

Audit Committees - Meeting the Scrutiny Challenge

A Reference Tool

Background

Stakeholders to organizations in all industries, from publicly listed to the public sector and the not for profit sector continue to have high expectations of Audit Committees. In turn most organizations have taken action to strengthen their Committee's terms of reference. Stakeholders expect the Audit Committee to be the champion for the organization's integrity. Additionally Audit Committees are accountable for providing for safeguarding of the organization's resources, compliance with regulations, reliability of management and financial information, and effectiveness of operations. Some organizations have gone further and expanded the committee's mandate as the Audit & Risk Committee.

In turn, Audit Committees are expanding the mandate of the Internal Audit function to better serve the Committee's needs. External Auditors comply with the rules set by external regulators and the auditing profession's own standards.

Purpose of the Committee

One of the Audit and Risk Committee's (ARC) roles is to set the context for an effective enterprise risk management (ERM) framework and gain assurance that management has implemented appropriate systems and practices aligned with an ERM framework. The ERM framework is to provide reasonable assurance that the strategic, operational, financial and regulatory objectives of the organization are achieved.

Another role of ARC is to oversee the control environment, the design and implementation of internal controls to support the protection of assets, the integrity of information, and compliance with regulatory matters.

Within the ERM and control frameworks, the Committee assists the Board in fulfilling its oversight responsibilities regarding safeguarding of assets, compliance with laws, regulations and governing policies; integrity of management and financial information, and efficiency and effectiveness of operations. Further the Committee provides oversight and facilitates the independence of the external and internal audit functions.

Organizing the Committee

The following are highlights of an Audit Committee's composition:

- No less than three committee members, many have four to get the necessary competency around the table
- Financial literacy competency gained through formal education or career experience, and where the committee also has a risk mandate, risk literacy among the committee members
- Prohibition for Chair of Board being on the Audit Committee
- Independence of committee members from management.

Responsibilities of the Committee

The responsibilities of an Audit Committee or an Audit & Risk Committee include:

- Gains assurance on the integrity of the control environment
- Gains assurance on the elements of the organization's control framework (resources, systems, processes, structure, tasks, competencies)
- Appoints the internal auditor and approves the Internal Audit plan ensuring a risk focus
- Receives reports from Internal Audit; gains assurance key findings are resolved by management particularly where there is high risk exposure
- Gains assurance on the "in-control" state of the organization
- Where oversight of risk is part of the Committee's mandate, receives information on the risk profile of the organization
- Gains assurance that risks are properly mitigated within the desired risk tolerance
- Monitors changes to the organization's risk profile
- Gains assurance on the appropriateness of accounting practices
- Monitors the financial reporting provided by the organization to stakeholders
- Receives, reviews the annual audited financial statements
- Makes recommendation for the hiring of the external auditor
- Approves terms of engagement of external auditor and directly oversees their work
- Monitors the ongoing independence of the external auditor including nature of non-audit services provided by the external auditor to the organization
- Gains assurance on the integrity of financial statements and reviews financial information extracted from the financial statements before public release
- Establishes procedures for confidential, anonymous submission of complaints regarding accounting, internal controls or auditing matters.

Authority

In order to fulfill its mandate, the Committee requires certain authority delegated to it by the Board:

- Authority to engage independent counsel and other advisors it deems necessary
- Authority to set and pay compensation for those engaged
- Authority to communicate directly with internal and external auditors.

Guidance

Attached is an example of a work plan for an Audit Committee. This would need to be modified to fit your Committee's particular mandate.

ANNUAL CALENDAR OF COMMITTEE'S TASKS

Task	Q1	Q2	Q3	Q4
Identify training needed for committee members	✓			
Review terms of reference for committee	✓			
Enterprise Risk Management (ERM)				
Understand update of ERM Framework		✓		
Update, recommend ERM Policy to Board for approval		✓		
Review update of risk profile for organization			✓	
Receive reports from management on risk processes			✓	
Monitor level of consolidated risk through reports	✓	✓	✓	✓
Risk Management				
Update, recommend assigned risk policies, e.g. Operational Risk, Technology Risk, Regulatory Risk, Management Expenditure Authorities	✓	✓	✓	✓
Review management reports as required in governing policies	✓	✓	✓	✓
Consider internal and external changes and impact on risk profile	✓	✓	✓	✓
Control Framework				
Update Control Environment & Internal Control policy, recommend to Board		✓		
Receive report on corporate insurance program			✓	
Review status report from management on resolution of internal and external audit findings	✓	✓	✓	✓
Receive, review reports covering litigation, defalcations and determine action (as occurs)				
Understand process for confidential, anonymous reporting of concerns		✓		
Receive, review any concerns received from process (as occurs)				
Financial Reporting				
Receive from management an outline of accounting policies being used along with rationale			✓	
Receive report from management on methodology for provisions			✓	
Discuss financial reporting process including material changes from prior year			✓	
Receive report on management's process to ensure integrity of financial information disclosed				✓
Review audited financial statements, recommend to Board	✓			

Task	Q1	Q2	Q3	Q4
Internal Audit Function				
Review and approve the Internal Audit (IA) mandate			✓	
Review IA's annual work plan, a risk based approach, appropriate allocation of resources				✓
Receive report on resourcing of IA function				✓
Receive reports from IA on progress on plan, IA's view of internal controls and management of risks	✓	✓	✓	✓
Hold in camera with IA, and inquire as to restrictions on their work	✓	✓	✓	✓
Annual evaluation of IA function	✓			
External Auditor				
Receive outline of scope from external auditor			✓	
Enquire into conflicts between external auditor & management	✓		✓	
Consider fee estimate from external auditor for annual audit			✓	
Update policy for engaging external auditor for other services and recommend to Board for approval		✓		
Review fees for other services conducted by external auditor	✓	✓	✓	✓
Review management letter from external audit firm	✓			
Hold in-camera with external auditor	✓		✓	
Assess independence of external audit firm	✓	✓	✓	✓
Conduct annual evaluation of external audit firm	✓			
Update policy regarding hiring of employees, partners of external audit firm		✓		
Other				
Report on any special duties assigned	✓	✓	✓	✓
Participate in preparation of Audit Committee section of Annual Report	✓			
Review the annual report before submission to Board		✓		

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