

FMM 05.5 Establishing an Audit Committee

5.1 Introduction

Internal Audit Committees (IACs) are critical to the governance and financial oversight system of government entities in PNG. They provide independent support and guidance to the Head of Department or Agency (Secretary) by reviewing internal audit plans, supporting risk-based auditing, and ensuring effective implementation of audit recommendations.

5.2 Mandated Policy

- 1. Under Section 4(6) of the PFMA 1995 and subject to this FMM, the Finance departmental head directs the establishment and continuous operation of Internal Audit Units and Audit Committees in compliance with this FMM in public and statutory bodies that receive public funds and are subject to audit by the Auditor General.**
- 2. An Audit Committee must have an Audit Committee Charter that is reviewed annually (a proposed template is provided as Appendix to this FMM)**
- 3. The Finance departmental head is responsible for keeping a register of Audit Committees and evaluate the effectiveness and performance of the audit committees.**
- 4. At minimum, the audit committee must report to the Finance departmental head within two months of the succeeding year of the prior year evaluation of the performance of the audit committee, providing:**
 - Final scorecard report for the year (refer to the scorecard provided as an Appendix to this FMM)
 - Number of audit committee meetings held versus planned
 - Members of the audit committee and the attendance to the meetings held.
 - High priority recommendations arising during that quarter which the Internal Audit Unit or Audit Committee believe need to be raised for the attention of the Department of Finance.

- The training and development (and hours) undertaken by Internal Auditors including the Head of Internal Audit during the year.
- 5. The Audit Committee is required to complete and submit to the Department of Finance a quarterly scorecard within 10 days of the quarterly audit committee meeting held using the prescribed form as specified by the Finance department head (refer to the scorecard provided as an Appendix to this FMM).**
- 6. An Audit Committee has authority to review all activities of an agency (or group of agencies) and to recommend to the respective departmental head for the Internal Audit Unit to conduct audits or investigations into any matters within its scope of responsibility. An Audit Committee shall –**
- Review and approve the annual internal audit work plan
 - Ensure the plan is risk-based and reflects agency priorities
 - Monitor audit progress and results
 - Provide guidance on contentious or high-profile audits
 - Support the implementation of audit recommendations
 - Recommend audits in response to significant risk changes
 - Support for Risk and Assurance
 - Endorse the agency's risk framework or register
 - Identify high-risk areas not yet covered by audit
 - Review assurance maps and coverage gaps
 - Encourage joint audits across departments when risks are shared
 - Provide input on emerging risks, external pressures or public interest concerns
 - Guide internal audit units during periods of change or instability
 - Help identify staff or external partners to assist internal audit as needed

- Participate in discussions on materiality, audit scoping, and methods
- examine the results of the external audit (including the management letter) and the work of internal auditors employed by the agency
- resolve any disputed matters between management and auditors including the findings disclosed to management in the management letter by the Auditor-General

5.2.1 Alliance and Sector Audit Committees

7. **To improve the effectiveness of audit committees and support smaller agencies complying with the law, the use of audit committees across a group of agencies in a sector or location is encouraged. These are termed Alliance Audit Committees or Sector Audit Committees.**
8. **Agencies are still able to establish an agency audit committee but this must be notified to the Finance departmental head and registered on the Audit Committee register.**

5.2.1.1 National Government Audit Committees

9. **For the national government, in order to be efficient and cost effective, Audit Committees are to be established by sector (a Sector Audit Committee).**

5.2.1.2 Statutory Bodies and other entities

10. **Where a statutory authority has an established Board and this Board has established an Audit Committee or Risk and Audit Committee, this committee will operate as the Audit Committee under this FMM**
11. **For statutory bodies and other entities not operating under a Board, the statutory body or entity can elect to be a member of a Sector Audit Committee or establish an Audit Committee.**
12. **The statutory body must notify the Finance departmental head for registration of the Board or body Audit Committee on the register.**

5.2.1.3 Provincial Government Audit Committees

13. **Subject to this FMM, within a province, the Provincial Government established under the *Organic Law on Provincial Governments and Local-level Governments* in that province shall establish and continuously**

operate an Audit Committee in compliance with this FMM for itself, all Local-level Governments within that province and all statutory bodies that are headquartered in that province (an Alliance Audit Committee).

14. No Local-level Government or statutory body headquartered in a province shall establish or operate an Audit Committee, unless the Finance departmental head has exempted the local-level government or statutory body from the Provincial Audit Committee and after consideration of all relevant factors, including cost efficiency and transparency, in respect of that local-level government or statutory body.
15. In the National Capital District (NCD), the National Capital District Commission (NCDC) shall establish and continuously operate an Audit Committee in compliance with this FMM.

5.2.2 Composition of an Audit Committee

16. An Audit Committee will consist of not more than five members, unless otherwise approved by the Finance departmental head.
17. The Auditor -General representative is a mandatory invitee and observer of the Audit Committee.
18. Members of National Sector Audit Committee shall include-
 - a. Secretary for the department of Finance or his delegate as Chairperson
 - b. Agency head (Departmental Secretary, Chief Executive Officer, Provincial Administrator, etc.) or their immediate deputy of the host agency
 - c. Two (2) independent members
19. Each Audit Committee should be structured to match the risk and complexity of the agency. The committee must include a mix of internal and external members with appropriate skills and independence.

Type	Expectations
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Chairperson	Independent member with experience in finance, audit, or governance, this is usually a nomination of the Finance department head and in the case of Board Sub-Committees, a nominated member of the Board.
External Members	May include retired officials, academics, subject matter experts (e.g., finance, environment, ICT)
Internal Members	May include senior management (excluding those directly responsible for audited areas)

- 20. Independent members should be publicly recruited and appointed formally by letter from the agency (or host agency) departmental head. A minimum baseline of internal audit understanding is required—through formal training, certification, or practical assessment.**
- 21. Independent members of Audit Committees are appointed for periods no more three years (subject to renewal).**
- 22. Independent members of Audit Committees should be familiar with the general operational activities of the agency but shall not have held executive office within the agency or have any conflict of interest by holding membership.**
- 23. Where there is a choice between two potential independent members of equal suitability, preference should be given to the candidate who resides locally.**

5.2.3 Meeting Procedures

- 24. Audit Committees shall meet at least four times a year, and have authority to convene additional meetings as circumstances require.**
- 25. An Audit Committee requires attendance of senior management, internal auditors of host agency and or others to attend meetings to note discussions around their areas of operations and to provide pertinent information as necessary.**
- 26. Meeting agendas shall be prepared and provided at least one week in advance to members, along with appropriate briefing materials by the relevant Internal Audit Unit as secretariat to the Audit Committee.**

Outcomes should be documented with action items and follow-up dates (a recommended templates is provided as an Appendix to this FMM).

- 27. Resolutions of an Audit Committee shall be by simple majority and the Chair shall have a casting vote in case of no majority.**
- 28. Meetings may be physical or virtual.**
- 29. The Head of Internal Audit presents progress against the audit plan and key audit issues**
- 30. The departmental head (or the Board for Board sub-committees) may request the audit committee advice on high-risk or high-profile matters**

5.2.4 Audit Committee Agenda

The standing agenda for each quarterly Audit Committee meeting shall be standardised across all public sector agencies to ensure consistency, completeness, and audit responsiveness. Each meeting must address the following core items:

5.2.4.1 Meeting Frequency and Scheduling

Each agency shall convene no fewer than four (4) Audit Committee meetings per financial year. The schedule must be established annually and submitted to the Department of Finance by 31st January.

5.2.4.2 Attendance of departmental head

The departmental head (or for Board based audit committee, the Board member/s) must attend all Audit Committee meetings. If unavailable, a written delegation must be submitted noted with the meeting minutes and will be submitted to the Department of Finance as part of the Audit Committee reporting.

5.2.4.3 Minutes and Resolution Tracking

Minutes of each meeting shall be finalised and distributed to all relevant parties within fourteen (14) calendar days. All decisions, resolutions, and action items must be implemented or addressed within the following quarter. A progress update shall be tabled at the next scheduled meeting.

5.2.4.4 Audit Work Plan Review and Progress

The Audit Committee must review the implementation status of the annual internal audit work plan. Agencies are required to achieve a minimum completion rate of 90% of scheduled audits within the financial year. Deviations must be explained with mitigating measures. Refer to the Appendix of this FMM for a sample of standard Annual Internal Audit Plan Summary

5.2.4.5 Payroll Variation Audit Oversight

Where applicable, the Committee must receive and review reports on payroll variation audits conducted fortnightly using the threshold reports. Discrepancies and actions taken must be clearly documented for committee review.

5.2.4.6 Asset Management and Reconciliation Reporting

Where applicable, The Committee must review annual and quarterly asset movement reports, including updates to the asset register, and confirm the certification of the agency's asset register by 31st March annually.

5.2.4.7 Bank Reconciliations Review

The Committee shall verify that bank reconciliations for both trust and operational accounts are completed and certified by the 14th day of each month, with documented resolutions to any discrepancies within 7 working days.

5.2.4.8 Financial Reports and High-Value Transactions

Agencies must table quarterly financial reports and provide detailed variances for any major movements between actuals and budget.

5.2.4.9 Cash Advance Acquittals

A register of all outstanding and fully acquitted cash advances must be reviewed. All cash advances must be acquitted within 7 days of return from duty travel or use. Any non-acquittals must be escalated for disciplinary action or payroll deduction.

5.2.4.10 Unaudited Annual Financial Statements

By the end of February each year, unaudited annual financial statements and expenditure reports must be reviewed by the Audit Committee prior to formal submission to the Department of Finance. These must be signed by both the departmental head and head of finance.

5.2.4.11 Management Response to Auditor-General Findings

All responses to Management Letters issued by the Auditor-General must be reviewed. Responses must be completed within 21 calendar days, and any unresolved issues must be flagged for executive action or referred to the Department of Finance.

5.2.4.12 Audit Outcomes and Audit Opinion Quality

The Audit Committee must assess whether the agency is on track to achieve an unqualified audit opinion. Agencies that have received a qualified opinion for two consecutive years must present a corrective action plan.

5.2.4.13 Internal Audit Staffing and Capability

The Committee must confirm that the Internal Audit Unit is fully staffed in line with the agency's approved structure. Vacant positions exceeding 60 calendar days must be reported to the appropriate authority with a recruitment plan.

5.2.5 Additional Reporting and Transparency

31. The Audit Committee reports to the departmental head and works closely with the Head of Internal Audit and it may also:

- Provide updates to the Auditor-General
- Support publication of non-sensitive audit summaries
- Collaborate with other Audit Committees on cross-cutting risks
- Authorise joint audits or alliances across departments
- Advocate for reforms or improvements in financial governance

5.3 Audit Committee Member Fees and Allowances

Fees and allowances provisions for audit & risk committees, except for Board sub-committees, fall outside the scope of specifications for committees under the Boards (Fees and Allowances) Act 1955.

32. The departmental head has the authority to establish an appropriate and reasonable sitting fees consistent with *Boards Fees and Allowances Act 1955 (Chapter 299)* for audit committee members (other than public servants).

33. The determination and administration of fees and allowances approved and gazetted by Minister for Treasury effective since October 2021, shall apply for board level engagements, including board sub-committees or committees in consistent with *Boards (Fees and Allowances) Act Chapter 299*. These schedules of fees and allowances, certified through gazettal notice No. G693, 13th October, 2021 shall remain in force until a new determination is considered necessary from time to time.

5.4 Quick Checklist

1. Independent chair and members appointed appropriately
2. Meets quarterly with clear agendas and documented minutes
3. Reviews and approves risk-based audit plans
4. Monitors follow-up on audit recommendations
5. Ensures internal audit remains independent and objective
6. Coordinates with MoF and other IACs as needed
7. Provides input to Secretary on high-risk governance issues

Further Information	iacd@finance.gov.pg
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