

Effective Audit Committees



Interactive Webinar
April 24, 2012

Presented by  **Rehmann**

Presented by:

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Presentation Outline

- Overview
 - Purpose of Audit Committees
 - Responsibilities
- GFOA Recommended Practices
- AICPA Audit Committee Toolkit
- Best Practices Discussion

Internal Control

- The framework through which management seeks to meet its responsibilities:
 - Effectiveness / efficiency
 - Compliance with laws / regulations
 - Financial reporting / accountability

Internal Control

- Stakeholders in internal control:
 - Management
 - Governing Body (the Board)
 - External Auditors
- The Governing Body is *ultimately responsible* for ensuring that management fulfills its responsibilities

The Internal Control Framework

- The Control Environment
- Risk Assessment and Monitoring
- Control-related Policies and Procedures
- Information and Communication
- Monitoring

Purpose

- An Audit Committee is a practical way for the Governing Body to meet its oversight responsibility
- Benefits:
 - Sets the “tone at the top” for management
 - Enhances the real and perceived independence of the external auditors
 - Facilitates communication between management, auditors, and the Board

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Responsibilities

- Oversee the internal auditors
 - Review internal audit work plans
 - Meet with internal auditors apart from management
- Oversee the independent audit
 - Auditor selection/evaluation
 - Review draft findings/recommendations
 - Follow up on finding resolution

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Responsibilities

- **Oversee senior management**
 - Meet with management to discuss the financial statements
 - Meet with the independent auditors to discuss management's performance
 - Monitor controls dependent on senior management or subject to override
 - Provide a mechanism for reporting suspected fraud or abuse

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Responsibilities

- Reach a conclusion regarding the adequacy of internal control and financial reporting
- Report at least annually to the full board on how it discharged its duties and met its responsibilities

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Responsibilities

- Limitation of Audit Committee's Role
 - The Audit Committee is not responsible for planning or conducting routine audits or to be the primary mechanism for ensuring financial reporting in accordance with GAAP
 - Those responsibilities rest with the auditors and management, respectively
 - However, the AC has oversight responsibility to ensure these objectives are achieved

Audit vs. Finance Committees

- Finance committee:
 - monitors financial transactions
 - provides guidance about what can be done
- Audit committee:
 - makes sure things are done according to policy and with adequate controls
 - ensures that independent oversight occurs

Audit vs. Finance Committees

The Audit Committee...	The Finance Committee...
reviews the financial statements of the government and other official financial information provided to the public.	oversees the preparation of the operating and capital budgets as well as the financial statements. The finance committee ensures that budgets and interim financial statements are prepared.
has oversight for ensuring that reports are received, monitored, and disseminated appropriately.	oversees the administration, collection, and disbursement of the financial resources of the government as well as the policies and procedures related to the financial resources.

Audit vs. Finance Committees

The Audit Committee...	The Finance Committee...
provides oversight of the government's systems of internal controls, including overseeing compliance by management with applicable policies and procedures and risk management.	advises the governing board with respect to making significant financial decisions.
oversees the annual independent audit process, including the recommended engagement of the external auditor, and receives all reports, and management letters from the independent CPAs.	has no equivalent function.

Audit vs. Finance Committees

The Audit Committee...	The Finance Committee...
reviews the audit in accordance with OMB Circular A-133 and recommends for approval, signature, and submission of filing the audit with the single audit clearinghouse and similar entities by the appropriate officer.	oversees the preparation and implementation of the governance policies, including conflict of interest, document retention, whistle-blower, review of executive compensation, investments, endowments, and so on.
transmits the audited information to the executive leadership for its review prior to signing and submission. The audit committee engages (on leadership's behalf) and interacts with the independent auditor or auditing firm.	has no equivalent function.

Audit vs. Finance Committees

The Audit Committee...	The Finance Committee...
reviews the government's procedures for reporting problems. The audit committee may exercise primary responsibility to review the whistle-blower policy and process, antifraud policies, and policies and procedures related to the discovery of errors or illegal acts.	should ensure that joint membership between the audit committee and the finance committee is appropriate and meets local laws and regulations.
shall have such other authority and perform such other duties as may be delegated to it by the governing board.	shall have such other authority and perform such other duties as may be delegated to it by the governing board.

CPE Prompt

- Please respond to the online polling question now

Recommendations

- Government Finance Officers Association
 - Best Practice on Audit Committees
 - www.gfoa.org | Best Practices | CAAFR
- AICPA Audit Committee Toolkit
 - Separate documents for Governments, Nonprofits, Private and Public Companies
 - www.aicpa.org | Publications

Recommendations

- Formally establish the Audit Committee by Charter or other appropriate legal means
- Made directly responsible for the appointment, compensation, retention, and oversight of the independent auditors
 - Auditors should report directly to the AC

Recommendations

- Membership:
 - There should be 3, 5, or 7 members of the Committee
 - Large enough for “meaningful discussion and deliberation”
 - Small enough not to “impede its efficient operation”

Recommendations

- Membership:
 - All (or a majority) of the Committee members should come from the Governing Body
 - Elected officials with managerial responsibilities should not be appointed to the AC
 - The Committee Chair should always be a member of the Governing Body

Recommendations

- Training / expertise
 - Committee members should be educated on financial matters, but needn't be experts
 - Consider appointing a "financial expert" to advise the Committee
 - Become familiar with the COSO Internal Control Integrated Framework

Recommendations

- Risk Assessment
 - Meet with management, internal, and external auditors to identify risk areas
 - Review the results of past audits, and the plan for future audits
 - Determine the Committee's "risk appetite", and recommend changes, as necessary

Recommendations

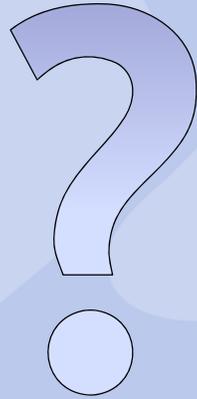
- Develop an audit calendar
 - Schedule meetings for the year around critical dates (internal/external)
 - Establish an agenda for the year, including meetings with key individuals
 - Keep minutes of meetings

Decision Points

- Committee size/makeup
- Reporting framework
 - Internal audit staff
- Meeting timing/frequency
 - Audit appointment/planning
 - Audit reporting/evaluation

Best Practices Discussion

Questions and Answers...



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For More Information

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