

\The effective audit committee

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Why have an audit committee?

- Awareness of internal control
- Implementation of audit recommendations
- Gives greater emphasis to audit
- Gives greater emphasis to risk
- Objective and fair financial reporting
- Independent, objective review
- Corporate governance expectation

Some quotes

“An audit committee is well placed to raise the profile of the systems of internal control.”

“In the absence of an audit committee, the diversity of audit activity often means that no single committee covers the full remit of auditors.”

Called to Account Audit Commission, 1996

“The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”

Audit Committees. Practical Guidance for Local Authorities and Police
CIPFA, 2013

Assurance

“To be satisfied that the Council’s assurance statements ... properly reflect the risk environment and any actions required to improve it.”

Audit Committee Terms of Reference, February 2013

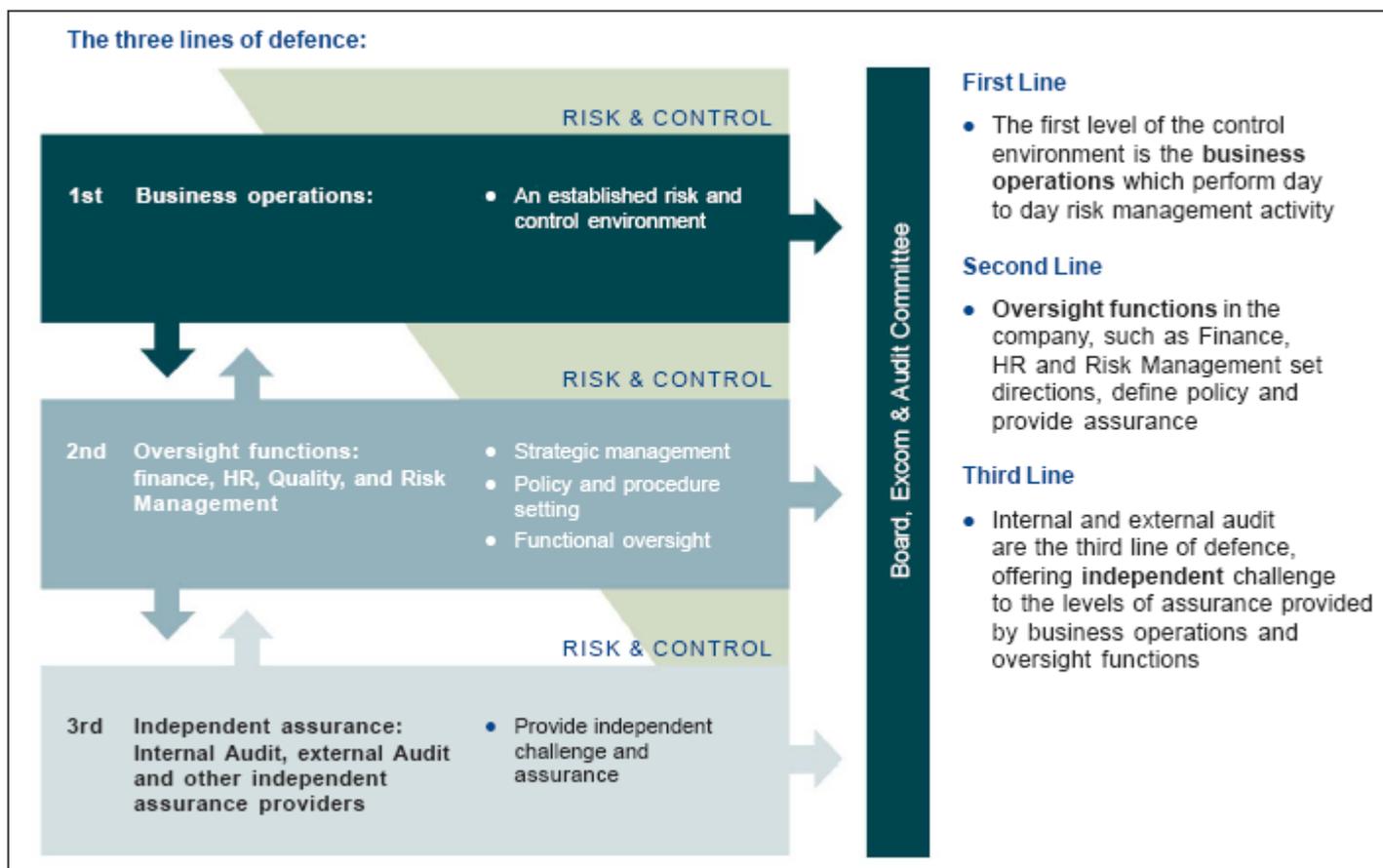
Assurance: “**confidence: feeling of certainty:** subjective certainty of one’s salvation: self-confidence: unabashedness: audacity: **positive declaration ...**”

Chambers

Why do we need assurance?

- Avoid nasty surprises
- Know activities are delivering as expected
- Assess whether risks are being managed
- Ensure opportunities are delivered
- Find out if we are efficient in our work
- Help decision making
- Know where priorities for taking action should be
- Enable us to account to public and stakeholders
- Help fulfill our own objectives for accountability

Three lines of defence model



Evaluating assurance

For each source of assurance:

Frequency/timeliness of the assurance:

- Less than annual
- Annual
- Six monthly
- Quarterly
- Monthly
- More often

- Delayed
- Immediate

Depth of assurance:

- Superficial
- Overview
- Key areas only
- All risk areas
- In depth

Positive or negative

Independence of and evidence base for the assurance:

- Anecdotal
- Manager/staff responsible
- Corporate /functional responsibility
- Independent audit
- External audit
- Regulator or similar

Internal control

“Internal control is broadly defined as a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations”

Internal Control – Integrated Framework COSO

Can and can't dos

Can do

- Help achieve targets
- Reduce losses
- Avoid reputation damage
- Help avoid pitfalls and surprises

Can't do

- Ensure success
- Make bad managers good
- Cope with changes beyond our control
- Deliver reliable financial reporting
- Comply with rules and regulations
- Ensure survival

Roles and responsibilities

Management:

- Chief executive sets tone at the top
- Provide leadership and direction, assign responsibilities

Board of directors:

- Governance, guidance, oversight
- Objective, capable and inquisitive

Internal auditors:

- Evaluate effectiveness
- Monitor and advise

Everyone:

- Explicit or implicit part of everyone's job
- Communicating problems

Corporate Governance

Governance “arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved”

International Framework: Good Governance in the Public Sector
IFAC/CIPFA, 2014

“The Governance Framework comprises systems, processes, cultures and values by which the council is directed and controlled and ... accounts to, engages with and leads the community.”

Annual Governance Statement

- Reported in the Annual Governance Statement
 - Evaluation of all governance arrangements
 - Identify strengths and weaknesses
 - Outcome against actions
 - New actions

Audit committee role (governance)

“To generally consider all relevant processes for risk, control and governance”

Audit Committee Terms of Reference, February 2013

- Approve and influence audit’s work
- Receive audit reports
- Hold officers to account for actions
- Challenge on risk management
- Consider anti-fraud activities
- Understand implications of performance management reports
- Ensure AGS reflects reality

External audit and internal audit

External audit

- Audit financial statements
- Check corporate governance arrangements
- Review internal audit

Internal audit

- Audit control environment
- Service and cross-cutting reviews
- Special investigations
- Support BV reviews
- Statutory requirement

- Provide an opinion and assurance
- Arrangements to prevent and detect fraud

Audit committees and external audit

- Opinion on selection and rotation
- Review and approve planning memorandum, including resources
- Effectiveness of external audit process
- Reporting to full council on the results
- Supporting recommendation implementation
- Non-audit work
- Ensure effective liaison arrangements between external and internal audit
- Review audit certificate wording and matters reported
- Access to the chair

Audit committees and internal audit

- Oversee independence, objectivity, performance and professionalism
- Support effectiveness of the internal audit process
- Promote the effective use of internal audit within the assurance framework
- Act as the “board”
- Approve the Charter
- Consideration and on-going monitoring of operational and strategic audit plans
- Agree plans, ensuring that work is planned with regard to risk, materiality and coverage
- Review performance and effectiveness
- Monitor recommendation implementation
- Access to the chair

Public Sector Internal Audit Standards (PSIAS)

- Attribute standards
 - Purpose, authority and responsibility
 - Independence and objectivity
 - Proficiency and due professional care (including CPD)
 - Quality assurance and improvement programme (including due professional care and CPD)
- Performance standards
 - Managing the internal audit activity
 - Nature of work
 - Engagement planning
 - Performing the engagement
 - Communicating results
 - Monitoring progress
 - Communicating the acceptance of results

Who helps you do your job?

- Internal audit
- External audit
- S151 officer
- Monitoring officer

AND

- Senior staff
- Chief executive

What makes a good audit committee?

- Interested
- Does its homework
- Thinks strategically
- Able to challenge constructively
- Focus on improvement
- Organised and structured
- Objective and independent
- Balances reviewing and doing
- Apolitical

Self-assessment

- Consider what your audit committee does well
- What it could do better?
- CIPFA questionnaires:
 - Knowledge and skills framework
 - Good practice
 - Evaluating effectiveness

Audit Committees. Practical Guidance for Local Authorities and Police
CIPFA, 2013

- Or ...

Being effective

- Is there a comprehensive process for managing risk?
- Is there a comprehensive process for developing corporate governance?
- What about performance management?
- Does the system of internal control highlight things going wrong?
- Is appropriate action taken when things go wrong?
- Is internal audit adequate and effective?
- Are all audit plans appropriately focused?
- Are responses to audit recommendations satisfactory?
- Do we challenge ourselves to improve?

Being a force for action

- Delivering corporate governance
- Audit recommendation implementation
- Driving risk management forward
- Driving performance management forward
- Demand training and support
- Be independent, objective, apolitical
- Be noseey
- Support your auditors
- Keep on improving

Conclusions

- Audit committee at the centre of operations
- Hard work, but rewarding
- Induction training for members – vital
- Ongoing training – keep up to date
- Keep asking questions
- Keep challenging yourselves
- Maintain your independence and objectivity



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