



OFFICE OF THE
AUDITOR GENERAL
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Audit Committees: A Self-Assessment Checklist

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Introduction

Transparency of disclosure and integrity of financial reporting significantly contribute to enhancing public confidence in public sector organizations. The Boards of Directors and Senior Managers of public sector organizations are responsible for creating an environment of integrity, and demonstrating a strong commitment to lawful and ethical behavior. The Board's Audit Committee plays a vital role in this by ensuring the integrity and reliability of the organization's financial information, the adequacy of its internal control processes, and that the entity operates within their legislative mandate and in compliance with all laws, regulations and internal policies.

What is an Audit Committee?

The Audit Committee is regarded as the cornerstone of the Board's oversight process and has critical governance responsibilities related not only to public financial reporting, internal controls, and management of financial risks, but also to the oversight of an organization's values and ethics.

Audit Committees need to ensure that all those involved in the financial reporting and internal controls process understand their roles, and carry out their responsibilities in an efficient and effective manner. Hence, Audit Committees operate at the junction between the Board of Directors and its external auditors, its internal auditors, and its executive management.

Audit Committees form many of their judgments of management's performance based largely on the information and feedback obtained from internal and external auditors. Hence, developing an effective working relationship with both external and internal auditors is essential for an Audit Committee to effectively fulfill its oversight responsibilities.

Leading Practices for an Effective Audit Committee

The Office of the Auditor General's recent report, *Enhancing Audit Committee Practices in the Public Sector*, outlines the specific responsibilities, relationships, and structures for an effectively functioning Audit Committee. All public sector Boards of Directors are encouraged to establish a stand-alone Audit Committee, and to review and consider the leading practices discussed in the report within their organization's own unique context.

Assessing Your Audit Committee's Practices

To conduct a self-assessment of your Audit Committee, and whether the need to strengthen and modernize its practices exists, consider the following questions:

- ✓ Does your Board have a stand-alone Audit Committee, which reports regularly to the Board of Directors?
 - If not, has the Board discussed and documented its rationale for not needing an Audit Committee?

1. Audit Committee Structure and Operations

- ✓ Does your Audit Committee operate under a written Charter (Terms of Reference), that clearly articulates the role, composition, and specific responsibilities that the Audit Committee will perform?
 - If so, is the Charter reviewed and approved annually by the Board of Directors?
- ✓ Is your Audit Committee comprised of members who are independent of management and financially-literate?
 - If not all Audit Committee members are financially-literate, are steps being taken to remedy this (for example, through the provision of financial training)?

- ✓ Does your Audit Committee provide an orientation to new members, as well as ongoing training and development opportunities for all members?
 - ✓ Does your Audit Committee meet regularly throughout the year (for example, quarterly)?
 - Is an annual calendar of predetermined meeting dates prepared to ensure all duties noted in the Charter are fulfilled?
 - Are materials provided to Audit Committee members sufficiently in advance of meetings?
 - ✓ Does your Audit Committee assess its performance in fulfilling the duties and responsibilities set out in the Audit Committee Charter annually?
 - Is the assessment provided to the Board, and are appropriate actions taken to enhance the Committee's performance, if required?
- ### 2. Oversight of Financial Reporting Process
- ✓ Does your Audit Committee oversee the financial reporting process and credibility of the organization's financial information?
 - Are financial statements reviewed and carefully scrutinized? Are the key accounting principles

as well as significant judgments utilized in preparing the financial statements discussed?

- Does senior management provide adequate explanations of all significant financial decisions and judgments made, as well as any significant variances and/or deviations from approved strategic plans and budgets?

- ✓ Does your Audit Committee understand and assess the organization's financial and business-related risks, and ensure plans are in place to mitigate those risks?

- Are discussions held regarding unusual and/or complex transactions, new or risky initiatives being undertaken, or areas of financial/business risk where significant judgment is required?

- ✓ Does your Audit Committee understand and oversee management's internal control framework?

- Are any issues that may negatively affect the financial information generated from the internal control processes brought to the Audit Committee's attention?
- Does your Audit Committee understand the nature and extent of testing on the internal control

systems performed by both the internal and external auditors?

- ✓ Does your Audit Committee review the Management Discussion and Analysis (MD&A) report to ensure that it is clear for external readers and is consistent with the financial statements?

- ✓ Does your Audit Committee have unrestricted access to all information, documents and personnel as may be required to fulfill its responsibilities?

- ✓ Does your Audit Committee seek independent external advice or assistance as needed?

3. Effective Relationships with Auditors

- ✓ Does your Audit Committee hire and manage the relationship with the External Auditor, ensuring independent communication, as necessary?

- Are meetings held regularly with the External Auditor (minimum twice per year)? Is the External Auditor's audit approach and scope reviewed to ensure it sufficiently addresses any Audit Committee issues or concerns?
- Are *in camera* sessions included as part of every meeting with the External Auditor?

- Does the Audit Committee ensure management has taken appropriate corrective action in response to recommendations or any significant matters noted in External Auditor reports?
 - ✓ Does your Audit Committee direct and review the work of the Internal Auditor, ensuring independent communication, as necessary?
 - Does the Internal Auditor report directly to the Board of Directors, as well as the CEO? Is the Board involved in and approve the appointment and/or removal of the Internal Auditor?
 - Does the Audit Committee review and approve Internal Audit's annual work plans and the scope of planned audits, as well as their staffing and financial budgets?
 - Are *in camera* sessions held with the Internal Auditor?
 - Does the Audit Committee ensure management has taken appropriate corrective action in response to recommendations or any significant matters noted in Internal Audit reports?
 - If no Internal Audit function exists, has the Audit Committee considered whether one is required?
- #### 4. Compliance with Laws, Regulations and Internal Policies
- ✓ Does your Audit Committee monitor the organization's compliance with legislation, regulations and any legislative mandates, as well as public sector reporting requirements?
 - Does the Audit Committee review any public reporting to ensure it portrays a complete, accurate and balanced picture of the organization's performance and financial situation?
 - ✓ Does your Audit Committee ensure adherence to internal policies, such as the organization's code of conduct or conflict of interest policies?
 - Are any issues, concerns or questions with respect to conflicts of interest reviewed by the Audit Committee?
 - Does the Audit Committee review and approve expenses and perquisites of the CEO, as well as approve any expenses or perquisites incurred by the Board Chair and/or any Board members?
 - ✓ Has your Audit Committee established a "whistle-blowing" policy that encourages employees to report not only illegal acts,

but those that contravene the organization's internal policies, procedures, code of conduct, and ethical standards?

- Are whistle-blowing policies and procedures documented and clearly communicated to all employees?
- Do whistle-blowing procedures allow for the confidential and anonymous submission of such matters? Does the process ensure matters are acted upon confidentially and objectively?
- Does the Audit Committee have the power and resources to investigate any matter brought to their attention that they feel warrants review (for example, concerns specifically related to Executive conduct or to financial reporting)?

Conclusion

Ultimately, an effectively functioning Audit Committee helps the Board of Directors ensure that it fulfills its overall governance role of stewardship, leadership, responsibility, and accountability for the organization.

We encourage all public sector Boards of Directors to establish a stand-alone Audit Committee, and to review the detailed information on the responsibilities, relationships, and structures for an effectively functioning Audit Committee contained in our report, *Enhancing Audit Committee Practices in the Public Sector*. As the size, mandate, and complexity of public sector organizations vary considerably, each Board of Directors and their Audit Committee should tailor these practices to meet the unique circumstances and specific needs of their organization. Copies of the report are available at www.oag.mb.ca.

For Further Information:

Visit our website at www.oag.mb.ca or contact us for further copies of this pamphlet, or for any of our reports.

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