AGENDA

- Best practices related to:
  - Audit Committee Process and Procedures
  - Financial Reporting Process Oversight
  - Independent Auditor Oversight
  - Internal Audit Oversight
  - Risk Management Oversight
  - Ethics and Compliance Oversight
- The External Audit Experience

AUDIT COMMITTEE PROCESS AND PROCEDURES

- Audit committees consist of a minimum of 3 individuals with at least one member that is considered a financial expert.
- Other qualifications include industry specific experience, risk management experience, or other business/leadership experience

- Audit committee should meet at least twice per year
  - Approve audit plan
  - Review and approve audited financial statements and related
  - However, audit committee should meet as often as necessary to fulfill responsibilities

- Establish an audit committee charter
  - Living document
  - Approved by governing body
  - Reviewed annually
  - Guidance for developing charter: AICPA Audit Committee Effectiveness Center Toolkits
**Process and Procedures**

- Set agenda for audit committee meetings
- Have meeting minutes prepared and approved by the audit committee
- Help other governing body members with understanding of financial statements and related risks, internal control over financial reporting

**Process and Procedures**

- Develop an annual audit committee report
- Conduct and document meetings with external auditors, internal audit leadership, head of governing body, general counsel, upper management
- Utilize executive session (as needed)
  - Consult counsel on laws governing meetings

**Financial Reporting Process Oversight**

- Review significant accounting policies, judgments, estimates, transactions, adjustments, unusual transactions
- Review annual/interim financial statements including MD&A and any OMB or State required reports
- Discuss any major variances with management

**Financial Reporting Process Oversight**

- Discuss any significant reporting issues with management and independent auditor
- Consider comparing results to similar governments
- For complex transactions, consider hiring subject matter experts

**Financial Reporting Process Oversight**

- Review management letters, including recommendations and management’s response
- Ensure that suitable procedures are in place to properly review financial statement disclosures
- Timely review of new accounting and reporting requirements
Financial Reporting Process Oversight

- Oversee adequacy of system of internal controls
- Ensure that entity has adopted an internal control framework, such as:
  - Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Internal Control-Integrated Framework
  - GAO Standards for Internal Control In Federal Government – Green Book

Independent Auditor Oversight

- Appoint independent auditors
- Obtain understanding of audit plan and scope of audit
- Approve all audits, including fees
- Approve non-audit services
- Evaluate performance of independent auditors

Peer reviews:
  - Covers non-SEC practice
  - SEC practice is covered by PCAOB
  - Audit committee uses peer review as tool to determine:
    - That CPA Firm has system of quality control that meets requirements of AICPA Statements on Quality Control Standards
    - That the CPA Firm is complying with that system during the peer review period

- Peer reviews: 3 types of reports
  - Pass: firm’s system of quality control is properly designed and complied with in order provide firm with reasonable assurance that performance and reporting with applicable standards in all material respects
  - Pass with deficiencies: suitably designed and complied with, certain deficiencies noted and described in peer review report

- Peer reviews: 3 types of reports – continued
  - Fail: Significant deficiencies exist with system of quality control or has not complied with system of quality control
INTERNAL AUDIT OVERSIGHT

- Approve internal audit charter
- Review internal audit department’s quality assessment and improvement program
- Approve appointment of head of internal audit - if not elected
- Review planning and risk assessment process

- Review and approve annual internal audit plan
- Perform evaluations for head of internal audit
- Internal audit should report as follows:
  - Functionally - Directly to Audit Committee
  - Administratively - Directly to Senior Management

RISK MANAGEMENT OVERSIGHT

- Oversees the overall system of risk assessment and risk management:
  - Determined by governing body
  - Includes financial risk, as well as, single audit and any other engagements performed by external auditors
- Includes oversight and responses to any enterprise risk management activity
- Review list of significant enterprise risks annually and identify members of management that are responsible for addressing each risk identified
Risk Management Oversight

- COSO ERM Framework consists of:
  - Internal environment
  - Objective setting
  - Event identification
  - Risk assessment
  - Response to identified risks
  - Control activities
  - Information and communication
  - Monitoring process

Risk Management Oversight

- COSO ERM Framework integration with Internal Control:
  - Objectives, Environment, Risk Appetite, Portfolio View of the Risks, Risk Assessment and Response
    - Acceptance - no action
    - Avoidance - exit activities that give rise to risk
    - Reduction - reduce risk likelihood or impact
    - Sharing - insurance, hedging, outsourcing

Ethics and Compliance Oversight

- System of compliance over legal and regulatory requirements
- Does management exhibit ethical behavior? Address reported violations?
- Ensure code of conduct is in place and is reviewed and updated as needed

Ethics and Compliance Oversight

- Determine if officer has been appointed to oversee ethics and compliance and that sufficient resources are available to fulfill entity's needs in area - needs direct access to governing body or members of the committees
- Review process of reporting of potential problems - including whistleblower related activity

Ethics and Compliance Oversight

- Establish audit committee processes involving special investigations
  - Whistleblower
  - Anti-Fraud plan
  - Errors
  - Illegal Acts
**Ethics and Compliance Oversight**

- Fraud categories:
  - Financial statement – intentional misstatement or omission of material financial information
  - Corruption – misuse of influence to gain direct or indirect benefit
  - Asset misappropriation – stealing or misuse of entity’s resources

- Fraud discovery response:
  - Audit committees responsibility to ensure that investigation is conducted
  - Consider hiring forensic accountant as consultant
  - Consult with legal team
  - Examine results of investigations and provide direction for management response to deficiencies that could have prevented or detected fraud

- Whistleblower policy:
  - Key defense against management override
  - Encourage development of culture that supports reporting
  - Illegal to retaliate against whistleblowers
  - Requires strong leadership for successful implementation

- Whistleblower policy:
  - Policy should include:
    - Purpose and nature of concerns within scope of policy
    - Parties responsible for handling and resolving complaints
    - Responsibility of employees to report
    - Various methods to report
    - Method to safeguard confidentiality
    - How to make anonymous report
    - Steps utilized to process and track
    - Retention requirement

**The External Audit Experience**

- The use of audit committees varies among entities
- Ultimate success depends on members
- Opportunity to have direct communication with auditors to:
  - Obtain understanding of audit process
  - Obtain understanding of audit results
  - Obtain understanding of financial statements
The External Audit Experience

- Audit Committee Meetings With Auditors
  - Audit Planning (Interim) Discussion
    - Auditor’s responsibilities
    - Overview of planned scope and timing
    - Risk areas identified
    - Single audit – major programs
    - Input from audit committee members
    - Results to date (if after start of interim)

- Financial Reporting – Required Communications with Governance
  - Planned scope and timing
  - Auditor’s responsibility under GAAS, GAGAS, OMB A-133
  - Accounting for significant unusual transactions (lack of authoritative guidance)
  - Significant accounting estimates
  - Significant accounting principles and changes
  - Material audit adjustments
  - Material unrecorded adjustments
  - Other information within financial statements

- Results From Audit
  - Auditor’s report
  - Report on internal control
  - Report on single audit
  - Other reports (as necessary)
  - Status of prior years recommendations
  - Area of strengths and accomplishments of Accounting and Business Department

- Financial Highlights
  - Provide financial information in graphs or other format that is easy to follow (examples)
  - Tailor information to entity
  - Other opportunities for improvement
  - Upcoming changes in standards and potential impact
  - Respond to Audit Committee questions

QUESTIONS