board

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<td>Q-Quarterly</td>
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13. Review risk assessment reports and adequacy of risk management processes including antifraud programs

14. Meet separately with head of risk management, if applicable

15. Review compliance reports by regulators, if any

16. Meet separately with head of compliance, if applicable

17. Discuss appointment, replacement, reassignment, or dismissal of the head of risk and compliance if any.

### Internal audit

18. Hold executive meeting with head of internal audit

19. Internal audit annual action plan:
   - Review and approve the internal audit annual action plan
   - Assess the internal audit charter
   - Quality assurance reports on the internal audit function
   - Head of internal audit annual overall opinion in internal controls
   - Resources, training, skills and structure of internal audit

20. Internal audit work:
    Draft quarterly internal audit report summarizing:
    - work performed (and a comparison with work planned)
    - key issues emerging from Internal Audit work
    - management response to audit recommendations
    - changes to the annual action plan
    - any resourcing issues affecting the delivery of Internal Audit objectives

21. Approve internal audit charter

22. Discuss independence of internal audit and results of quality assurance and improvement program

23. Discuss appointment, replacement, reassignment, or dismissal of the head of internal audit.

### External auditors

24. Hold executive meeting with external auditors (when they
## Tool 2: Quarterly Audit committee report to the Supervisory Board

<table>
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<th>Frequency</th>
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<tr>
<td>25. Discuss scope and approach of annual audit and interim reviews, and review engagement letter</td>
<td>x</td>
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<td>26. Discuss business risks and accounting and auditing developments</td>
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<td>x</td>
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<td>27. Obtain and review management letter and management remediation plans</td>
<td>x</td>
<td>x</td>
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<td>28. Read representation letters given by management to external auditors</td>
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<td>29. Discuss any independence concerns</td>
<td>x</td>
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<td>30. Review summary of unadjusted audit differences</td>
<td>x</td>
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<td>31. Discuss any observations regarding the effectiveness of audit committee</td>
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### Audit committee

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<tr>
<td>32. Acknowledge / review the audit committee charter</td>
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<td>33. Approve annual audit committee action plan</td>
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<td>34. Approve minutes of previous meeting</td>
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<tr>
<td>35. Hold executive session of committee members</td>
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<td>36. Discuss fraud related matters, including risk of fraud through management override</td>
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<td>37. Evaluate financial expertise of audit committee members and other required skills</td>
<td>x</td>
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<td>38. Audit committee education and orientation of new members</td>
<td>x</td>
<td>x</td>
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<td>39. Evaluate independence of audit committee members</td>
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<tr>
<td>40. Evaluate audit committee effectiveness and performance of its members</td>
<td>x</td>
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<td>41. Prepare audit committee report to be included in the annual report</td>
<td>x</td>
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<td>42. Report to the supervisory board</td>
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<td>43. Any other matters</td>
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This may contain such matters as:

- Number of meetings held and key issues discussed
- Monitoring of internal audit reports
- Monitoring of external audit reports
- Recommendations to the Supervisory Board
- Previously recommendations to the Supervisory Board for which no decision has been taken
- Significant risks and mitigating strategies
- Internal audit plans
- Comments on effectiveness of internal control
- Annual financial statements (and quarterly financial statements where applicable)
- Comment on the adequacy of the audit committee charter (annual)
- Results of self assessment of audit committee (annual)
Tool 3: Audit Committee Annual Report

The following is an outline of an audit committee annual report based on matters which stakeholders may wish to know in relation to the audit committee. The Audit Committee annual report should be included in the annual report by the budget agency. The audit committee should provide a commentary submitting the report, For example: “We are pleased to present our report for the financial year ended 30 June 2012.”

Composition of the audit committee

- Chair, Secretary and Members – names and appointment
- Confirmation that the members of the committee met the definition of independence as required
- Appointment process
- Relevant qualifications, expertise and experience of each member (if not included in biographical details)

Audit Committee Members and Attendance

The number of meeting actually held during the fiscal year under review compared to the number specified in the regulations or planned. The Audit Committee should further indicate the name of each Audit Committee member stating any members that were appointed or resigned, the number of meetings attended by each member.

Audit Committee Responsibility

The Audit Committee should, at least, address the following with additional commentary. A reference may be made to the charter

- Adoption/non-adoption of the audit committee charter,
- Its compliance/non-compliance with the audit committee charter

The effectiveness of internal control

Using available presentations from management and head of internal audit, the Audit Committee should, at least, address the following with additional commentary:

- Efficiency and effectiveness of the system of internal control applied by the budget agency;
- Risk management is effectiveness, efficiency and transparency, Report on Governance requirements
- The Annual Financial Statements;
The management report from OAG,
The quality of in-year management and monthly/quarterly reports submitted in terms of the Organic Law on State Finances Property and (appropriation law).

Appraisal of Financial Statements

The Audit Committee should, at least, address the following with additional commentary:

- Discuss audited annual financial statements to be included in the annual report, with the OAG and the Chief Budget Manager,
- Discuss OAG’s management report and management’s response thereto,
- Discuss changes in accounting policies and practices,
- Discuss Budget agencies’ compliance with legal and regulatory provisions;
- Discuss information on predetermined entity objectives to be included in the annual report; and
- Discuss significant adjustments resulting from the audit,
- Commentary on interim financial statements prepared by the budget agency

Internal audit

The Audit Committee to conclude on the effectiveness of the internal audit function and whether or not the internal audit function has addressed the risks pertinent to the budget agency in its audit.

Provide a commentary on whether or not the Audit Committee has met with the OAG to ensure that there are no unresolved issues.

Conclusion

Recommendation of the committee on whether the financial statements should be accepted and read together with Auditor General’s report.

Chairperson of the Audit Committee

Date:
The role of the Chairperson of the Audit Committee goes beyond chairing meetings. Indeed it is key to achieving Committee effectiveness. The additional workload should be taken into account in appointment of the Chairperson.

Exactly how a particular Chair manages the Audit Committee will vary depending on the needs of the specific organisation.

Key activities beyond Committee meetings should include the following.

1. **Audit committee agenda**

Before each meeting the Chair and the Committee Secretary should meet to discuss and agree the business for the meeting. The Chair should take ownership of, and have final say in, the decisions about what business will be pursued at any particular meeting.

2. **Communication**

- The Chair should ensure that after each meeting appropriate reports are prepared from the Audit Committee to the Board and the Chief Budget Manager.
- The Chair should ensure that the Audit Committee provides a suitable Annual Report to the Board.
- The Chair should have bilateral meetings at least annually with the Chief Budget Manager, the Head of Internal Audit and the External Auditor, and in GBEs, with the Chair of the Board. In addition, the Chair should meet any people newly appointed to these positions as soon as practicable after their appointment.
- The Chair should also ensure that all Committee members have an appropriate programme of interface with the organisation and its activities to help them understand the organisation, its objectives, business needs and priorities.

3. **Monitoring actions**

The Chair should ensure that there is an appropriate process between meetings for action points arising from Committee business to be appropriately pursued.
The Chair should also ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence. Chairs may choose to rely on the Secretariat to take these actions.

4. Appraisal:

The Chair should take the lead in ensuring that Committee members are provided with appropriate appraisal of their performance as a Committee member and that training needs are identified and addressed. The Chair should themselves seek appraisal of their performance from the Chair of the Board.

The Chair should ensure that there is a periodic review of the overall effectiveness of the Audit Committee and of its Terms of Reference.

5. Appointments:

The Chair should be involved in the appointment of new Committee members, including providing advice on the skills and experience being sought by the Committee when a new member is appointed.
**Tool 5: Responsibilities of audit committee Secretary**

The secretary should support the Chairperson of the Committee in identifying matters to be discussed. For this reason, and as the Audit Committee is a sub-committee of the Supervisory Board, the Audit Committee Secretariat function should be supervised by the Board secretariat or the committee may appoint one of its members to be the committee secretary or a focal person in management or the head of internal audit as the committee deems appropriate.

The Chairperson of the Committee and the secretary should agree procedures for commissioning briefing to accompany business items on the Committee’s agenda and timetables for the issue of meeting notices, agendas, and minutes. The Chairperson of the Committee should always review and approve minutes of meetings before they are circulated.

The specific responsibilities of the Audit Committee Secretary should include:

- Meeting with the Chair of the Committee to prepare agendas for meetings;
- Commissioning papers as necessary to support agenda items;
- Circulating meeting documents in good time before each meeting;
- Arranging for executives to be available as necessary to discuss specific agenda items with the Committee during meetings;
- Keeping a record of meetings and providing draft minutes for the Chair’s approval;
- Ensuring action points are being taken forward between meetings;
- Support the Chair in the preparation of Audit Committee reports to the Board;
- Arranging the Chair’s private meetings with the Chief Budget Manager, the Head of Internal Audit and the External Auditor;
- Keeping the Chair and members in touch with developments and relevant background information about developments in the organisation;
- Maintaining a record of when members’ terms of appointment are due for renewal or termination;
- Ensuring that appropriate appointment processes are initiated when required;
- Ensuring that new members receive appropriate induction training, and that all members are supported in identifying and participating in ongoing training;
Tool 5: Responsibilities of audit committee Secretary

- Managing budgets allocated to the Audit Committee.

Careful consideration should be given to ensuring that the Secretariat function is not biased.
Tool 6: Financial expert

A financial expert for audit committee purposes is a person who has the following attributes:

- an understanding of generally accepted accounting principles and financial statements
- the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves
- experience in preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant’s financial statements, or experience actively supervising one or more persons engaged in such activities
- an understanding of internal controls and procedures for financial reporting
- an understanding of audit committee functions.

In addition, the person must have acquired such attributes through any one or more of the following:

- education and experience as a principal financial officer, principal accounting officer, controller, public accountant, or auditor, or experience in one or more positions involving the performance of similar functions
- experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor, or person performing similar functions
- experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing, or evaluation of financial statements
- other relevant experience.

The person being considered for appointment to the audit committee as the financial expertise should:

- Feel comfortable reviewing a set of financial statements
- Know the questions to ask and understand how to assess the answers
- Be prepared to keep financial experience up to date
- Know enough to keep members and the entity out of trouble
- Have a broad understanding of IFRS, IPSAS laws and regulations on accounting in Government of Rwanda and their application
- Understand the financial matters being explained to the committee
**Tool 6: Financial expert**

- Have the confidence to ask supplementary questions until properly satisfied
- Recognize when a set of financial statements doesn’t ‘feel right’
- Understand internal controls and procedures for financial reporting
- Have an appreciation of stakeholders’ viewpoint
- Understand how the financial statements are put together
- Understand the subjective areas and areas where judgment is required
- Understand what alternative accounting treatments could have been followed
- Understand the basic tests of quality of earnings and financial position; for example, comparing earnings with cash flow
Tool 7: Format of papers to be presented to the audit committee

It is recommended that management and internal audit adopts a standard format of agenda items to the committee to assist its members to quickly analyse information presented.

**Agenda Item 10**

<table>
<thead>
<tr>
<th>Purpose</th>
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<tbody>
<tr>
<td>Charter reference</td>
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<tr>
<td>Issue</td>
<td></td>
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<tr>
<td>Recommendations (if any):</td>
<td></td>
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<tr>
<td>Consultation and feedback</td>
<td></td>
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<tr>
<td>Key relevant matters</td>
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<tr>
<td>Impact on KPIs</td>
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<tr>
<td>Alternative options</td>
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<tr>
<td>Supporting documentation</td>
<td></td>
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<tr>
<td>Prepared by</td>
<td></td>
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<td>Date:</td>
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Summary of Agenda Item
Fraud is deceit and therefore by its very nature difficult to unearth. However, there are circumstances which may encourage or protect fraudulent activity, and if these exist at the entity, the audit committee should be aware of the risk. Also, there are some indicators which may be a result of fraud, and an audit committee can be alert to these signs.

Circumstances which may encourage or protect fraudulent activity

1. Lack of appropriate management oversight (for example, inadequate supervision or inadequate monitoring of remote locations)
2. Inadequate record-keeping for assets susceptible to misappropriation
3. Lack of an appropriate segregation of duties
4. Poor physical safeguards over cash, investments, inventory or fixed assets
5. Lack of mandatory vacations for employees performing key control functions
6. A poor or deteriorating financial position when management has personally guaranteed significant debts of the entity
7. A high degree of competition or market saturation, accompanied by declining margins
8. A declining industry with increasing business failures and significant declines in customer demand

Indicators which may be a result of fraudulent activity

1. Reluctance by management to engage in frank communication with appropriate third parties, such as regulators and bankers
2. Limitation in audit scope imposed by management
3. Identification of important matters not previously disclosed by management
4. Aggressive application of accounting principles
5. Conflicting or unsatisfactory evidence provided by management or employees
6. Information provided unwillingly or after unreasonable delay
7. Seriously incomplete or inadequate accounting records
8. Evidence of an unduly lavish lifestyle by officers or employees
<table>
<thead>
<tr>
<th>Tool 8: Illustrative Fraud Risk Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. Inability to generate cash flows from operations while reporting earnings and earnings growth</td>
</tr>
<tr>
<td>10. Assets, liabilities, revenues or expenses based on significant estimates that involve unusually subjective judgments or uncertainties, or that are subject to potential significant change in the short term, in a way that might have a financially disruptive effect on the entity. For example:</td>
</tr>
<tr>
<td>i.) the ultimate collectability of receivables</td>
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<tr>
<td>ii.) the timing of revenue recognition</td>
</tr>
<tr>
<td>iii.) the reliability of financial instruments based on highly subjective valuation of collateral or difficult-to-assess repayment sources</td>
</tr>
<tr>
<td>iv.) a significant deferral of costs</td>
</tr>
<tr>
<td>11. Significant related-party transactions which are not in the ordinary course of business</td>
</tr>
<tr>
<td>12. Significant, unusual or highly complex transactions (especially those close to the end of the period) that pose difficult questions concerning substance over form</td>
</tr>
<tr>
<td>13. Unusually rapid growth or profitability, especially compared with that of other companies in the same industry</td>
</tr>
<tr>
<td>14. Unusually high dependence on debt, a marginal ability to meet debt repayment requirements, or debt covenants that are difficult to maintain</td>
</tr>
<tr>
<td>15. Motivation for management to engage in fraudulent financial reporting, for example:</td>
</tr>
<tr>
<td>• a significant portion of management’s compensation is represented by bonuses, share options or other incentives, the value of which is contingent upon the entity achieving unduly aggressive targets for operating results, financial position or cash flow</td>
</tr>
<tr>
<td>• management commits to analysts, creditors and other third parties to achieving what appear to be unduly aggressive or clearly unrealistic forecasts</td>
</tr>
<tr>
<td>16. Failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. Specific indicators might be:</td>
</tr>
<tr>
<td>i.) management does not effectively communicate and support the entity’s values or ethics, or communicates inappropriate values or ethics</td>
</tr>
</tbody>
</table>
Tool 8: Illustrative Fraud Risk Factors

ii.) management is dominated by a single person or a small group, without compensating controls such as effective oversight by those charged with governance

iii.) management sets unduly aggressive financial targets and expectations for operating personnel

iv.) management continues to employ ineffective accounting, information technology or internal audit staff

22. High turnover of management, legal advisers or board members

23. A strained relationship between management and the current or predecessor auditor

24. A history of contraventions of claims against the entity or its management alleging fraud or violations of securities laws.
Tool 9: Quarterly Internal Audit Report to Audit Committee

Quarterly internal audit report to the Audit Committee should include:

An executive Summary of key highlights, such as:

i) Summary of significant issues identified in audit reports since the last meeting

ii) Summary of management’s corrective actions and timing

iii) Summary of follow up activities on key issues carried forward from last meeting

iv) Identification of changes in the organization’s risks or emerging issues that prompt changes
to the audit plan

v) Summary of changes to the approved audit plan

vi) The progress in implementing audit plan, reports finalized, audits completed and on progress

vii) Internal audit operations including training and development

viii) Audit committee education

Internal audit may also report on current audit results, systemic and trend information such as:

ix) Trends by type of audit finding or issue

x) Audit results by line of business or geography

xi) Audit results by major risk category
### Tool 10: Internal audit assessment by the audit committee

The audit committee should consider the effectiveness of internal audit and make recommendations. The following are some of the areas the committee should address.

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Very Good</td>
<td>Please add extra pages if you require more space.</td>
</tr>
<tr>
<td>4. Good</td>
<td></td>
</tr>
<tr>
<td>3. Satisfactory</td>
<td></td>
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<tr>
<td>2. Needs improvement</td>
<td></td>
</tr>
<tr>
<td>1. Completely unsatisfactory</td>
<td></td>
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</tbody>
</table>

#### Internal Audit Charter

1. Has the internal audit charter been approved by the entity management?  
   ![Assessment](#)

2. Is the role of internal audit known and understood by all levels of management?  
   ![Assessment](#)

3. Does internal audit have adequate contact with management and the audit committee to ensure appropriate responses are made to its recommendations and comments.  
   ![Assessment](#)

4. Does the internal audit function receive appropriate support from the CBM and other members of senior management?  
   ![Assessment](#)

#### Compliance with the IIA Standards

4. Does the internal audit function operate in accordance with internal audit regulations, internal audit charter, code of ethics and the standards set by the Institute of Internal Auditors?  
   ![Assessment](#)

5. Does the internal audit function implement a quality assurance and improvement program and report results to the audit committee.  
   ![Assessment](#)

6. Does internal audit provide the audit committee a statement of its independence on an annual basis?  
   ![Assessment](#)

#### Internal Audit Plan

7. Is the internal audit plan reviewed by an appropriate level of management and their comments incorporated and approved by  
   ![Assessment](#)
### Tool 10: Internal audit assessment by the audit committee

<table>
<thead>
<tr>
<th></th>
<th>Assessment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.</td>
<td>Has management placed any scope limitations on the internal audit coverage?</td>
<td>3</td>
</tr>
<tr>
<td>9.</td>
<td>To what extent can the planned scope of the internal audit be relied on to detect significant errors, fraud, and material weaknesses in internal control over financial reporting?</td>
<td>3</td>
</tr>
<tr>
<td>10.</td>
<td>Do you have adequate human resources in terms of trained, experienced staff to achieve the annual plan?</td>
<td>3</td>
</tr>
<tr>
<td>11.</td>
<td>Are there areas of high priority, especially related to risks and control involving financial information, where internal audit work has been deferred due to budget or other limitations?</td>
<td>3</td>
</tr>
<tr>
<td>12.</td>
<td>What areas are not covered by the internal audit plan and how does management and the audit committee obtain assurance in those areas?</td>
<td>5</td>
</tr>
<tr>
<td>13.</td>
<td>Is internal auditors’ interface with the external auditors effective?</td>
<td>3</td>
</tr>
</tbody>
</table>

### Internal audit results

<table>
<thead>
<tr>
<th></th>
<th>Assessment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.</td>
<td>Does internal audit obtain concurrence of management on audit findings and has management adequately addressed the recommendation set forth in internal audit reports?</td>
<td>5</td>
</tr>
<tr>
<td>15.</td>
<td>Are management responses substantive, including a timetable for implementation?</td>
<td>5</td>
</tr>
<tr>
<td>16.</td>
<td>Do follow-up audits indicate that the process for addressing important audit report issues is timely and effective?</td>
<td>5</td>
</tr>
<tr>
<td>17.</td>
<td>Has the audit activity during the year identified areas of serious concern relative to the overall corporate control environment?</td>
<td>3</td>
</tr>
<tr>
<td>18.</td>
<td>Are copies of the internal audit reports made available to the external auditors?</td>
<td>5</td>
</tr>
</tbody>
</table>
## Tool 10: Internal audit assessment by the audit committee

<table>
<thead>
<tr>
<th>Question</th>
<th>Assessment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>19. Are quarterly internal audit reports to the Audit Committee adequate?</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>20. Are internal audit reports to the audit committee informative, timely and clear.</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td><strong>General</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21. Are you satisfied with the level of performance of the internal audit function?</td>
<td>4</td>
<td></td>
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<tr>
<td>22. Are you satisfied that the “tone at the top” is appropriate?</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>23. Does internal audit receive the necessary level of management support and cooperation?</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>24. Are you satisfied that the entity has adequate controls over its major risks?</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>25. Are you satisfied with the professional performance of individual internal auditors?</td>
<td>4</td>
<td></td>
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</tbody>
</table>

26. Please explain here each area that you indicate above as “Needs Improvement” or “completely unsatisfactory” and suggest any improvements.

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## Tool 11: Audit Committee Monitoring Template

The committee minutes should reflect the information discussed in the audit committee quarterly meeting and categorized as follows for ease of tracking.

### A: ISSUES NOT IMPLEMENTED

*(Where no action has been taken in response to issues raised in the audit reports)*

<table>
<thead>
<tr>
<th>No.</th>
<th>Finding</th>
<th>Action to be taken by management and status</th>
<th>Audit committee Recommendation to the District Council or management if any</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>Finding in summary form</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Actions to be taken by management to resolve issues reported.</strong></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Initial Target implementation date: <em>(as agreed with the audit committee)</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expected completion date:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Responsibility: <em>(CBM or head of department)</em></td>
<td></td>
</tr>
</tbody>
</table>

Report title and date: *Auditor General Report 20xx/xx*

1

### B: PARTIALLY IMPLEMENTED ISSUES

*(Where action has been taken in response to issues raised in the audit reports but issue has not been fully resolved)*

<table>
<thead>
<tr>
<th>No.</th>
<th>Finding</th>
<th>Action taken or to be taken by management</th>
<th>Audit committee Recommendation to the District Council or management if any</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Finding in summary form</strong></td>
<td><strong>Actions taken</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Additional action to be taken in response to issues reported.</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Initial Target implementation date: <em>(as agreed with the audit committee)</em></td>
<td></td>
</tr>
</tbody>
</table>

Report title and date: *Internal Audit Report Quarter 1 20xx/xx*

1.
## Tool 11: Audit Committee Monitoring Template

<table>
<thead>
<tr>
<th>Expected completion date:</th>
<th>Responsibility: (CBM or head of department)</th>
</tr>
</thead>
</table>

## C: ISSUES REPORTED DURING THE QUARTER

<table>
<thead>
<tr>
<th>No.</th>
<th>Finding</th>
<th>Update on action taken by management</th>
<th>Audit committee Recommendation to the District Council or management if any</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Include actions taken or to be taken in response to issues reported.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target implementation date: <em>(as agreed with the audit committee)</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Responsibility: (CBM or head of department)*Target implementation date:</td>
<td></td>
</tr>
</tbody>
</table>

Report title and date:

<table>
<thead>
<tr>
<th>No.</th>
<th>Finding in summary form</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><em>Finding in summary form</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Include actions taken or to be taken in response to issues reported.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Target implementation date: <em>(as agreed with the audit committee)</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Responsibility: (CBM or head of department)*Target implementation date:</td>
<td></td>
</tr>
</tbody>
</table>
Tool 12: Audit committee Self Assessment questionnaire

This form may be filled by audit committee members individually and results analysed or during a committee meeting.

**Entity: ____________________________**

**Date completed: ____________________________**

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Very Good</td>
<td>Please add extra pages if you require more space.</td>
</tr>
<tr>
<td>4. Good</td>
<td></td>
</tr>
<tr>
<td>3. Satisfactory</td>
<td></td>
</tr>
<tr>
<td>2. Needs improvement</td>
<td></td>
</tr>
<tr>
<td>1. Completely unsatisfactory</td>
<td></td>
</tr>
</tbody>
</table>

### Organization

1. The Audit Committee charter contains clear provisions specifying the nature and scope of its duties and responsibility.

   5   4   3   2   1

2. Does the committee take a role in overseeing:
   - risk management strategies
   - internal control
   - financial reporting
   - anti-fraud arrangements
   - whistle-blowing strategies?

   5   4   3   2   1

3. The Audit Committee Charter has been discussed and formally approved by the Audit Committee.

   5   4   3   2   1

4. Preparatory documentation for the Audit Committee's meetings is complete, is issued in good time and includes the right information to enable meaningful discussions to be held.

   5   4   3   2   1

5. Audit Committee meetings are well organized, efficient and held at least quarterly; sufficient time is allowed for all important topics to be discussed.

   5   4   3   2   1

6. The Audit Committee's members communicate frequently, honestly and directly with management, the internal and Office of the Auditor General and among themselves.

   5   4   3   2   1

7. The Audit Committee has access to appropriate support from both internal and external sources.

   5   4   3   2   1

8. Minutes of meetings and reports to Supervisory Board as a whole reflect the Audit Committee's principal activities and recommendations.

   5   4   3   2   1

### Supervision of audit processes

8. Executive members of management are invited
## Tool 12: Audit committee Self Assessment questionnaire

<table>
<thead>
<tr>
<th>Question</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>to attend, participate in discussions and provide information to the Audit Committee as and when the Committee deems it necessary</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>Composition and quality</td>
<td></td>
</tr>
<tr>
<td>9. Members have the appropriate qualifications to meet the objectives of the audit committee’s charter, including appropriate financial literacy.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>10. Members of the Audit Committee are all independent of the entity as stipulated in audit committee regulations</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>11. Audit Committee members have differing or different perspectives due to diversity of experiences and backgrounds including.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>- Governance, assurance and risk management</td>
<td></td>
</tr>
<tr>
<td>- Audit</td>
<td></td>
</tr>
<tr>
<td>- Understanding of the wider environment the entity operates in</td>
<td></td>
</tr>
<tr>
<td>- Public financial management</td>
<td></td>
</tr>
<tr>
<td>- Risk management and assurance expertise; and</td>
<td></td>
</tr>
<tr>
<td>- relevant industry/sector expertise</td>
<td></td>
</tr>
<tr>
<td>12. Audit Committee Chair’s leadership is effective.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>13 Audit committee members understand and remain current on relevant auditing, accounting, regulatory, and industry or entity issues consistent with their responsibilities.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>14. For matters that require specialized expertise, the audit committee engages external parties as appropriate.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>Supervision of accounting and reporting</td>
<td></td>
</tr>
<tr>
<td>15 The Audit Committee contributes to the right “tone from the top” being sent from the top of the entity; insistence on integrity and accuracy in accounting and reporting.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>16. Sufficient attention is paid in the discussions and agendas of Audit Committee meetings to the risks contained in the entity's accounting and reporting, and the corresponding internal controls.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>17. The Audit Committee conducts purposeful discussions of external reporting (including the Annual Accounts, quarterly or other relevant items, if any).</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>18. Related party transactions - including their disclosure in the reporting - are adequately</td>
<td></td>
</tr>
</tbody>
</table>
### Tool 12: Audit committee Self Assessment questionnaire

<table>
<thead>
<tr>
<th>19. The Audit Committee understands how management and the external auditors evaluate materiality, both quantitatively and qualitatively, for financial reporting purposes.</th>
<th>5 4 3 2 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>20. The Audit Committee assesses reasonableness and appropriateness of critical accounting and anti-fraud policies followed by the entity, discussing with management and external auditors.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>21. The Audit Committee understands and scrutinizes areas involving management estimates (e.g., accounting accruals, asset impairments, reserves) that have a material impact on the financial statements.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>22. The Audit Committee understands and is satisfied with the process management undergoes to evaluate the significance of control deficiencies.</td>
<td>5 4 3 2 1</td>
</tr>
<tr>
<td>23. The Audit Committee is satisfied the entity adequately addresses the risk that the financial statements may be materially misstated, intentionally or unintentionally, discussing risk of fraud with management and external auditors.</td>
<td>5 4 3 2 1</td>
</tr>
</tbody>
</table>

#### Oversight over external audit process and supervision of internal audit processes

| 24. The Audit Committee obtains information concerning the external auditor's audit planning and findings. | 5 4 3 2 1 |
| 25. The Audit Committee examines the communications issued by the external auditor. | 5 4 3 2 1 |
| 26. Audit committee invite the external auditor to its meetings, when appropriate | 5 4 3 2 1 |
| 27. The audit committee considers significant risks faced by the entity. | 5 4 3 2 1 |
| 28. The internal auditor's reporting and communication to the Audit Committee take place in a climate in which problems relating to management are really brought to the attention of the Audit Committee. | 5 4 3 2 1 |
| 29. The Audit Committee believes the internalaudit activity has appropriate focus and |  |
### Tool 12: Audit committee Self Assessment questionnaire

<table>
<thead>
<tr>
<th>Tool</th>
<th>Description</th>
<th>Rating Scale</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Audit committee Self Assessment questionnaire</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>The Audit Committee examines the internal audit activity's audit planning and resources and assesses its abilities.</td>
<td>5 4 3 2 1</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>The Audit Committee examines results of the internal audit activity's work including comments made by management and evaluates the measures agreed to bring about improvements.</td>
<td>5 4 3 2 1</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>The Audit Committee recommends action plans with specific timelines for implementation of recommendations and monitors progress</td>
<td>5 4 3 2 1</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Executive sessions are held with the internal and external auditors result in candid discussion of relevant issues.</td>
<td>5 4 3 2 1</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>The internal audit function is effectiveness?</td>
<td>5 4 3 2 1</td>
<td></td>
</tr>
</tbody>
</table>

#### Overall assessment

<table>
<thead>
<tr>
<th>Tool</th>
<th>Description</th>
<th>Rating Scale</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
<td>How would you rate the Audit Committee's performance overall?</td>
<td>5 4 3 2 1</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>The audit committee adds value to the entity performance</td>
<td>5 4 3 2 1</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>The audit committee follows up recommendations regarding its effectiveness.</td>
<td>5 4 3 2 1</td>
<td></td>
</tr>
</tbody>
</table>

38. Please explain here each area that you indicate above as “Needs Improvement” or “completely unsatisfactory” and suggest any improvements.

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________

39. Please raise any concerns related to Audit Committee performance. Identify issues that the Committee should address in the future, and ways the Committee can address those issues.

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________
Tool 13: Individual Audit Committee Member Performance Assessment

This form should be completed by the Chairperson and discussed with the audit committee member.

Name of Audit Committee Member: ________________________________

1. Attendance at meetings

   (a) Number of audit committee meetings held during the year: __________.
   (b) Number of meetings attended by audit committee member: __________.
   (c) Chairperson’s comments on attendance at meetings:
      • Attends on time and stays for full duration of meeting
      • Attends briefly…..

2. Preparation for meetings

   (a) How well does the audit committee member prepare for meetings?
      □ Outstanding □ Very Good □ Good □ Satisfactory □ Not Acceptable

   (b) Chairperson’s comments:__________________________________________

Participation at meetings

   (a) What level of effective participation does the audit committee member have in meetings:
      □ Outstanding □ Very Good □ Good □ Satisfactory □ Not Acceptable

   (b) Chairperson’s comments:__________________________________________

3. Personal attributes

   The Chairperson’s assessment of the audit committee member’s attributes with comment, in particular, on the members understanding of the operations of the entity, the business environment, the legal and regulatory framework, level of ethical and moral judgment, ability to keep up to date with latest developments in the sector, communication and relationship
with other committee members, relationship with management, confidentiality, experience and judgment, and their relationship with stakeholders.

4. Professional attributes

The Chairperson’s assessment of the audit committee member’s professional attributes with comments on the director’s strategic awareness, the risks facing the entity, independence and objectivity, understanding of governance and responsibilities relating to internal auditors, financial reporting and external audit.

5. Chairperson’s general comments

The above assessment has been discussed between the Audit Committee Chairperson and the Audit Committee member concerned and the points raised have been agreed.

<table>
<thead>
<tr>
<th>Name</th>
<th>Signed:</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Committee member:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Tool 14: List of suggested Audit Committee induction materials**

The following information that should be provided to new audit committee members. Entities should also share specific entity or industry information.

**Entity**

1. Entity strategic plan
2. Key areas of risk and how they are managed
3. Financial and operational controls and systems
4. Budget and execution reports
5. Key accounting policies and reasons for their use
6. Litigation and contingencies facing the entity
7. Financial statements and budget execution reports
8. Code of conduct

**Management**

9. Background and qualifications of senior executives and financial management
10. An organisation chart of reporting lines and responsibilities

**Audit committee role**

11. Audit committee Ministerial Instruction
12. Audit committee charter
13. Nature and timing of reports prepared by management for the committee
14. Staff available to support the committee
15. External advisers available to support the committee

**Internal audit**

16. Internal audit charter
17. The number of internal auditors and their qualifications and experience
18. The committee’s relationship with the internal audit department
19. The types of reports the audit committee receives from the internal audit department
20. Annual internal audit plan
21. Quarterly internal audit reports
**Tool 14: List of suggested Audit Committee induction materials**

- 22. Quality assurance report of the internal audit function
- 23. Ministerial Order on internal control and internal audit

**External auditors**

- 24. External auditors management letter
- 25. A copy of the current year’s external audit engagement letter
- 26. The scope of the external audit, including the current year audit plan
- 27. The committee’s relationship with the external auditor
- 28. The types and timing of reports issued by the external auditor
- 29. Company policy on engaging the auditor to provide audit and non-audit services
Foreword

The Government of Rwanda has intensified reforms in public financial management to achieve the highest standards of accountability and transparency in the management of state finances by the end of 2012.

Internal and external scrutiny is one of the four major phases of the PFM cycle. While internal scrutiny is exercised by government internal auditors across Ministries, Districts and other government agencies, external scrutiny is exercised by the Office of the Auditor General as the external auditors for state finances.

In the 2009 session of the Government Leadership Retreat, it was decided that Audit Committees be set up to strengthen both the external and internal scrutiny of public financial management.

Audit Committees are independent committees of public entities, local government entities and autonomous as well as semi-autonomous public entities set up to provide oversight on the financial management of the entity. They shall assist the Board of Directors, District Councils and Top Management in fulfilling their responsibilities for the financial reporting process, the Internal Control System, the internal and external audit process, and the government entity’s process for monitoring compliance with laws and regulations.

While Audit Committees have the responsibilities and powers set forth in this Charter, it is not the duty of the Committees’ members to conduct audits or review accounts of government entities. They have an oversight role; not day to day management responsibilities. The Chairman shall periodically report to the Minister, District Council or Board of Directors, as appropriate, about Committee activities, issues, and related recommendations.

This Model Audit Committee Charter is developed to elaborate on the roles and responsibilities in order to assist the Committees in fulfilling their oversight responsibility. It is applicable to all government agencies.

For any clarification or guidance, the reader should get in touch with the Office of the Government Chief Internal Auditor based in the Ministry of Finance and Economic Planning.

John Rwangombwa
Minister of Finance and Economic Planning
July 2011
1. Purpose

The purpose and authority of Audit Committee in Ministries, Districts and other Government Agencies (MDAs) is stipulated under Chapter V: Audit Committees of the Ministerial Order N° 002/09/10/GPIA of 12/02/2009 setting out Regulations for Internal Control and Internal Audit in Government and Ministerial Instruction N° 004/09/10/MIN of 01/10/2009 for the establishment of the audit committees in public entities, local government entities, autonomous and semi-autonomous public entities (as may be amended).

Audit Committees are set up in government entities to provide oversight on the public financial management systems. They shall assist the Board of Directors, District Councils and Top Management in fulfilling their responsibilities for the financial reporting process, the Internal Control System, risk management, the internal and external audit process, and the government entity’s process for monitoring compliance with laws and regulations.

2. Authority

In order for an audit committee to carry out its responsibilities effectively and independently, it shall have the following authority:
- To seek and be provided with relevant information it requires both from internal and external resources;
- To request and obtain outside professional advice for which the cost is born by the concerned government entity; and
- To commission any appropriate special audits and/or investigations on the budget agency and lead the appointment of independent professional(s) to conduct such audits.

3. Responsibilities and duties

The Committee shall be given full access to the entity’s internal audit unit, management, personnel and Auditor General or other independent auditors as necessary to carry out these responsibilities. While acting within the scope of its stated purpose, the Committee shall have the authority of the Board of Directors, District Council or other Appointing Authority as appropriate. The Committee may also recommend its decisions to the Supervisory Board for approval.

To fulfill its responsibilities and duties the Audit Committee shall exercise oversight over the following areas of public financial management.

3.1 Oversight on the financial reporting process

The Audit Committee shall:
i.) Review, in consultation with the internal auditors, the Office of the Auditor General or any appropriate independent auditor, significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial reporting requirements;

ii.) Apply appropriate level of skepticism, ask probing questions, and engage in frank discussions with management on the results of the audit, including any difficulties encountered;

iii.) Review the quarterly and annual financial reports and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles;

iv.) Review other sections of the annual report and disclosures before release and consider the accuracy and completeness of the information;

v.) Review with management and the auditors all matters required to be communicated to the Committee under generally accepted auditing standards; and

vi.) Review any significant disagreement between management and the Office of the Auditor General or the internal auditing department in connection with the preparation of the financial statements and management’s response to such matters.

3.2 Monitoring Internal Controls

The Audit Committee shall monitor the operation of internal controls by:

i.) Considering the effectiveness of the government agency’s internal control system, including information technology security and control;

ii.) Understanding the scope of internal and external auditors’ review of internal control over financial reporting, and consider reports on significant findings and recommendations, together with management’s responses;

iii.) Understanding the nature and severity of control deficiencies, management’s remediation plans, and impact on reports; and

iv.) Advising on the adequacy of the internal control framework and policies.

3.3 Supervision of the Internal Audit function

The Audit Committee shall:

i.) Discuss and acknowledge the internal audit charter;
ii.) Review with top management annual audit plans, activities, staffing, and organizational structure of the internal audit function;

iii.) Understand results of audit work, audit recommendations and management responses, with focus on most significant findings;

iv.) Ensure there are no unjustified restrictions or limitations to internal audit activity;

v.) Lead the appointment, replacement, or dismissal of the Head of Internal Audit;

vi.) Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing;

vii.) Ensure that agreed audit recommendations are implemented by Management;

viii.) Ensure independent quality assurance review of the internal audit unit is conducted every three years;

ix.) On a regular basis, meet separately with the Head of Internal Audit Unit to discuss any matters that the Committee or internal audit believes should be discussed privately; and

tax.) Review fraud reports and give direction.

3.4 Considering the reports by the Office of the Auditor General

The Audit Committee shall:

i.) Discuss the independent auditors’ proposed audit scope and approach, including coordination of audit effort with internal audit.

ii.) Review the report and recommendations made by the Office of the Auditor General and advise the Board of Directors, the District Council or any other Supervisory Board;

iii.) Confirm the independence of the independent auditors appointed by the Office of the Auditor General; and

iv.) On a regular basis, meet separately with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

3.5 Monitoring Compliance to laws and regulations

The Audit Committee shall ensure the Government agency complies with applicable laws and regulations by:

i.) Reviewing 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 instances of noncompliance;
ii.) Reviewing the findings of any examinations by regulatory agencies and any auditor observations and follow up actions; and

iii.) Obtain regular updates from management, internal auditor and entity legal counsel regarding compliance matters.

3.6 Other responsibilities

i.) Discuss with management the entity’s major policies with respect to risk assessment and risk management;

ii.) Perform other activities related to this charter as requested by the Supervisory Board or the appointing authority;

iii.) Receive and, if appropriate, respond to reports on material violations of laws and regulations; and

iv.) Review unsettled public financial management issues.

4. Reporting Responsibilities

The Audit Committee shall:

i.) Quarterly report (and as frequently as deemed necessary) to the Supervisory Board (Minister, District Council or Board of Directors, as appropriate), about Committee activities, issues, and related recommendations;

ii.) Provide an open avenue of communication between internal audit, the external auditors, and the Minister, District Council or Board of Directors, as appropriate;

iii.) Report annually in the annual report of the government entity, describing the Committee’s composition, responsibilities and how they were discharged, and any other information required by rule;

iv.) Review any other reports the Government entity issues that relate to Committee responsibilities;

v.) Maintain minutes or other records of meetings and activities of the Committee.

5. Annual Performance Evaluation

i.) Perform a review and evaluation, at least annually, of the Committee’s performance and that of its members, including reviewing the compliance of the Committee with this Charter.

ii.) Evaluation criteria shall include:

- Expertise and know how;
- Attitude, objectivity, judgment and independence;
- Commitment to the Committee’s duties and responsibilities;
- Attendance of meetings and willingness to devote time to prepare for meetings;
- Knowledge of government entity’s objectives and operations.

iii.) Review and reassess, at least annually, the adequacy of this Charter and recommend any improvements that the Committee considers necessary or valuable.

iv.) Evaluate the Committee’s and individual members’ performance on a regular basis.

6. Oversight role, not management responsibilities

While Audit Committees have the responsibilities and powers set forth in this Charter, it is not the duty of the Committees’ members to conduct audits or review accounts of the Government agency.

7. Effective date

The manual becomes effective on the day of its approval by the Minister of Finance and Economic Planning

Signed by Audit Committee members

<table>
<thead>
<tr>
<th>Date</th>
<th>Date</th>
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<tbody>
<tr>
<td>Signature</td>
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<td>Name</td>
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<td>Signature</td>
<td>Signature</td>
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<tr>
<td>Name</td>
<td>Name</td>
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</table>
Acknowledgement by the Chief Budget Manager

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<thead>
<tr>
<th>Date</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>Signature</td>
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</tr>
<tr>
<td>Name</td>
<td>Name</td>
</tr>
</tbody>
</table>
Republic of Rwanda

Government of Rwanda
Internal Audit Charter

Prepared by the Ministry of Finance and Economic Planning

July 2011
Foreword

The Government of Rwanda has intensified reforms in public financial management to achieve the highest standards of accountability and transparency in the management of state finances. By launching the PFM reform strategy 2008-2012, the Government is aiming at having an “Enhanced PFM System that is efficient, effective and transparent” by the end of 2012. Internal audit units which provide internal scrutiny across Ministries, Districts and other government agencies is one of the important components of the Public financial management cycle.

The Mission of the Internal Audit in Government is to help Ministries, Districts and other Agencies satisfy their statutory and fiduciary responsibilities and use public resources efficiently. Government Internal Auditors shall ensure an independent and systematic evaluation of risk management, control and governance processes in government.

Article 12 of Organic Law No. 37/2006 on State Finances and Property of 12th September 2006 requires the Ministry of Finance and Economic Planning "to ensure adequate internal audit arrangements in government". It is in that framework that various instruments have been put in place to regulate and organize the Internal Audit function in government entities.

Pursuant to Article 66 of Organic Law n° 37/2006 different Internal Audit manuals were developed. This internal audit charter is issued pursuant to Article 29 of Ministerial Order N° 002/09/10/GPIA of 12/02/2009 to clarify the role of internal audit in Ministries, Districts and other government agencies. The Internal Audit Charter is developed mainly to describe the purpose, authority, and responsibility of internal audit function in Government of Rwanda. It also defines the scope of internal audit; the audit universe; and the required coordination with the Office of the Auditor General of State Finances;

I am glad to issue this Internal Audit Charter and call upon all government internal auditors, Chief Budget Managers and other PFM stakeholders to treat its content with the importance it deserves.

For any clarification or guidance, the reader would get in touch with the Office of the Government Chief Internal Auditor based in the Ministry of Finance and Economic Planning.

John Rwangombwa
Minister of Finance and Economic Planning
July 2011
Table of contents

Forward

1. Introduction ............................................................................................................. 1

1.1 Purpose of this charter ......................................................................................... 1

1.2 Internal audit definition ....................................................................................... 1

1.3 Mission of the internal audit function in Government ........................................ 1

2. Internal audit scope ................................................................................................ 2

2.1 Role of Government Internal Audit ................................................................. 2

2.2 Audit Universe .................................................................................................... 2

2.3 Assurance services .............................................................................................. 3

2.4 Advisory services ............................................................................................... 4

3. Establishment and organisation of internal audit units ....................................... 4

3.1 Establishment of internal audit units .................................................................. 4

3.2 Supervision by the Office of the GCIA .............................................................. 5

3.3 Discretion of internal audit units at entities ...................................................... 5

4. Reporting arrangement .......................................................................................... 6

4.1 Administrative reporting .................................................................................... 6

4.2 Functional reporting .......................................................................................... 6

5. Independence and objectivity ............................................................................... 8

6. Responsibility ........................................................................................................ 9

7. Coordination with the Office of the Auditor General ......................................... 11

8. Authority .............................................................................................................. 11

9. Standards ............................................................................................................. 11

10. The Code of Ethics for Government Internal Auditors........................................ 12

11. Acknowledgement .............................................................................................. 12

12. Effective date .................................................................................................... 12
Internal Audit Charter

1. Introduction

Applicable standard: 1000 Purpose, Authority and Responsibility.
The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards...

1.1 Purpose of this charter

This Charter is issued pursuant to Article 29 of the Ministerial Order № 002/09/10/GPIA of 12/02/2009 setting out Regulations for Internal Control and Internal Audit in Government.

The Charter describes the purpose, authority, and responsibility of internal audit function in Government of Rwanda. It defines the relationship between the Office of the Government Chief Internal Auditor based in the Ministry in charge of Finance and various Internal Audit Units in individual government entities. The Charter also defines the scope of internal audit, the audit universe, and the required coordination with the Office of the Auditor General of State Finances.

The Charter serves as a guide to the Internal Audit Units and Government Internal Auditors in Ministries, Districts and other government agencies (MDA) in the performance of their duties. In addition, the Charter defines the relationship between internal audit, audit committees and management; and provides a basis for Board of Directors, District Councils and top management to evaluate the operations of the Internal Audit Units.

1.2. Internal Audit definition

Applicable standard:1010

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards must be recognised in the internal audit charter.

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

1.3 Mission of the Internal Audit function in Government

The Mission of the Internal Audit Units is to help Ministries, Districts and Agencies (MDAs) satisfy their statutory and fiduciary responsibilities; and use public resources efficiently. Government Internal Auditors are mandated to provide independent, objective and systematic evaluation and improvement of risk management, control and governance processes in government entities.
2. Internal Audit Scope

Applicable Standards: 1000 A1 and 1000 C1

1000 A1: The nature of assurance services provided to the entity must be defined in the internal audit charter…

1000 C1: The nature of consulting services must be defined in the internal audit charter.

2100: The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2.1 Role of Government Internal Audit

The role of the internal audit units is to determine whether the respective entity’s risk management, control, and governance processes, as designed and operated by management, are adequate and functioning in a manner to confirm that:

1) Risks are appropriately identified and managed;
2) Interaction with the various governance groups occurs as needed;
3) Significant financial, managerial, and operating information is accurate, reliable, and timely;
4) Employee’s actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
5) Resources are acquired economically, used efficiently, and protected adequately to achieve intended objectives;
6) Programs, plans, and objectives are achieved;
7) Staff adhere to established ethics and values systems;
8) Anti fraud and whistle blowing programs are established as required;
9) Quality and continuous improvement are fostered in the entity’s control process; and
10) Significant legislative or regulatory issues impacting the entity are recognized and addressed properly.

Opportunities for improving management control and performance identified during audits will be communicated to the appropriate level of management for prompt action.

2.2 Audit Universe

The entities within the scope of the internal audit are indicated in the following diagram and described in detail in section 3.1. The audit universe will change when the structure of
Internal Audit Charter

government changes.

2.3 Assurance Services

Internal audit provides an objective examination of evidence for the purpose of providing an independent assurance on governance, risk management, and control processes for the organization by conducting the following types of audits:

1) **Financial Review**: To provide reasonable on the correctness, entirety, legitimacy, and regularity of financial reports and transactions as well as the soundness of underlying internal controls and accounting records.

2) **Compliance Audit**: To verify adherence to laws, regulations, policies, standards, and prescribed procedures.

3) **Performance Audit**: To assess the degree of economy, effectiveness and efficiency of the entity’s operations. The emphasis is put on the assessment of both entity’s inputs and outputs.

4) **Systems Audit**: To evaluate the design and operation of systems including internal control, financial controls, accounting systems, IT Systems, etc.
5) **Forensic Audit**: To consider specific cases of suspected irregularities such as fraud, theft, embezzlement, or mismanagement of public funds.

6) **IT Audits** - Reviews of computer-based systems focusing on data security, disaster recovery, and effective use of resources.

### 2.4 Advisory Services

Internal audit will also provide advisory services to assist management to meet the entity’s objectives. Examples of such services include facilitation, training, research services on prospective issues facing the entity and assisting in improving risk management, internal control and governance structures. The nature, scope and objective of advisory services must be agreed with management.

### 3. Establishment and Organisation of Internal Audit units

#### 3.1 Establishment of internal audit units

Article 12 of Organic Law No. 37/2006 of 12th September 2006 regarding State Finances and Property requires the Minister in charge of Finance “to ensure adequate internal audit arrangements in Government”. Chapter III of Ministerial Order No. 002/09/10/GPIA of 12/02/2009 sets out Regulations for Internal Control and Internal Audit and establishment of internal audit units in Ministries, Districts and other government agencies (MDAs).

In addition to the Office of the Government Chief Internal Auditor (Office of the GCIA) based in Ministry of Finance and Economic Planning which has the authority to audit any government agency, Internal Audit Units are established in the following entities:

1) **Public sector** - The public sector consists of the general government sector plus government-controlled entities, known as public corporations, whose primary activity is to engage in commercial activities

2) **General Government** - General government sector consists of entities that implement public policy through the provision of primarily nonmarket services and the redistribution of income and wealth, with both activities supported mainly by compulsory levies on other sectors.

3) **Budget Agencies** - A Budget Agency (BA) is a state organ which is entitled to budget in the annual State Finances Law. At the central and local government level, the Budgetary Agency is a single unit that encompasses the fundamental activities of the national/sub national (local) executive, legislative and judiciary powers. Its revenue as well as its spending normally are regulated and controlled by MINECOFIN by means of a general budget approved by the legislature. All of the ministries, agencies, boards, commissions, judicial authorities, legislative bodies, and other entities of the central and local government fall under this category.
4) Extra Budget Agencies - Extra budgetary agencies are General government entities with individual budgets that are not fully covered by the general budget. These entities operate under the authority or control of a central, state or local government. Typically, these entities have their own-revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources, and have discretion over the volume and composition of their spending. Such entities are often established to carry out specific functions, such as road construction or the non-market production of health or education services.

5) Independent Development Projects - A project is a collection of tasks usually of a multi-disciplinary nature to achieve a certain goal, for example the construction of a new road.

6) Lower-end Revenue/Cost centers - These are institutions that receive transfers mainly from local government budget agencies to finance their operations. In addition, some of these institutions collect taxes, fees and other administration charges to part finance their operations. Accordingly, these institutions are considered Revenue/Cost centers. They include primary and secondary schools, health centers and district hospitals, prisons and administrative sectors (District).

7) Public Enterprises - Corporations are legal entities that are created for the purpose of producing goods or services for the market and are fully or partially owned or controlled by the Government.

3.2 Supervision by the Office of the GCIA

The Office of the GCIA based in MINECOFIN has the overall responsibility to:

(i) Supervise and co-ordinate the internal audit function throughout Government and provide technical support to the audit units at the entities;

(ii) Formulate and disseminate internal audit regulations, policies, guidelines, audit methodology, Code of conduct & ethics, and their dissemination to all internal auditors throughout Government;

(iii) Arrange appropriate continuous professional development for internal auditors;

(iv) Develop and maintain a quality assurance and improvement program; and

(v) Initiate preventive and corrective measures to improve quality of Public Financial Management etc.

3.3 Discretion of internal audit units at entities

The supervisory role of the Office of the GCIA does not prejudice the discretion of internal audit units at the different government entities to perform their day-to-day operational activities provided they remain consistent with the guidelines issued by the Office of the
Internal Audit Charter

Specifically, the internal audit units are responsible for their:

(i) Work plans;
(ii) Effective management of the internal audit unit;
(iii) Choice of the activities to be audited and the timing of the audit;
(iv) Choice and execution of the audit tests to be undertaken;
(v) Communication and discussion of the audit results with the auditee; and
(vi) Regular liaison with the Office of the GCIA in MINECOFIN etc.

However, the Office of the GCIA may commission the internal audit unit to perform specific audits within the entity.

4. Reporting arrangements

Applicable Standard: 1110 – Organisational Independence

The Head Internal Audit must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities…

Head of Internal Audit administratively reports to the head of the entity to which they belong and functionally to the top management, District Council or Board of Directors (hereafter referred to as the Supervisory Board) as appropriate.

4.1 Administrative reporting is the day-to-day facilitation of operations of the internal audit unit and typically includes:

(i) Budgeting and management accounting;
(ii) Human resource administration, including personnel evaluations and compensation;
(iii) Internal communications and information flows; and
(iv) Administration of the internal audit activity’s policies and procedures.

4.2 Functional reporting to the Supervisory Board typically involves the board:

(i) Approving the internal audit plans;
(ii) Receiving communications from the Head of Internal Audit (HIA) on the results of the internal audit activities or other matters that the HIA deems necessary, including private meetings with the Supervisory Board without management present, as well as annual confirmation of the internal audit activity’s organizational independence;
(iii) Approving all decisions regarding the performance evaluation, appointment, or
Internal Audit Charter

removal of the HIA and internal audit staff; and

(iv) Making appropriate inquiries of management and the HIA to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.

In practical terms, the reporting arrangements will be as follows:

1.) Office of the GCIA: administratively, the GCIA reports administratively to the Permanent Secretary and Secretary to the Treasury, and functionally to the Minister in charge of Finance.

Auditors attached to the Office of the GCIA are answerable to the GCIA. However, an auditor who has been assigned full-time basis is accountable to the beneficiary Head of Entity if the auditor obtains direct administrative support from that Entity.

The GCIA reviews and approves the audit plans and tests to be undertaken by the auditors s/he deploys. S/he also reviews and approves the audit files and reports from the audit assignments undertaken by the auditor s/he has deployed.

2.) Internal audit units at entities: In addition to administratively reporting to the head of the entity and functionally to the Supervisory Board, HIA in entities are also accountable to the Office of the GCIA. Procedurally, this means that:

(i) Quarterly summary audit reports are submitted to both the Supervisory Board and the Office of the GCIA;

(ii) Any auditor outsourced by the provincial administration must submit a copy of their report to the Office of the GCIA;

(iii) A donor funded project with a fully delegated project coordinator often has a fully fledged project management team, and the Permanent Secretary of the supervising Ministry simply plays the financial “oversight” role. For such a project, quarterly internal audit reports should be submitted directly to the Permanent Secretary with a copy to the Office of the GCIA;

(iv) For a donor funded project without a fully delegated project coordinator and thus heavily drawing on the Permanent Secretary of the supervising Ministry in the direct management of its affairs, the internal audit reporting arrangement is similar to that for the Ministry;

(v) Auditors in the Ministry should work as a team with the Auditor deployed from the Office of the GCIA, and submit the audit report directly to the Office of the GCIA with a copy to the Permanent Secretary;

(vi) Where the audit is commissioned by auditors in the Ministry who are supported by internal auditors from the Office of the GCIA, the audit report should be addressed to the Permanent Secretary of that ministry;
(vii) Though prior involvement of the Office of the GCIA is not required for the review and approval of audit plans and tests to be undertaken at the entity, these must be consistent with the audit methodology determined by the Office of the GCIA; and
(viii) Internal auditors should involve the Office of the GCIA in the planning, execution and reporting of any forensic audit at the entity.

District internal audit units report to the Mayor while quarterly summarised reports are submitted to the District Council /Audit Committee, top management, the Office of the GCIA and the Minister responsible for local government and province.

3.) Internal audit units in Government Business Enterprises (GBE)

Pursuant to Article 205 of Law No. 06/1988 of 12th February 1988, as amended, regarding GBE, Government may exercise a veto in the appointment of the external auditor of any commercial enterprise in which it owns at least 20% of the equity shares.

By extension, this right includes the internal audit function. However, without prima facie evidence of irregularities, Government would not like to be directly involved in the internal audit function of such investments.

Nevertheless, Government expects close liaison between the Office of the GCIA and internal audit units of respective enterprises in which Government’s equity is at least 20%. Procedurally, this liaison is as follows:

(i) The Office of the GCIA may request the heads of the internal audit departments to address specific issues during their audits.

(ii) The HIA departments are expected to submit a copy of the quarterly consolidated audit reports, and any special investigations reports to the Office of the GCIA.

5. Independence and objectivity

Applicable Standard: 1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

1120 - Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

To provide for the independence of the internal audit units, the HIA in entities reports administratively to the head of the entity and functionally to the Supervisory Board as outlined in paragraph 4 above. The HIA is hired, evaluated, retained and terminated by the
Internal Audit Charter

Supervisory Board.

Government Internal Auditors should not allow bias, conflicts of interest or undue influence of others to override professional judgements.

1) **Independence in programming their work:** the internal audit units and the internal auditors have full control over the selection, nature, and timing of their audit programmes and procedures. In addition, they are free from any influence regarding their audit plans and work plans. They freely determine when to audit a particular budget agency or process. However, HIA should consider including requests from audit committee, and management in the audit plan for areas with significant risk.

2) **Independence in investigations:** the internal audit units and the internal auditors are free to collect and evaluate all the evidence as they deem necessary for the audit. The internal auditors’ choice and accessibility to necessary information for audit is free from any interference, except where the information is restricted in the public interest.

3) **Independence from operations:** internal auditors must have no direct operational responsibility or authority over any of the activities they audit. They are independent of the day-to-day financial management and accounting activities. Accordingly, they do not design or install systems or managerial procedures, or prepare accounting records, or engage in any other operational activity for which they would normally have the responsibility to audit except in an advisory capacity.

4) **Independence in reporting:** the internal audit units and the internal auditors are free to report the results of the audit without interference or influence from any person, whether from within or outside the audited government entity.

5) **Advisory services:** Auditors should not audit controls that they designed or a process they were previously responsible for, for a period of at least one year.

Government internal auditors must report to the Office of the GCIA and supervisory board any instance of impairment of independence of their function.

6. **Responsibility**

*Applicable Standard: 2000 – Managing the Internal Audit Activity*

The Head of Internal Audit must effectively manage the internal audit unit to ensure it adds value to the organisation.

The HIA and staff of the internal audit unit have responsibility to:

1) Apply government internal audit policies in conducting internal audit and modify them where the circumstances of individual entity make it necessary;

2) Develop a flexible annual audit plan using appropriate risk-based audit methodology,
including any risks or control concerns identified by management, and submit that plan to the Supervisory Board for review and approval. Prepare a time budget that is complementary to the implementation of the audit plan;

3) Implement the approved annual audit plan, including, and as appropriate, any special tasks or projects requested by top management or Supervisory Board;

4) Issue quarterly reports to the Supervisory Board summarizing results of audit activities and provide information on the status and results of the annual audit plan and the sufficiency of the Internal Audit Unit’s resources;

5) Participate, in an advisory capacity, in the planning, design, development, and implementation and modification phases of major information related systems to determine whether:
   i.) Adequate controls are incorporated in the systems;
   ii.) Adequate risk management techniques have been utilized;
   iii.) Thorough systems testing is performed at appropriate stages;
   iv.) Systems documentation is complete and accurate; and
   v.) The intended purpose and objectives or the system implementation or modifications have been met.

6) Issue an audit report to management and any other relevant parties at the conclusion of each audit;

7) Conduct periodic follow-up reviews to evaluate the adequacy of Management's corrective actions until resolution of issues. Issue periodic reports to top management and the Supervisory Board summarizing results of audit activities, and summarizing the status of follow-up activities;

8) Evaluate regularly the accuracy and reliability of the financial reports and suggest improvements in the presentation and disclosures;

9) Evaluate annually the overall effectiveness of the internal control environment and issue an opinion;

10) Keep the Supervisory Board and top management informed of emerging trends and successful practices in internal auditing;

11) Agree on performance measures of the internal audit unit and periodically submit results to the Supervisory Board and top management;

12) Assist in the investigation of significant suspected fraudulent activities within the organization and notify top management and the Supervisory Board of the results;

13) Establish a quality assurance program to give assurance on the operation of internal audit;

14) Coordinate with, and assess the scope of other control and monitoring functions and
review activities (such as external reviews and independent audit, risk management, security offices, and legal offices); and

15) Assist the Supervisory Board in any other way in connection with the discharge of its duties and responsibilities.

7. Coordination with the Office of the Auditor General

The Office of the Auditor General was established in the 2003 Constitution of the Republic of Rwanda as an independent institution with the responsibility to audit the use and management of government finances and property.

Auditors from the Office of the Auditor General, may rely on the work done by internal audit units with respect to the appraisal of the internal control systems.

Consequently, the Auditor General is entitled to copies of all internal audit reports on request. The GCIA and HIA should coordinate activities with the Auditor General and other providers of assurance and consulting services to ensure proper audit coverage and to minimise duplication of effort.

8. Authority

Internal Auditors at the entity are authorized to:

(i) Have unrestricted access to all functions, records, property, and personnel;
(ii) Have full and free access to the top management, Board or District Council;
(iii) Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
(iv) Obtain the necessary assistance from personnel in units where they perform audits, as well as other specialized services from within or outside the entity.

Internal Auditors at the entity are not authorized to:

(i) Perform any operational duties for the entity;
(ii) Initiate or approve accounting transactions external to the internal audit unit; and
(iii) Direct the activities of any entity employee not employed by the internal audit unit, except to the extent such employees have been appropriately assigned to audit teams or to otherwise assist the internal auditors.

9. Standards

The Internal Audit Units must follow International Standards for the Professional Practice of Internal Auditing as issued by the IIA.
10. The Code of Ethics for Government Internal Auditors

Government Internal Auditors behaviour must be guided by integrity, objectivity, professional competence and confidentiality as provided in the Code of Ethics for Government Internal Auditors.

11. Acknowledgement

This Charter must be discussed and acknowledged by the Supervisory Board.

12. Effective date

This Charter becomes effective on the day of its approval by the Minister of Finance and Economic Planning.