



General Interest Publication

Proposed Guidance for Audit Committees in the Public Sector



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A Comprehensive Guide for Audit Committees

As part of its Accountability and Audit research program, CCAF seeks out practices in the area of governance and audit to keep members aware of emerging thinking and to promote exchanges among leaders.

In that context, we are very pleased to provide you with this copy of *Proposed Guidance for Audit Committees in the Public Sector*.

The document, a product of the Government of Alberta, is a compendium of valuable advice for three audiences:

- ◆ Ministers and Deputy Ministers responsible for overseeing the governance bodies of the Government of Alberta's agencies, boards and commissions
- ◆ Boards and board chairs of Alberta's agencies, boards and commissions
- ◆ Members of the audit committees of Alberta's agencies, boards and commissions.

Although intended for Alberta audiences, the *Proposed Guidance* provides advice that is relevant for any board-governed organization in the Canadian public and not-for-profit sectors. Much of its information would also be relevant for private sector audit committees.

As its Table of Contents suggests, the booklet is a how-to primer for establishing and operating audit committees. Its advice is direct and to the point. For example, it says audit committees should be established in all board-governed agencies.

An Audit Committee Quiz

To give you a taste of the information contained in the booklet, here is a brief quiz you can take to test your knowledge of effective audit committee operations. The answers are based on the advice provided in the booklet:

Q: Should the audit committee be chaired by the Board Chair or someone with management functions in the agency?

A: No. The audit committee is more likely to provide objective advice if it is led by someone other than the person to whom it is to give advice (the Board Chair) or someone with management functions.

Q: Is it ever appropriate for the Board to sit as the audit committee?

A: If the Board has only a few members, and the expertise required for an audit committee is limited, the creation of a separate committee may be impractical. In such circumstances, the Board may sit as the audit committee – but at a different time from its sittings as the Board to help it develop an objective mindset separate from its usual role.

Q: How large should an audit committee be?

A: Three to four members is a good size for an audit committee, as long as the committee does not constitute the majority of Board members. The committee should be large enough to ensure that appropriate skills exist within its membership. At the same time, it needs to be small enough to ensure that all members can participate actively in discussions.

Q: Other than members, who should normally attend audit committee meetings?

A: The Board Chair, the Chief Executive Officer, the Senior Finance Officer, the Head of Internal Audit and the Head of External Audit should normally attend meetings. The committee should also meet from time to time without management or non-committee members to decide freely what to recommend to the Board and Board Chair.

Q: How often should an audit committee meet?

A: Typically an audit committee would meet four times a year – more often if necessary.

Valuable appendices

The booklet contains several appendices of interest to those responsible for audit committees. One, for example, provides a Sample Terms of Reference for an Audit Committee. Written in a generic format, it could serve as a template for any public sector or not-for-profit agency audit committee. It includes a detailed list of audit committee responsibilities.

Other appendices include key questions an audit committee may want to ask (37 questions are listed), an audit committee competency framework, and suggestions for additional reading.

Additional copies available

Because of this booklet's potential value to CCAF members, we have made arrangements to provide copies to institutional member organizations. In keeping with our mandate to contribute to the sharing of useful information regarding public sector governance, accountability, management and audit, we would be pleased to provide limited numbers of additional copies of the booklet. Please contact Elizabeth Dombroskie, Services Coordinator at ldombroskie@ccaf-fcvi.com.

The booklet is also available on CCAF's website: www.ccaf-fcvi.com.

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PROLOGUE

In March 2005, the Committee of Deputy Ministers of Alberta considered the 2002-03 Auditor General's recommendation on Audit Committees in the Alberta Government Public Sector.

The issue of which boards are governance boards and require an audit committee was discussed. Issues that were considered as impacting governance included:

- ◆ The use of common services;
- ◆ Funding; and
- ◆ Being part of the government consolidated reporting entity, etc.

It is recognized that these issues may not result in a consistent agreement of what is, or is not, a board-governed institution because of many factors, including legislation setting out governance requirements that may be inconsistent with the existing governance practices.

However, in order to avoid the pitfalls in creating rules that work in some circumstances, and not in others, the following guidance was proposed:

- ◆ Each ministry in Alberta is to determine for itself which ABCs are governance boards using the guidance provided in the document - as well as other factors that Deputies think are appropriate.
- ◆ That this becomes the basis for implementing the recommendations of the Auditor General. However, each Deputy will take responsibility for determining what steps are needed within the ministry to appropriately implement the recommendations within its board-governed agencies.
- ◆ Associated with the guidance to board-governed entities would be ministry resources to provide training if required, discussion of specific issues, reporting requirements, communications, etc.

This guidance document was prepared after a careful review of current recommended practices for audit committees mainly from the not-for-profit sector. There are many publications on this topic that may also be referred to as required.

An implementation period of one year ending March 31, 2006 has been set. During this period, the guidance will be refined if the implementation of certain features is impractical. After this period, the guidance should be followed.

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1. Introduction

- 1.1 The purpose of this guidance is to provide those responsible for establishing, appointing and overseeing Audit Committees with information on discharging their respective roles within the Alberta Public Service Sector.
- 1.2 It has been written primarily for governance bodies and the ministries responsible (sponsoring ministry) for the oversight of the governance body. Typically, the Minister or the Provincial Government Cabinet is responsible for the appointment process and the Minister or Deputy Minister in each department is responsible for the oversight of such governance bodies. This document refers to the **sponsoring ministry** in the context of a Minister or Deputy Minister exercising responsibility for an accountable governance body. This document also refers to the responsibility of the Board and Board Chair in establishing the Audit Committee. The Audit Committee is a Committee of a governance Board with a primary reporting responsibility to that Board.
- 1.3 The guidance in this document is to help:
 - ◆ Boards and board chairs work out the best arrangements for their agencies
 - ◆ Audit Committees and individual members of Audit Committees understand their role and the ways in which they should function
 - ◆ The sponsoring ministry officials to oversee an agency's board and Audit Committee practices.
- 1.4 This guidance is intended to offer “best practices” on Audit Committee operations, capable of implementation into Alberta public sector governance agencies responsible for a wide range of differing missions and purposes. The sponsoring ministry should be consulted on governance issues whenever questions arise as to what is the preferred practice or when practical problems arise on the application of the guidance provided in this document. It should be noted that not all agencies are board-governed agencies and the sponsoring ministry should be consulted whenever more clarity is required on whether a specific agency is board-governed.
- 1.5 The function of an Audit Committee is to support the Board by monitoring and reviewing the risk, control and governance processes that have been established in the agency pursuant to Board policies. This is achieved by introducing an independent perspective and a process of constructive challenge, not to undermine the actions of the Board or management, but to help the Board be fully assured that the most cost-effective control and governance processes are in place. The governance processes enhance the performance of the agency and the Audit Committee takes an independent view of these processes. It is therefore important to draw the membership of the Audit Committee from those who are not management or board members who perform executive functions.

- 1.6 The role of the Audit Committee needs to be carefully defined in agencies where the Audit Committee also includes a finance role, a risk function or other functions, as these may encompass management roles. Care should be taken to distinguish between any roles that have a management function and the role of the Audit Committee. Audit Committee members should have no management or executive functions.

2. Establishment of an Audit Committee

- 2.1 Audit Committees should be established in all board-governed agencies.
- 2.2 All agencies may not be board-governed and therefore may not need to have an Audit Committee. Some boards are established to perform non-governance functions such as to adjudicate certain matters put to them or to review and provide advice on specific issues. The agency should consult with the sponsoring ministry to which they are accountable and the legislation establishing the agency to determine whether they are a board-governed agency and need an Audit Committee.
- 2.3 Every board-governed agency may be held accountable in a variety of ways. For board-governed agencies, business plans and budgets are established. Financial and non-financial performance and other information are reported on. Reports on internal control are produced. Communiqués are issued to the public.
- 2.4 Boards cannot oversee every detail in conducting its business, and so they need sufficient information from management (management disclosure) of significant matters and events (assertions) in order to make board decisions and provide strategic direction. Boards need to know how reliably management is able to develop the information and assertions provided to the Board. Boards also need to know that there is a basis for relying on those providing assurances (audits). The oversight function provided by the Audit Committee helps a Board and Board Chair prepare for any questions stakeholders may have on organizational accountability.
- 2.5 The Audit Committee carries out its work by reviewing and challenging the management assertions and other assertions which are reported to the Board, the way in which these assertions are developed, and the management priorities and approaches on which the assertions are based. While there is a range of detailed responsibilities which might be assigned to the Audit Committee, it is not the task of an Audit Committee to substitute for the management function in operations, Internal or External Audit, corporate governance, accountability reporting, control and risk management, or any other agency reporting or assurance function. However, the Audit Committee should review and offer opinions or recommendations on the way in which such functions are conducted. Care should especially be taken to avoid confusion between the role of an Audit Committee and that of

management or risk management, which would have management authority to make risk management decisions.

- 2.6 As well as providing assistance to the Board and Board Chair, the Audit Committee is also a useful mechanism for ensuring appropriate high-level information on risk and control is brought to the Board and Board Chair's attention. From the work it does, the Audit Committee should develop good knowledge of areas of potential weaknesses in the agency and of their significance. This can assist the Board in identifying its priorities for action.
- 2.7 Because of the benefits outlined above, there must be clear and strong reasons for a decision not to establish an Audit Committee for a board-governed agency and these reasons should be documented and discussed with the sponsoring ministry. In such an event, consideration should be given to disclosing the fact and the reason that an Audit Committee does not exist in the agency's annual report.

3. *Role of the Audit Committee*

- 3.1 The Audit Committee is appointed to assist the Board and Board Chair in monitoring the corporate governance processes, accountability processes and control systems in the agency. It is accountable to the Board.
- 3.2 The Audit Committee supports the Board and Board Chair by offering observations and objective advice on issues concerning the risk, control, regulatory requirements and governance of the agency, quality of information, the quality of top management oversight and the associated management assertions. The Audit Committee needs to assess whether management has sufficient processes in place to deal with regulatory and financial risks. Additionally, management must report on these risks. The Committee should advise the Board and Board Chair on the adequacy and the appropriateness, in the light of both known and emerging risks, of the work plans of those, including audit, who provide assurance.
- 3.3 The considerations of the Audit Committee are more likely to lead to objective advice if they are not being steered: (i) by someone with management functions in the agency, or (ii) by the person to whom the Committee is to give advice. It is therefore appropriate that the Audit Committee Chair is not the Board Chair or someone who performs management or executive functions. It is also appropriate that the Chair of the Audit Committee should not chair any other Board committees (to avoid potential conflict of interests). When the Board Chair does Chair the Audit Committee, this should be disclosed in the agency's annual report and discussed with the sponsoring ministry.

- 3.4 The Audit Committee may assist the Board and Board Chair to prepare for public accountability by subjecting the Board and Board Chair's decisions to constructive challenge in the sense of encouraging them to demonstrate that they have made the best possible decisions in the light of all available evidence. This is easier to achieve if the Audit Committee has not been steered in its considerations by the Board and Board Chair. This role for the Audit Committee is one of adding value by helping the Board to ensure that good judgement has been exercised.
- 3.5 The Audit Committee does not have a representative role on behalf of stakeholders as its responsibility is to the Board.
- 3.6 Members of the Audit Committee are bound by the government and agency policies relating to disclosure of information and must respect their privileged position to information without which the Audit Committee cannot have frank and informed discussions. If the management, Board or Board Chair has taken, or plans to take, an illegal or inappropriate action, they should deal with this issue in accordance with the established policies of the agency for handling such circumstances.
- 3.7 The Audit Committee should establish an inventory of key areas including organizational units, activities and transaction classes to be used in the Audit Committee's cyclical review of the organization. Furthermore the committee should determine what regulatory reporting requirements might exist.
- 3.8 The Audit Committee should review management's assessments of, and assertions relating to, the organization's risk management process and its compliance with regulatory and policy requirements. This would include financial reporting requirements.
- 3.9 The Audit Committee should review auditors' assessments of and assertions relating to the organization's risk management process and its compliance with regulatory and policy requirements. These would include financial reporting requirements.
- 3.10 The Audit Committee should establish what key areas have been reviewed by management and by auditors and determine if they are satisfied that an appropriate monitoring and reporting process by management, as well as auditors, is in place.
- 3.11 The Audit Committee should establish a follow-up process to monitor the receipt of management responses to any significant matters raised by the Board members, Auditors or others.
- 3.12 The Audit Committee should consider and recommend to the Board any processes considered necessary by the Audit Committee on handling complaints or concerns related to the conduct of the organization.
- 3.13 The Audit Committee should be able to retain access to third party advice to assist it in its duties at the agency's expense.

- 3.14 The Audit Committee should periodically review its performance and report on its performance to the Board.

4. Audit Committee Skills

- 4.1 The Audit Committee members should have appropriate skills to allow them to carry out their mandated function. The work of the Audit Committee links closely to the vision and mission of the agency, as well as its priorities and concerns. Since Boards play a significant role in developing the strategic direction of the agency, Audit Committee members need the skills to successfully understand and deal with issues of risk, control and governance, as these will impact the strategic direction of the agency.

An Audit Committee requires a range of competencies to allow it to be effective in its functions. These competencies will include:

- ◆ Understanding the government and agency environment and accountability structures;
- ◆ Understanding the mission and vision of the agency; and
- ◆ Financial literacy, and management skills.

- 4.2 It is important that those appointed to the Audit Committee are provided with suitable orientation and any other training to allow them to understand the agency operations and effectively contribute to the achievement of the Committee's Terms of Reference. New members of the Audit Committee should discuss their orientation needs with the Chair of the Committee.
- 4.3 The Board and the sponsoring ministry are responsible to ensure that the Audit Committee possesses the necessary skills to function as an Audit Committee. It is the responsibility of each ministry and Board to propose a solution to any instance where the required Audit Committee expertise does not exist within its membership.
- 4.4 All members of the Audit Committee should be financially literate and at least one member should have accounting or related financial expertise. The Audit Committee should consider disclosing members of the Audit Committee with accountancy and auditing skills.

5. Independence and Membership on the Audit Committee

- 5.1 Membership of the Audit Committee should be selected from Board members who are not associated with activities that are incompatible with those of an Audit Committee. Audit Committee members should not have significant transactions with the agency which would benefit their private interests. Audit Committee members selected should collectively possess those skills identified in Section 4.

- 5.2 The purpose of the Governance Board is to oversee the conduct of the agency, supervise management, and provide policy direction to management. The Governance Board of a government agency provides external advice and independence of thought, which reflects the decision-making processes of the Board. It oversees management rather than being directed by management. Board member duties do not encompass responsibility for providing normal day-to-day management of the agency.
- 5.3 The board may consist of certain members who hold executive positions or discharge executive functions. The issue of independence or conflict arises when a committee member is expected to provide oversight over activities for which the member is or was previously responsible.
- 5.4 The Audit Committee should be formed from members independent from holding executive positions or discharging executive functions (while taking account of the need for a suitable mix of skills and sufficient relevant knowledge and experience). This is the preferred position to both enhance the objectivity and independence of the Audit Committee and gain maximum advantage from its work. This enhances the ability of the Committee to challenge the risk, control and governance processes, management assertions and the associated assurance processes that have been put in place and to help advise the board on whether improvement in these areas is possible.
- 5.5 Some boards may be numerically small and the board members' expertise may be limited. In such circumstances, the creation of a separate Audit Committee may be impracticable or outside expertise or management may be required to supplement the work of the Audit Committee. In such an event, the Board may sit as the Audit Committee (but at a different time from its sittings as the Board to help it develop an objective mindset separate from its usual role). This should not be the 'default' option for agencies; before deciding to take this course of action careful consideration should be given to other options. Consultation with the sponsoring department should occur. Consideration may be given to appointing independent external non-board members directly to the Audit Committee so as to achieve a majority of non-executives. If the Board does sit as the Audit Committee, other actions to enhance objectivity are essential, such as a non-executive taking the chair. If considerations of risk, control and governance issues lead an agency to consider making appointments of board members performing executive functions or management to the Audit Committee, such appointments should be appropriately disclosed in the annual report and approved by the sponsoring ministry. If external non-board members or management are appointed to the Audit Committee, mechanisms will need to be established to ensure that they understand the business and priorities of the agency, that legal responsibilities are properly established and they receive the appropriate orientation.

- 5.6 In Boards that have insufficient non-management Board members, appropriately qualified individuals could be considered for appointment as independent external non-board members of the Audit Committee.
- 5.7 If board members who are also management or represent third parties are appointed to the Audit Committee, this matter should be disclosed in the agency's annual report.
- 5.8 It is also important to consider the difference between an independent board member and an external board member who expects to represent the interests of a third party in determining appointments to the Audit Committee.
- 5.9 An Audit Committee should periodically review its independence. Declarations of independence with respect to the agenda should be made at each meeting.

6. *The Size of the Audit Committee*

- 6.1 The number of members on the Audit Committee should be in the range of three to four members, but should not constitute the majority of Board members. The Board Chair, Chief Executive Officer, the Senior Finance Officer, the Head of Internal Audit and of the External Audit should normally attend meetings. Membership does not include those who regularly attend but are not members of the Audit Committee.
- 6.2 The Audit Committee needs a sufficient number of members to ensure that appropriate skills exist within its membership. At the same time the Committee needs to be small enough to ensure that all members can participate actively in discussions.
- 6.3 It is important that the Board Chair, the Senior Financial Officer, the Head of Internal Audit and the External Audit representative attend Audit Committee meetings to assist the Committee on any matters relating to risk, control and governance. However, the Committee should choose to meet from time to time without management or non-committee members present. This allows the Audit Committee to freely decide on what they want to put on the record as their advice to the Board and Board Chair.
- 6.4 The Audit Committee may invite others such as legal counsel, information technology specialists, etc. to participate in committee meetings and to provide observations and guidance. Any costs incurred by the Audit Committee in seeking specialist help should be paid by the agency.
- 6.5 The Chair of the Audit Committee should arrange to meet individually with the Board Chair, the senior financial officer, the Head of Internal Audit and the External Audit representative at least once a year.

7. *Rotation of Audit Committee Membership*

- 7.1 The members of the Audit Committee should be rotated on an appropriate cycle (to provide for objectivity in the long term and to avoid the development of any special interest on the Audit Committee).
- 7.2 Appointment of members of the Audit Committee should be for an appropriate period of time. This should be long enough to allow them to become effective in their role and to make a useful contribution, but short enough to prevent their becoming 'stale' in their role. Initial appointment for a period of three years is suggested, with renewal of appointment being possible.
- 7.3 Within the need to actively control against any unwitting bias, there is also a need to generate sufficient stability in the membership of the Audit Committee to ensure that there is consistency over time in its considerations and that experience in undertaking the work of the Audit Committee is built up. It is therefore important that rotation of membership is not over-rapid.

8. *Audit and Legal Counsel Access to the Audit Committee*

- 8.1 The Head of Internal Audit, the external audit team and legal counsel should have right of access to the Audit Committee and/or Audit Committee Chair.
- 8.2 The Audit Committee has to consider the planned activity and results of both internal and external audit work. It is possible that auditors may have concern about the way in which either the planning of their work is being subjected to influence by management or the way in which the results of their work is being handled by management. In addition, auditors, in particular internal auditors, will have escalation procedures for addressing weaknesses which they have identified and which they seek to have corrected in order to allow them to give assurance that risks are appropriately controlled and managed. Both the Head of Internal Audit and the External Audit representative should have free access to the Chair of the Audit Committee. The Audit Committee adds value to the audit process by protecting the independence of the audit function and advising auditors on the way in which the committee interprets the particular results arising from audit work and the related advice that they would give to the Board and Board Chair.

9. Oversight and Performance of the Auditors

- 9.1 The Audit Committee should consider the use of an internal audit function and should review annually the performance of the audit groups.
- 9.2 The Audit Committee, as part of its oversight monitoring responsibility, should regularly discuss its monitoring process and should determine whether the use of an internal audit process is required in any of its operations.
- 9.3 The Audit Committee should review the independence, professional development and audit approach used by its internal and external auditors. Criteria to be used for such reviews should include:
- ◆ Disclosure by auditors of any relationships, events or transactions which could be perceived as being less than independent;
 - ◆ Disclosure by auditors of the nature of professional development related to the agency's business and/or audit;
 - ◆ Disclosure by auditors of the audit methodology used to detect fraud, errors, non-compliance, and internal control deficiencies; and
 - ◆ Determination from auditors of any aggressive accounting policies, material estimates used or unusual accounting policies.

10. Terms of Reference of the Audit Committee

- 10.1 Audit Committees should have written terms of reference from the Board and this written terms of reference should be consistent with the requirements of the sponsoring ministry. This written charter should be reviewed annually by the Audit Committee and approved annually by the Board.
- 10.2 The role of the Audit Committee may vary depending on whether certain monitoring functions are assigned to other board committees, for example risk assessment or monitoring non-financial performance. The Audit Committee's responsibility should be documented and used as a basis for reviewing the Committee's Performance. A model Terms of Reference for the Audit Committee is provided at Appendix B.
- 10.3 The terms of reference should set out:
- ◆ The responsibility for oversight of the program of risks and controls including the matters discussed under the role of the Audit Committee in Section 3.
 - ◆ Range of skills required.
 - ◆ Professional development.
 - ◆ Board reporting requirement, including Audit Committee

performance and any proposed changes to the Audit Committee terms of reference.

- ◆ Meeting requirements – suggested four times a year.
- ◆ The requirement for a plan and a pre-established agenda to cover all of the Audit Committee responsibilities on an annual basis.
- ◆ Much of the work of the Audit Committee can be related to particular times in the year. For instance consideration of proposed internal audit plans should be carried out when a specific audit plan has been developed and before the financial year begins, whereas consideration of an audit opinion can only occur once the audit opinion has been drafted which is likely to be some time after the end of the financial year. Such matters should be covered in the plan.
- ◆ That the plan be communicated to management and auditors.
- ◆ The nature and timing of information requirements from management and auditors.
- ◆ The requirements for minutes, the matters to be contained in the minutes, need for and handling of in camera sessions with auditors and others, and the need for an adequate review of minutes.
- ◆ Declarations of any conflicts.

APPENDIX A

Meetings of the Audit Committee

Typically an Audit Committee would meet four times a year or more often if necessary.

The cycle for an Audit Committee that meets four times a year might be as set out below. Note that not all responsibilities of the Audit Committee are identified in the schedule below and such responsibilities would be added as appropriate. For example, the Audit Committee needs to schedule a review of the external audit plan.

Spring meeting

- ◆ Review the financial report issued
- ◆ Review the audit reports on internal controls for the year just finished
- ◆ Review Internal Audit's audit plan for the financial year just begun

Summer meeting

- ◆ Review internal audit interim report
- ◆ Discuss the Board's review of financial results and audit reports for the year ended

Autumn meeting

- ◆ Review internal audit interim report
- ◆ Follow-up on management actions in respect of management response to audit reports

Winter meeting

- ◆ Review internal audit interim report
- ◆ Provide input on internal audit strategy and the periodic work plan for the beginning of the new financial year
- ◆ Consider areas in which the committee will particularly promote co-operation between auditors and management
- ◆ Consider the committee's own effectiveness in its work

APPENDIX B

Sample Terms of Reference for an Audit Committee

The Board has established an Audit Committee to support them in their responsibilities for issues of risk, control and governance and associated assurance.

Membership

The members of the Audit Committee are:

- ◆ List those who are appointed to the Audit Committee (in all cases indicate the date of appointment and when the appointment is due to end).
- ◆ The Audit Committee will be chaired by ...
- ◆ The Audit Committee will be provided with a secretarial function by ...

Meetings

- ◆ The Audit Committee will meet at least four times a year. The chair of the Audit Committee may convene additional meetings, as he deems necessary.
- ◆ A minimum of ... members of the Audit Committee will be present for the meeting to constitute a quorum.
- ◆ Audit Committee meetings will normally be attended by Board Chair, the Senior Financial Officer, the Head of Internal audit, and a representative of External Audit.
- ◆ The Audit Committee may ask any other officials of the agency to attend to assist it with its discussions on any particular matter.
- ◆ The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.
- ◆ The Board or Board Chair may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

Access

The Head of Internal audit and the External Auditor will have free and confidential access to the Chair of the Audit Committee and to the Audit Committee.

Reporting

The Audit Committee will formally report back in writing to the Board and Board Chair after each meeting.

Responsibilities

The Audit Committee will advise the Board and Board Chair on

- ◆ The strategic processes for risk, control and governance.
- ◆ The accounting policies, the accounts, and the annual report of the agency, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.
- ◆ The results of the annual financial audit and recommendation of approval of the financial statements.
- ◆ The planned activity and results of both internal and external audit.
- ◆ Adequacy of management response to issues identified by audit activity, including audit's management letter.
- ◆ Assurances relating to the corporate governance requirements for the agency.
- ◆ The independence, professional qualifications and audit scope and approach used by auditors.
- ◆ Proposals for tendering for Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

The Audit Committee must approve all significant advisory or non-audit services provided by the audit to the agency.

Information requirements

The Audit Committee will be provided with:

- ◆ For the relevant meeting:
 - ◆ A report summarising any significant changes to the agency's risk assessments;
 - ◆ A progress report from the Head of Internal Audit summarising:
 - Work performed (and a comparison with work planned);
 - Key issues emerging from Internal Audit work;
 - Management responses to audit recommendations;
 - Changes to the Periodic Plan;
 - Any resource issues affecting the delivery of Internal Audit objectives;
 - A progress report from the External audit representative summarising work done and emerging findings.

As appropriate:

- ◆ Proposals For The Terms of Reference for Internal Audit;
- ◆ The Internal Audit Strategy;
- ◆ The Head Of Internal Audit's Annual Opinion and Report;
- ◆ Quality Assurance Reports on the Internal Audit Function;
- ◆ Financial reports of the agency;
- ◆ Management's report on the state of Internal Control (management assertions);
- ◆ A Report on Any Changes To Accounting Policies;
- ◆ External Audit's Management Letter;
- ◆ A Report on Any Proposals To Tender For Audit Functions;
- ◆ A Report on the co-operation Between Internal And External Audit.

APPENDIX C

Key Questions which the Audit Committee May Ask

Risk, control and governance

- ◆ Is there a comprehensive process for identifying and evaluating risk, and for determining risk tolerance levels?
- ◆ How does management oversee its operations?
- ◆ How does management know whether internal control is working?
- ◆ Is risk management in line with the agency's risk priorities?
- ◆ How does the Board determine agency effectiveness and efficiencies?
- ◆ Does the Board review its effectiveness?
- ◆ How are ethics monitored?

Internal and external audit

- ◆ Is the Internal Audit strategy appropriate for delivery of a positive reasonable assurance on the whole of risk, control and governance?
- ◆ Will the periodic audit plan achieve the objectives of the Internal Audit/External Audit Strategy, and in particular is it adequate to facilitate a positive, reasonable assurance?
- ◆ Does Internal Audit have appropriate resources, including skills, to deliver its objectives?
- ◆ Are there any issues arising from management not accepting Internal Audit/External Audit recommendations and are agreed internal audit recommendations appropriately actioned?
- ◆ What assurance is there about the quality of Internal Audit/External Audit work?
- ◆ Is there appropriate co-operation between the internal and external auditors?

Financial and annual reporting

- ◆ Are the accounting policies aggressive in any areas?
- ◆ Is there a due process in preparing the financial statements and annual report and is that process robust?
- ◆ Are financial statements and annual report sufficiently reviewed by management and by the Board?
- ◆ How is appropriate advice on accounting treatment gained?
- ◆ Is there an appropriate anti-fraud policy in place and are losses suitably recorded?

- ◆ Are suitable processes in place to ensure accurate financial records are kept?
- ◆ Are suitable processes in place to ensure fraud is guarded against and regularity and propriety is achieved?
- ◆ Does financial control, including the structure of expenditure officers and accounting officers, enable the agency to achieve its objectives with good value for money?
- ◆ Are there any accounting issues with the potential to lead to qualification of the financial statements?
- ◆ If the accounts have been qualified, is appropriate action being taken to deal with the reason for qualification?
- ◆ Are issues raised by the Auditors given appropriate attention?

Management response to issues identified by auditors

- ◆ Are agreed procedures in place for monitoring progress with the implementation of recommendations?
- ◆ If management reject audit recommendations, which the auditors stand by, are suitable resolution procedures in place?

Agency governance requirements

- ◆ Is a due diligence process in place to determine if assertions on internal controls are meaningful?
- ◆ Do those providing assertions understand fully the scope of the assertions they are being asked to provide and the purpose to which they will be put?
- ◆ What mechanisms are in place to ensure the assertions are reliable?
- ◆ Are the assertions based on sufficient relevant evidence to support them?
- ◆ Do the assertions draw out material weaknesses or potential losses, which need to be addressed?

Audit Committee effectiveness

- ◆ How does the Audit Committee know if it is being effective in achieving its terms of reference and adding value to corporate governance and control systems of the agency?
- ◆ Is the Audit Committee satisfied that it has the appropriate skills set?
- ◆ Is the Audit Committee satisfied with its level of understanding of the purpose and work of the agency?
- ◆ Is the Audit Committee satisfied that it has sufficient time to give proper consideration to its business?
- ◆ Is the Audit Committee satisfied that it is avoiding any conflict of interest?
- ◆ Is there evidence of the Audit Committee's advice having an impact on the agency?

APPENDIX D

Audit Committee Competency Framework

All members of the Audit Committee should have, or acquire as soon as possible after appointment:

- ◆ Understanding of the objectives of the agency and current significant issues for the agency
- ◆ Understanding of the agency's structure, including key relationships such as that with a sponsoring department or a minor partner
- ◆ Understanding of the agency's culture
- ◆ Understanding of any relevant legislation or other rules governing the agency
- ◆ Broad understanding of the government environment, particularly accountability structures and current major initiatives

Members of the Audit Committee should possess:

- ◆ Knowledge / skills / experience (as appropriate and required) in:
 - ◆ Accounting (at least one member)
 - ◆ Risk Management (at least one member)
 - ◆ Audit (at least one member)
 - ◆ Technical or specialist issues pertinent to the agency's business (at least one member)
- ◆ Experience in managing similar sized agencies (at least one member)
- ◆ Understanding of the wider relevant environments in which the agency operates (all)
- ◆ Sufficient understanding of the government environment and accountability structures (all)

APPENDIX E

Accountability, Audit & Governance Arrangements

Accountability

The legal responsibilities and liabilities will be set out in the legislation establishing the body. The sponsoring department should provide a briefing of the requirements.

Agencies can be held accountable to the legislators through the Committee of Public Accounts. Similarly, the financial statements and annual reports that they prepare are usually tabled with the legislature.

Audit

Generally speaking, the external auditor for departments and executive agencies is the Auditor General. There is consequently no role for the Audit Committee in recommending the appointment of external auditors. A Deputies committee established an internal audit function to provide internal audit service to departments and government agencies.

Governance

Requirements for business plans, financial and other reports are set out in various legislation, departmental directives and contractual agreements. Please consult with your sponsoring department to determine your agency's requirements.

APPENDIX F

Sources of Further Readings

Useful examples of Audit Committee self-assessments, terms of reference, and other Audit Committee operations guidance is provided in many documents including the following.

Bibliography:

- 1 Sabia, Maureen J. and James L. Goodfellow, *Integrity in the Spotlight*. CICA Toronto, ON, Copyright 2002.
- 2 American Institute of Certified Public Accountants, Inc. *The AICPA Audit Committee Toolkit*. AICPA Publisher. New York, NY, Copyright 2004.
- 3 Auditor General of Alberta. *Assessment of the Performance of Public Sector Audit Committees 2003 Report*. Auditor General of Alberta, Edmonton, AB, July 14, 2003.
- 4 Audit Committees. *Multilateral Instrument 52-110. March 26, 2004*. OSCB 3265 (2004).
- 5 HM Treasury. *The Audit Committee Handbook October 2003*. United Kingdom Economics and Financial Ministry.



NICK SHANDRO

Chief Internal Auditor (Retired)

Executive Council, Government of Alberta

Nick Shandro was, until his retirement in June 2005, the Chief Internal Auditor in the Office of the Chief Internal Auditor, which is a centralized internal audit function in the Government of Alberta.

Nick had 30 years of legislative audit experience with the Office of the Auditor General in Alberta. He also spent five years in the government data processing centre where he was a director responsible for the processing of client data.

Nick's audit experience includes audits of government departments, provincial agencies and commercial enterprises. His experience included the audits of the departments of Health and Wellness, Learning, Community Development, Seniors and more than 35 related board-governed agencies. These agencies included health authorities, universities, colleges and technical institutes. Nick has a keen interest in the issues of governance, accountability and measurement of performance. He believes that the issue of stakeholder value by such not for profit organizations are just as complex as those in the for profit sector. Over the years, Nick has worked to improve the financial and non-financial reporting of the Alberta Government and its agencies. He has been involved in many projects leading to recommendations for improvements in accountability, governance and performance reporting processes.