

Global Public Sector Insight:  
**INDEPENDENT AUDIT  
COMMITTEES IN PUBLIC  
SECTOR ORGANIZATIONS**

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The Institute of  
Internal Auditors

*Global*



# Global Public Sector Insight: **INDEPENDENT AUDIT COMMITTEES IN PUBLIC SECTOR ORGANIZATIONS**

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Executive Summary .....	5
Introduction.....	6
Purpose of the Audit Committee .....	7
Mandate of the Audit Committee.....	7
Audit Committee Composition.....	10
Committee Member Independence .....	12
Capability Requirements of the Chair and Committee Members .....	12
Appointing Audit Committee Members .....	14
Assessing Audit Committee Performance .....	15
Appendices .....	24
Appendix 1: Model Public Sector Audit Committee Charter .....	24
Appendix 2: Values and Ethics Oversight Tool .....	32
Appendix 3: Governance Oversight Tool .....	33
Appendix 4: Risk Management Oversight Tool.....	34
Appendix 5: Internal Audit Oversight Tool .....	35
Appendix 6: External Assurance Provider Oversight Tool .....	39
Appendix 7: Management Action Plans Oversight Tool.....	40
Appendix 8: Financial Statements and Public Accountability Reports Oversight Tool .....	41
Glossary of Terms .....	42
Authors and Reviewers .....	44

Various nations and jurisdictions govern audit committee makeup, including the concept of independence. Please note the following terms as used in this document.

**Board** – In the public sector, the definition of the term *board* varies by jurisdiction and among levels of government. For example, in countries with a structure referred to as the “Westminster Model,” the board’s responsibilities are vested in a single individual, often referred to as a permanent secretary or accounting officer. In countries with a congressional system, the board’s responsibilities are vested in an individual with such titles as secretary, director, or chief executive officer (CEO). Other jurisdictions use different terms. In some jurisdictions, state-owned corporations have independent boards, similar to the structure used in the private sector. The term *board* also can refer to legislative bodies such as a state legislatures or city councils in state or local governments, respectively.

As used in this insight publication, the term *board* refers to the highest level of the governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, *board* may refer to the head of the organization.

**Independent board member** – An independent board member is not an employee, immediate family member, or member of the public sector organization. An independent board member may not carry out any other activities on behalf of the organization

**Independent audit committee** – A public sector organization board-level committee made up of at least a majority of independent members with responsibility to provide oversight of management practices in key governance areas.

**Audit committee** – Unless otherwise noted, “audit committee” means independent audit committee.

# Executive Summary

Independent audit committees help public sector organizations meet taxpayers' increasing demands for transparency and accountability by providing oversight of management practices in key governance areas, including:

- Values and ethics.
- Governance structure.
- Risk management.
- Internal control framework.
- Audit activity.
- External assurance providers.
- Management action plans.
- Financial statements and public accountability reports.

The audit committee charter documents information about the audit committee's mandate, membership, authority, responsibilities, and processes for developing, reviewing, and updating the charter. Audit committee member independence is a key concept expressed in the charter. In addition to being independent from the organization, audit committee members are expected to conduct their work in a diligent and professional manner; demonstrate inquisitiveness, outspokenness, and courageousness; and collectively be knowledgeable of, or have expertise in, finance and accounting, business, auditing, risk management, compliance, and information technology.

The charter also serves as a benchmark for assessing audit committee performance. Compliance with charter standards is one pillar of high performing audit committees. Two additional pillars — participation of audit committee members and value-added activities pursued and outcomes achieved — also support overall contribution to the organization. Strong audit committees build trust and confidence in how organizations are managed and strengthen independence of the audit activity.

# Introduction

The audit committee supports public sector organization boards by providing oversight of governance, risk management, and internal control practices. This global public sector insight is designed to serve two primary purposes:

- To communicate the importance of independent public sector audit committees and the value they provide.
- To provide detailed insights and leading practices to those who will be charged with establishing audit committees.

The leading practices presented in this publication have proven to be important in strengthening public sector audit departments. Appendices include a model public sector audit committee charter and a series of tools for committee member use.

## Business Significance

Audit committees play a significant role in improving and providing transparency around governance, risk management, and internal control practices of public sector organizations. The audit committee should play an independent oversight and advisory role, with responsibility for decision making resting with management. If the audit committee is involved in making decisions, its objectivity may be impaired, which, in turn, may negatively impact its ability to remain independent.

The audit committee is a key component of an organization's governance structure. Examples of how effective committees assist the board and the chief audit executive (CAE) include facilitating decision making, implementing a system of risk oversight and management, and ensuring high-quality internal and external reporting.

Audit committees also strengthen the independence of the audit activity. The functional reporting of the CAE to the audit committee is the ultimate source of an audit activity's organizational independence. The committee's composition also is critical. It should include a majority of external members, and the chair and members should demonstrate inquisitiveness, outspokenness, and courageousness.

Worldwide, public sector organizations employ a variety of governance structures, all with the underlying principles of accountability and transparency. These insights on establishing and maintaining effective audit committees should be adapted to the organization's unique circumstances while respecting the principles of accountability and transparency.

## Related Risks

Public sector audit committee responsibilities typically include oversight of risks associated with financial statements, internal control, audit activity services, external assurance providers, and compliance.

## Related IIA Standards

### **IIA Standard 1111: Direct Interaction With the Board**

The [CAE] must communicate and interact directly with the board.

### **IIA Standard 2060: Reporting to Senior Management and the Board**

The [CAE] must report periodically to senior management and the board on the audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

# Purpose of the Audit Committee

Independent audit committees are an important part of an organization's governance structure. Establishing an audit committee — the majority of whose members are independent of the organization — supports the board in fulfilling its oversight responsibilities. These audit committees provide oversight by offering objective advice and recommendations to the board on whether the organization's governance, risk management, and internal control processes are suitably designed and working as intended to achieve the objectives. Audit committees help build trust and confidence in how the organization is managed. The audit committee should exercise due care in fulfilling its oversight responsibilities.

# Mandate of the Audit Committee

An audit committee's mandate can be derived from many sources. In some jurisdictions, the responsibilities of an audit committee and its members are established in legislation and/or regulation. In other jurisdictions, the mandate may be set out in government policy.

Regardless of how the mandate is established, good governance dictates that public sector entities have an independent audit committee and leading practices suggest it formalize a high-level statement of the audit committee's responsibilities.

## The Audit Committee Charter

A written charter should establish the audit committee's mandate and:

- Outline roles and responsibilities of the audit committee and its members.
- Establish authority to obtain information and required resources.
- Outline respective roles and responsibilities of internal and external stakeholders who have an obligation to interact with the audit committee.
- Outline the process for developing, reviewing, and updating the charter and the frequency of review. Leading practices suggest that the charter be reviewed annually and modified as required.

The organization's board should review and approve the charter. Some governments establish formal policy requirements for audit committees and their members.

Once established, the charter should be maintained and communicated within the organization. It is a leading practice to publish the audit committee charter in publicly available material and on the organization's website so that key stakeholders are aware of their respective responsibilities.

## Key Steps in Developing the Charter

Key steps to consider in establishing and maintaining an effective independent audit committee and its charter include:

- Obtain the board's support of the audit committee. The board should serve as the audit committee's champion, enabling the committee to successfully carry out its responsibilities. Ideally, governments adopt clear policy requirements and establish clear expectations for performance.
- Establish a working group to develop a draft charter. The working group should include the organization's most senior executive (e.g., CEO) and CAE.
- Adopt best practices identified through benchmarking with leading public sector organizations.
- Prepare and review the draft charter.
- Obtain audit committee endorsement of the charter.
- Obtain board approval of the charter.
- Develop an annual work plan for the audit committee that will enable it to meet the requirements set out in the charter.



## Audit Committee Responsibilities

While the board may establish additional responsibilities based on the organization's need or the particular needs of various forms of government, key areas of audit committee oversight generally include:

**Values and ethics:** Review and provide oversight on the systems and practices management establishes to:

- Set and sustain high ethical standards.
- Monitor compliance with laws, regulations, policies, and standards of ethical conduct.
- Identify and quickly address any legal or ethical violations.

**Governance initiatives:** Review and provide oversight on governance initiatives established by the board and maintained by the organization.

**Risk management:** Review and provide oversight on the establishment, implementation, maintenance, and effectiveness of risk assessment, risk management, and risk reporting practices.

**Internal control framework:** Review and provide oversight on the organization's internal control framework. Keep informed on all significant matters arising from work performed by any governance, risk, and control assurance providers.

**Audit activity:** Approve and periodically review a departmental audit policy or charter. Review and approve an internal audit plan. The audit plan should be risk-based and supported by appropriate risk assessments. Monitor and assess the audit activity's performance in accomplishing the approved plan through periodic reports by the CAE.

The audit committee should review audit reports and corresponding management action plans to address recommendations. The audit committee should be advised of any internal audit engagements or tasks that do not result in a report, and it should be informed of all significant matters arising from such work.

The audit committee should advise the board on the adequacy of resources of the audit activity in terms of the number of resources and the sufficiency of its skills and abilities to successfully execute the audit plan.

The audit committee also should provide advice to the board on the recruitment, appointment, retention, and removal of the CAE. Leading practice suggests that this oversight normally includes providing input regarding the CAE's annual performance review and remuneration plan.

**External assurance providers:** The audit committee should be advised of all audit work to be undertaken by external assurance providers, including management's response and subsequent audit-related issues and priorities. In many jurisdictions, public sector entities are subject to audit by auditors general who have an independent legislative mandate to conduct a broad range of audits. It is a leading practice for auditors general to brief audit committees, as appropriate, on their annual audit plans.

**Follow up on management action plans:** The audit committee should review regular reports on implementation status of approved management action plans resulting from prior internal audit recommendations. The audit committee also should review management action plans resulting from the work of external assurance providers.

**Financial statements and public accountability reporting:** The audit committee should review and provide advice to the board on the key financial management and performance reports and disclosures issued to the public.

For audited departmental financial statements, the audit committee should review the financial statements with the external assurance providers and senior management and discuss any significant accounting estimates and adjustments therein, adjustments required to the statements as a result of the audit, and any difficulties or disputes encountered with management during the course of the audit.

If the organization prepares an annual statement of management responsibility, the audit committee should review it together with oversight of the procedures used to prepare the statement. Such management statements may include representations on internal control over financial reporting.

## Audit Committee Composition

The key to an audit committee's effectiveness is having members with an appropriate mix of skills and experience relevant to the organization's responsibilities. The ideal composition of the audit committee and attributes of its members depends on a variety of factors such as the organization's size, complexity, and responsibilities.

Generally, audit committees have between three and eight members with the typical audit committee having four or five. As a general rule, the minimum number of members for an effective audit committee is three. This ensures that a sufficient range of skills and experience is available. See Exhibit 1.

## Exhibit 1: Determining the Number of Audit Committee Members

Respondents to a March 2009 survey of CAEs listed seven organizational characteristics that should be considered when determining the ideal number of audit committee members. In order of importance, they listed:

1. The complexity of the organization (e.g., decentralized versus centralized, public versus private) and industry.
2. The size of the organization.
3. The extent of responsibilities and expertise assigned to the audit committee.
4. The size of the board of directors and number of board committees.
5. The culture of the organization and its needs.
6. The assignment of members to other board committees and external commitments.
7. The roles and responsibilities of the audit committee as outlined in the charter.

*Source: The IIA's Audit Executive Center, Knowledge Report: Audit Committee Trends and Activities (November 2009).*

It is important that audit committees maintain institutional memory while providing new perspectives and fresh insights. Audit committee members should, therefore, be appointed to terms long enough to maintain continuity but not so long that an individual becomes vested in the organization's current policies and direction. Generally, terms less than two years are too short. Terms of greater than eight years may be too long. If length is restricted, terms should be staggered to achieve the greatest continuity. The audit committee chairman should review committee member performance annually to determine whether obligations are appropriately discharged.

# Committee Member Independence

An essential feature of an effective audit committee is independence from management. By providing an independent source of advice to the board, audit committees play a key role in an organization's governance structure. To ensure the audit committee's independence, it is a leading practice for the majority of its members to be independent from the organization. An independent audit committee member is a person who is not employed by, or providing any services to, the organization beyond his or her duties as a committee member.

Various governments express similar independence requirements. The government in the Australian state of New South Wales mandates that an audit committee must have a majority of independent members and that these independent members must not be involved in any public sector roles in the state. The auditor general of New Zealand and the International Federation of Accountants, recommend most of the audit committee members should be external appointments. The Canadian government requires that a majority of the members be from outside government.

## Capability Requirements of the Chair and Committee Members

### Personal Attributes

In determining the composition of an audit committee, consideration of the personal attributes of members is critical. According to The IIA Audit Executive Center's Knowledge Report from 2009, *Audit Committee Trends and Activities*, CAEs say the top three attributes audit committee members should demonstrate are inquisitiveness, outspokenness, and courageousness. Other personal attributes valued by CAEs, as well as recommended by best practice guides, include sound judgment; objectivity and integrity; a healthy, constructive skepticism; a high level of ethics; and strong communication skills.

### Expertise and Skills

CAEs also were asked to describe the areas of expertise that should collectively be represented in the audit committee. CAEs surveyed responded that members should collectively be knowledgeable, or have expertise in, finance and accounting, industry-specific and overall business knowledge, internal and external auditing, risk management, regulatory compliance, legal, and IT and information security. In addition, certain skills and experience may be required due to the nature of the organization's operations.

As a leading practice, many organizations require that an audit committee include at least one person who is a financial expert. The U.S. Securities and Exchange Commission (SEC) defines an *audit committee financial expert* as a person who has all of the following attributes:

- An understanding of financial statements and Generally Accepted Accounting Principles.
- An ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves.
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that generally are comparable to those that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities.
- An understanding of internal controls and procedures for financial reporting.
- An understanding of audit committee functions.

If audit committee members are to be effective, it is important that they have sufficient knowledge of the organization. All audit committee members should have — or acquire as soon as possible after appointment — an understanding of:

- The organization's mission and current significant issues.
- The organization's structure, including key relationships.
- The organization's culture.
- Any relevant legislation or other rules governing the organization.
- Key risks the organization faces in meeting its objectives.
- The government environment, particularly accountability structures.

The organization should provide its committee members with orientation training within a reasonable time following appointment.

## Chair

The board or audit committee members should designate the audit committee chair. He or she is the focal point of communication and the key to an effective and independent audit committee. When appointing the chair, the board should particularly consider the candidates' personal attributes. In addition to leadership skills, a good chair must have personal courage to raise and tackle difficult issues and support others to do the same; understand the importance of relationships with key stakeholders; and have interpersonal skills to foster those relationships and build and maintain effective working relationships. Exhibit 2 lists the qualities of an effective audit committee chair.

## Exhibit 2: Qualities of an Effective

### Audit Committee Chair

- Has the active support of, and maintains regular dialogue with, the board.
- Ensures the committee undertakes its responsibilities as outlined in the committee charter.
- Maintains an open and constructive relationship with senior management, internal and external audit, and other organization committees.
- Has a clear understanding of the responsibilities of the committee, its position within the organization's governance structure and the organization's work, and maintains a dialogue with senior managers about the committee's work.
- Arranges for committee members to maintain an up-to-date knowledge of the organization and its activities.
- Is a good communicator who facilitates discussion and focuses on important matters.
- Has the ability to plan and manage committee meetings effectively.
- Devotes sufficient time to prepare for committee meetings and to engage with the chief executive/board, senior management, and other stakeholders outside committee meetings.

*Source: The Australian National Audit Office.*

## Appointing Audit Committee Members

Due to the importance of having the appropriate mix of skills, experience, and personal attributes, leading practices suggest that organizations employ an explicit, competency-based selection process in selecting new members. A list of the competencies the audit committee needs — including areas of expertise, skill sets, perspectives, and personal attributes — should be developed. Often, this is included in the audit committee's mandate. As the responsibilities of the audit committee will evolve in response to regulatory, economic, and reporting developments, it is important to periodically evaluate competencies to align with emerging needs. When a vacancy occurs, current competencies should be assessed against required competencies to identify gaps. Responsibility for nominating and appointing audit committee members varies considerably depending on the jurisdiction. As examples:

- In some jurisdictions in Australia, the CEO appoints audit committee members.
- In Scotland, the board (or accounting officer) appoints the audit committee members.
- In Ireland, the secretaries general (human resources) appoint internal members from within their own departments and external members are invited from other government departments, the wider public sector, and the private sector.
- In Canada, appointments to audit committees of crown corporations are made by the board, on the recommendation of the president of the board, through an appointment order specifying the tenure of the appointment. Appointments to audit committees of federal government departments are made jointly by the board (deputy minister) and the comptroller general of Canada.
- In South Africa, the board of an institution appoints audit committee members in consultation with the relevant executive authority (minister).
- In Egypt, the board appoints audit committee members.
- In New Zealand, the auditor general recommends that the chair of the governing body or departmental CEO should appoint the chair of the audit committee first and then consult the audit committee chair before making further appointments to the audit committee.

## Assessing Audit Committee Performance

### Rationale for Assessments

A capable, balanced, and committed audit committee can make a significant difference in the public sector by ensuring effective accountability and transparency. While there are many similarities between the features of audit committees operating in the public and private sectors, one significant difference is the “public interest” feature that applies to public sector audit committees.

**Public interest is defined as** “the net benefits derived for, and procedural rigour employed on behalf of, all society in relation to any action, decision or policy.”

Source: *International Federation of Accountants, Policy Position Paper, A Definition of Public Interest, June 2012.*

A high-performing public sector audit committee helps to ensure that objective analyses and credible information support decisions to help create a better future for the community in which it operates and, ultimately, across all society.

## **A Three-pillars Approach to Assessing Audit Committee Performance**

Audit committee performance should be assessed on a set periodic basis as established in the audit committee charter. Assessments ensure that the audit committee is meeting the requirements outlined in its charter and that its contribution is consistent with the needs and expectations of the organization and, ultimately, the government. Overall audit committee performance and individual member performance are typically assessed annually (Exhibit 3).

### **Exhibit 3: Sample Audit Committee Charter Assessment Provision**

The CEO, in consultation with the chair of the committee, will establish a mechanism to review and report on the performance of the committee, including the performance of the chair and each member, at least annually. The review will be conducted on a self-assessment basis (unless otherwise determined by the board) with appropriate input sought from the board, the internal and external assurance providers, management, and any other relevant stakeholders as determined by the board.

*Source: Modified from TPP09-05 Internal Audit and Risk Management Policy for NSW (Australia) Public Sector, Annexure C page 48, Office of Financial Management Policy and Guidelines paper, August 2009.*



## Exhibit 4: Three Pillars of High-performing Audit Committees

**Pillar 1 – Compliance With Charter Obligations**

**Pillar 2 – Participation of Audit Committee Members**

**Pillar 3 – Value-added Activities Pursued and Outcomes Achieved**

**Overall Contribution to the Organization**

High-performing audit committees are typically founded on three key pillars (Exhibit 4):

- The audit committee’s compliance with its formal charter.
- The level of participation of audit committee members.
- The committee’s ability to drive value-added activities and outcomes that are congruent with the organization’s vision, statutory objectives, and strategies.

### Assessing Compliance With Charter Obligations

The audit committee charter provides a formal mandate under which the audit committee operates. It outlines the roles, responsibilities, and breadth of expected coverage.

### Exhibit 5: Excerpt of an Assessment of Audit Committee Performance With Respect to Oversight of External Audit<sup>1</sup>

External Audit	1	2	3	4	5
Rating scale 1 = Strongly disagree	2	3	4	5	5 = Strongly agree
Did the audit committee consider and understand the external audit plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Did the committee review external audit reports and management letters and consider management responses to findings and recommendations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Did the committee provide input and feedback on external audit coverage and performance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

An assessment questionnaire may facilitate an assessment of compliance with charter obligations. The example provided in Exhibit 5 is based on the assumption that the approved charter mandated specified external audit oversight responsibilities. A comprehensive sample assessment questionnaire is included in the appendices.

## Assessing Audit Committee Member Performance

Audit committee chairs can use assessment tools to help assess each member’s performance and contribution to the committee. Exhibit 6 provides a sample assessment tool. The assessment also should include a review of the independence of audit committee members.

<sup>1</sup> A more detailed questionnaire is contained in Public Sector Audit Committees – Independent Assurance and Advice for Chief Executives and Boards – Better Practice Guide, Auditor General of Australia, August 2011.

## Exhibit 6: The Chair's Assessment of Individual Members

Did the audit committee member:

1. Regularly attend meetings (with valid and, ideally, reasonable pre-approved absences only)?
2. Demonstrate a thorough understanding of the organization's statutory objectives and activities?
3. Demonstrate a high level of understanding of the audit committee's role, obligations, and responsibilities?
4. Conduct himself or herself in a professional statesmanlike manner (with a professional presence demonstrated in dealings with internal and external stakeholders)?
5. Contribute to the overall credibility of the committee through the manner in which he or she operated and interacted?
6. Consistently demonstrate an independence of mind and objectivity?
7. Challenge the status quo by being prepared to take difficult but constructive positions at meetings, where required?
8. Demonstrate a well-rounded understanding of the organization's risk management and compliance arrangements and the associated internal control framework?
9. Demonstrate an ability to strike at the heart of a problem and offer practical solutions through a well-considered and well-informed analytical approach?
10. Consistently prepare for audit committee meetings with this demonstrated in the quality of his or her participation?

*Source: Shared insight from members of The IIA's Public Sector Committee, 2014.*

However the assessment is conducted, and regardless of the attributes evaluated, the audit committee chair should discuss the results of the assessment with the individual members and an action plan for further development should be agreed upon, as required.

## Assessing Value-added Activities Pursued and Outcomes Achieved

High-performing, contemporary audit committees tend to operate at a strategic level with a high degree of alignment with the organization's statutory objectives, vision, and strategic direction (Exhibit 7).

### Exhibit 7: Examples of Audit Committees Adding Value

While there are many ways an audit committee can add value to an organization, following are some examples that illustrate how an audit committee could help the CAE and/or drive the vision of the organization to achieve the statutory objectives:

- Facilitate well-informed, efficient, and effective decision-making.
- Promote and monitor an ethical culture.
- Ensure compliance with a well-designed code of conduct.
- Oversee an effective system of risk oversight and management.
- Oversee an effective and efficient internal control system.
- Oversee internal and external reporting of financial and nonfinancial information.
- Promote effective communication with audit activity and external assurance providers and respond appropriately to matters they raise.

*Source: Shared insight from members of The IIA's Public Sector Committee, 2014.*

## Audit Committee Reporting

While an audit committee might be fulfilling its obligations under the approved charter and individuals might be participating in a diligent manner, the true worth of the audit committee is reflected in the outcomes achieved. In this regard, leading practice organizations have the audit committee contributions captured in an annual report to the board and in the organization's published annual report. Audit committee performance results can be reported from either an internal or external perspective, or both.

## **Exhibit 8: Sample Excerpt From an Audit Committee's Annual Report**

The audit committee oversaw the review and update of the codes of conduct that apply to both organization staff and the board. Existing staff was informed of these updates through a structured communication strategy, and the orientation package for new staff was updated accordingly. Additionally, in recognizing the greater reliance on third-party suppliers, the high volume of supplier spending, and the trend in perceptions of supplier fraud, the audit committee championed the introduction of a statement of business ethics,<sup>2</sup> which was distributed to all existing suppliers and has been incorporated in the procurement policy and tender pack for all future procurement.

*Source: Shared insight from members of The IIA's Public Sector Committee, 2014.*

### **Externally Focused Annual Report**

Suitable commentary includes insights on the role and mandate of the audit committee, how it has functioned during the year, and the contribution that it has made to the organization. In addition to this type of commentary, a practice adopted in some jurisdictions includes an audit committee attestation in the organization's published annual report encompassing features such as those illustrated in Exhibit 9.

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<sup>2</sup> Statements of business ethics detail the way in which an organization interacts with third parties (e.g., suppliers, contractors, government, and other external parties) and their expectations of how ethically third parties do business with them.

### Exhibit 9: Sample Audit Committee Attestation for Inclusion in an Organization’s Annual Report

I, <name of chief executive officer>, am of the opinion that <name of organization>:

- i) Operated effective audit and risk management processes for the <period> financial year that were, in all material respects, compliant with the core requirements of the approved audit committee charter.
- ii) Maintained a balanced and capable audit committee that operated independently and effectively.

These processes provided a reasonable level of assurance that enabled the senior management of the <name of organization> to understand, manage, and satisfactorily control risk exposures.

The audit committee chair and members are listed below together with their term and attendance for the year:

Name*	Role	Date Appointed	Term (Years)	Number of Meetings Eligible to Attend	Number of Meetings Attended
	Independent Chair				
	Independent Member				
*					

\*List all members, including nonindependent internal members, if applicable.

<signed by chief executive officer>

<name of chief executive officer>

Source: Modified from TPP09-05 Internal Audit and Risk Management Policy for NSW (Australia) Public Sector, Annexure D1 page 51, Office of Financial Management Policy and Guidelines paper, August 2009.

## Internally Focused Annual Report

The audit committee should provide an annual report to the board. The report would, at a minimum, typically include:

- A summary of the work the audit committee performed to discharge its responsibilities during the year.
- A summary of the organization's progress in addressing the findings and recommendations made in internal and external audit reports.
- An overall assessment of the organization's risk control and compliance framework, including details of any significant emerging risks or legislative changes impacting the organization.
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.

## Other Incidental Reporting

Draft audit committee minutes should be distributed to the board shortly after each meeting. Additionally, the audit committee chair should meet with the board periodically throughout the year and more frequently if significant issues arise that require prompt escalation. In some jurisdictions, reports prepared by the audit committee may be provided to a political oversight committee. For example, in some local governments, audit committee reports are presented at a full council meeting.

## Principles Guiding Audit Committee Reporting Relationships

As previously stated, public sector organizations worldwide employ a variety of governance structures with the underlying principles of accountability and transparency. This guidance for establishing and maintaining effective audit committees should be adapted to the organization's unique circumstances while respecting the principles of accountability and transparency.

In conclusion, regardless of the governance structure, there are two basic principles that govern the duties and responsibilities of audit committees:

- As an oversight mechanism, the audit committee is responsible for enhancing accountability for the use of public resources by the public sector organization.
- An audit committee exists to add value and assist a public sector organization in achieving its objectives. It can be best positioned to do so if it is made up of independent and objective members and its decisions receive the attention of the highest level of the organization.

# Appendices

## Appendix 1: Model Public Sector Audit Committee Charter

### Introduction (Optional)

The audit committee plays an important role in providing oversight of the organization's governance, risk management, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The audit committee performs its role by providing independent advisory and assurance services to the board.

### Background (Optional)

The audit committee was established on <date>. At that time, the charter for the committee was established. The charter, which governs the work of the committee, was reviewed and updated on <date>.

### Purpose

The purpose of the audit committee is to provide structured systematic oversight of the organization's governance, risk management, and internal control practices. The committee assists the board by providing advice and guidance on the adequacy of the organization's initiatives for:

- Governance structure.
- Risk management.
- Values and ethics.
- Internal control framework.
- Oversight of internal and external audit.
- Financial statements and public accountability reporting.

In broad terms, the audit committee reviews each of the items noted above and provides the board with independent advice on the adequacy and effectiveness of management's practices. This advice and guidance also may include suggestions and recommendations to strengthen these arrangements.

### Mandate

The mandate for the establishment of the audit committee was derived from <insert item: The exact source of the mandate will vary among jurisdictions and depend on the location, government structure, type of public sector services, and relationship to other government entities>.



<The mandate may come in the form of laws, regulations, policies and procedures, or bylaws. Best practice recommends that governments adopt a clear policy requirement and clear expectations for the audit committee.>

### **Authority**

The authority of the audit committee to perform its work is established within the scope of its charter. In discharging its responsibilities, the audit committee shall have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The committee also shall have unrestricted access to records, data, and reports.

The committee is entitled to receive explanations from management and staff of the organization that it deems necessary to discharge its responsibilities.

The audit committee may engage independent counsel and/or other advisers as it deems necessary to carry out its duties.

### **Composition of the Audit Committee**

The audit committee shall consist of <number (typically three to five)> members, the majority of whom shall be independent of the organization. The members should collectively possess sufficient knowledge of audit, finance, IT, the law, risk, and control. As the responsibilities of the audit committee evolve in response to regulatory, economic, and reporting developments, it is important that members' competencies and the overall balance of skills on the committee be periodically evaluated to respond to emerging needs.

### **The Chair of the Audit Committee**

The board shall designate the chair of the audit committee.

### **Terms of Office**

The term of office for an audit committee member is a term of <number (typically three to four)> years. Independent members of the committee should not serve more than two terms. Continuance of audit committee members will be reviewed annually.

To ensure continuity within the audit committee, the appointment of members should be staggered.

### **Quorum**

The quorum for the audit committee shall be a majority of the members.

## Operational Principles of the Audit Committee

**Audit committee values.** The audit committee will conduct itself in accordance with the code of values and ethics of the organization and <add reference to additional legislation/regulations/policies pertinent>. The audit committee expects that management and staff of the organization will adhere to these requirements.

**Communications.** The audit committee expects that all communication with management and staff of the organization as well as with any external assurance providers will be direct, open, and complete.

**Work plan.** The audit committee chair, in concert with senior management and the chief audit executive (CAE), will establish a work plan to ensure that the responsibilities of the audit committee are scheduled and will be carried out.

**Meeting agenda.** The chair shall establish meeting agendas in consultation with audit committee members, senior management, and the CAE.

**Information requirements.** The audit committee shall establish and communicate its information requirements. This shall include the nature, extent, and timing of such information requirements. Information shall be provided to the audit committee at least one week prior to the meeting.

**In camera or executive sessions.** At least annually, the audit committee shall hold a private session with the chief executive officer (CEO), the chief financial officer (CFO), the CAE, external assurance providers, and with any other officials that the audit committee may deem appropriate.

**Preparation and attendance.** Audit committee members have an obligation to prepare for and participate in committee meetings.

**Conflict(s) of interest.** It is the responsibility of an audit committee member to disclose a conflict of interest or the appearance of a conflict of interest to the committee. If there is any question as to whether audit committee member(s) should recuse themselves from a vote, the committee should vote to determine whether the member should recuse himself or herself.

**Orientation and training.** Audit committee members shall receive formal orientation training on the purpose and mandate of the committee and on the organization's objectives. A process of continuing education shall be established.

## Operational Procedures

**Meetings.** The audit committee shall meet at least <insert number> times annually or more frequently as the committee deems necessary. Leading practice recommends meeting at least four times a year.

**Minutes.** Minutes shall be prepared in accordance with applicable law, regulation, policy or procedure, bylaw, or whatever is applicable.

**Access to officials.** The audit committee shall have unrestricted access to officials of the organization as may be required to discharge their duties.

**Required attendance.** The CFO and the CAE are required to attend all committee meetings.

**Secretariat services.** The CAE (or another appropriate designee) shall facilitate and coordinate meetings as well as provide ancillary support to the committee, as time and resources permit.

### Remuneration of Committee Members (If Applicable)

Committee members may be reimbursed for travel and committee-related expenses.

*[This should be established and outlined in the legal basis and/or a formal travel policy that applies to all committee members.]*

Payment rates and allowances for committee members' time or services are established formally in laws, regulations, or in written policy and procedures by the governing body.

Professional indemnity insurance arrangements are to be established that are suitable to both the member and the organization.

## Responsibilities

It is the responsibility of the audit committee to provide the board with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects of the management of the organization:

**Values and ethics.** To obtain reasonable assurance with respect to the organization's values and ethics practices, the audit committee shall:

- Review and assess the policies, procedures, and practices established by the governing body to monitor conformance with its code of conduct and ethical policies by all managers and staff of the organization.
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all of the managers and staff of the organization.
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

**Governance of the public sector organization.** To obtain reasonable assurance with respect to the organization's governance arrangements, the audit committee shall review and provide advice on the governance arrangements established and maintained within the organization and the procedures in place to ensure that they are operating as intended.

**Risk management.** To obtain reasonable assurance with respect to the organization's risk management arrangements, the audit committee shall:

- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
- Review and provide advice on the risk management arrangements established and maintained by management and the procedures in place to ensure that they are operating as intended.
- Annually review the organization's corporate risk profile.
- Obtain from the CAE an annual report on management's implementation and maintenance of an appropriate integrated risk management process.

**Fraud.** To obtain reasonable assurance with respect to the organization's procedures for the prevention and detection of fraud, the audit committee shall:

- Take an active role in the prevention and deterrence of fraud.
- Challenge management and the auditors to ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.
- Ensure that appropriate action is taken against known perpetrators of fraud.

**Management control framework.** To obtain reasonable assurance with respect to the organization's management control framework, the audit committee shall:

- Review and provide advice on the organization's overall and management units' internal control arrangements.
- Receive reports on all matters of significance arising from work performed by others who provide financial and internal control assurance to senior management and the board.

## Oversight of Internal and External Audit and Other Assurance Providers

**Internal audit.** To obtain reasonable assurance with respect to work of the audit activity, the audit committee shall:

- Review and approve the internal audit charter at least annually. The charter should be reviewed to ensure that it is consistent with changes in the financial, risk management, and governance arrangements of the organization and reflects developments in internal audit professional practices.
- Review and approve proposed risk-based internal annual audit work plans and make recommendations concerning internal audit projects.
- Advise the board regarding the qualifications and recruitment, retention, and release of the CAE.
- Provide input to management on the annual performance evaluation of the CAE.
- Recommend to management or the governing body the appropriate compensation of the CAE.
- Review the budget, expertise, and staffing levels of the internal audit program.
- Advise the board about increases and decreases to the requested budget for the internal audit program and any additional expertise needed. Evaluate whether additional expertise is in the form of permanent staff or contracting for outside consulting services.
- Review internal audit reports and other communications to management.
- Review and advise management on the results of any special investigations.

- Inquire of the CAE whether any evidence of fraud has been identified during internal audits and further action to be taken.
- Review and track management's action plans to address internal audit recommendations.
- Inquire of the CAE whether any internal audit engagements or tasks have been carried out that did not result in a report to the committee. If there have been, inquire as to the matters of significance, if any, arising from such work.
- Review and provide input on internal audit's strategic plan, program goals, performance measures, and outcomes.
- Inquire of the CAE about steps taken to ensure that the audit activity is consistent with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Ensure that the internal audit function has an external quality assurance review every five years.
- Review the results of the independent external quality assurance review and monitor the implementation of the action plans to address recommendations raised.
- Advise the board of any recommendations concerning the continuous improvement of the audit activity.

**External audit.** To obtain reasonable assurance with respect to work of the external assurance providers, the audit committee shall meet with the external assurance providers during planning of the audit, the presentation of the audited financial statements, and the discussion of the letter to management on recommendations.

**Follow up on management action plans.** To obtain reasonable assurance that management has acted on the observations and recommendations from internal and external audit, the audit committee shall review regular reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audits.

**Financial statements and public accountability reporting.** The audit committee is responsible for oversight of the independent audit of the government entity's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

**Other responsibilities.** In addition, the audit committee shall:

- Perform other activities related to this charter as requested by the governing body.
- Institute and oversee special investigations as needed.
- Regularly evaluate the performance of the committee and individual members [*leading practice recommends annual assessments*].

**Reporting on audit committee performance.** The audit committee shall:

- Make an annual report to the board summarizing the committee’s activities and recommendations. The report may be delivered at an audit committee meeting attended by the board or may be scheduled for a regularly scheduled meeting of the board.
- The report should include:
  - A summary of the work the committee performed to fully discharge its responsibilities during the preceding year.
  - A summary of management units’ progress in addressing corrective actions on the findings and recommendations made in internal and external audit reports.
  - An overall assessment of the management units’ risk, control, and compliance framework, including details of any significant emerging risks or legislative changes impacting the governing organization.
  - Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
  - The committee may, at any time, report to the governing body any other matter it deems of sufficient importance.

**Approval/Signatures**

Chief Executive Officer (CEO) \_\_\_\_\_

Date \_\_\_\_\_

Audit Committee Chair \_\_\_\_\_

Date \_\_\_\_\_

Chairman of the Board \_\_\_\_\_

Date \_\_\_\_\_

# Appendix 2: Values and Ethics Oversight Tool

Values and Ethics Oversight Tool	1	2	3	4	5
Rating scale 1 = Strongly disagree    2    3    4    5 = Strongly agree					
1. The committee has reviewed the initiatives established by management to implement and maintain a values and ethics framework for the organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The organization's values and ethics expectations have been communicated to staff.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. A member of senior management is responsible for championing the values and ethics program.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The program is periodically reviewed and the results of this review are provided to the audit committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Management measures and monitors compliance with the value and ethics framework.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Management and staff are required to sign off on: <ul style="list-style-type: none"> <li>• Receipt of a copy of the values and ethics expectations of the organization.</li> <li>• Understanding of these expectations.</li> <li>• Commitment to adherence to the requirements.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The values and ethics program is consistent with compensation and rewards of the organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. The organization has established procedures for communicating any breach of the organization's values and ethics policies to the audit committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. The audit committee has inquired of management and the organization's legal counsel whether they are aware of any breaches of the organization's values and ethics policy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



## Appendix 3: Governance Oversight Tool

Governance Oversight Tool	1	2	3	4	5
Rating scale 1 = Strongly disagree    2    3    4    5 = Strongly agree					
1. The legal structures and authorities that govern the operation of the public sector organization are clearly stated.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The purpose and mandate of the organization are clearly stated.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The strategic priorities are set out and supported by a strategic plan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The values and ethics policy of the organization is clearly established and communicated and adherence to it is monitored.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The key stakeholders of the public sector organization and their expectations are well known. There are mechanisms in place to monitor whether these expectations are being met.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The risks that the organization faces have been identified. There are established mechanisms to assess, manage, and mitigate these risks to a level established by the board.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The mandates of committees with governance responsibilities are known, understood, and consistent with each other.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. There are established mechanisms for the appointment of committee members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. There are mechanisms within the public sector organization to assess the performance of the board.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. There are mechanisms to assess the performance of individual committee members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. There is effective interaction among the organization's board and committees of the board with management and staff.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Methods of compensating senior management are consistent with the values and ethics of the organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. The organization is appropriately resourced to achieve its strategic priorities and fulfill its mandate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. The organization has mechanisms to measure, monitor, and report on its performance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. The organization has mechanisms to account for its use of the resources entrusted to it.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# Appendix 4: Risk Management Oversight Tool

Risk Management Oversight Tool	1	2	3	4	5
Rating scale 1 = Strongly disagree	2	3	4	5 = Strongly agree	
1. There is a formal coordinated risk management framework that aligns with the organization’s vision and strategies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The risk management framework includes a suitable risk management policy with clarity over key features including the risk appetite, risk profiling, responsibility and accountability for risk management, critical service and operational changes, and periodic formal risk review and reporting arrangements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The organization’s risk management framework is consistent with internationally accepted risk management standards (e.g., ISO 31000:2009 and COSO’s <i>Enterprise Risk Management—Integrated Framework</i> ).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The organization has an appropriate attitude toward risk management and it communicates the importance of risk management and internal controls.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Management uses appropriate processes to identify, assess, and respond to risks in a manner that is aligned with the organization’s risk appetite.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Management obtains assurance that the organization’s material business risks — including operational, financial, legal, and compliance — are appropriately captured in the risk profile/risk register and reported to the board at least annually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The committee had periodic in camera meetings with the chief risk officer to obtain his or her insights.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Responsibility and accountability for risk is clearly assigned to the organization’s managers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. There are complementary risk planning arrangements in place that cover areas such as business continuity, disaster recovery, legal compliance, and fraud control.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Appropriate arrangements have been established with management to receive briefings on emerging risk areas, such as those associated with technological changes and cybercrime.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<p>11. The organization has adequate internal controls in place and is operating effectively over its major risks.</p> <ul style="list-style-type: none"> <li>• Steps are taken to evaluate the overall effectiveness of the risk management and internal control framework, including actions undertaken by the audit activity and external assurance providers.</li> <li>• Practices are in place to ensure that management maintains rigorous control systems over the approval, recording, and processing of financial data so as to deliver financial statements that comply with relevant standards and government requirements.</li> <li>• Appropriate reporting and briefings are received from senior management on the controls over computer systems and applications, including change management, security, and business continuity management, and arrangements that provide protection against computer fraud, misuse, and cyberattacks.</li> <li>• Steps have been taken to establish the reasonableness of management's processes for managing insurable risks, including the adequacy of insurance coverage (and self-insurance, if applicable).</li> <li>• Assurance has been given that risk management practices adequately cover critical third-party arrangements such as cross-agency governance and significant third-party service providers and suppliers.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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## Appendix 5: Internal Audit Oversight Tool

Best practices indicate that the audit committee should define in its charter the scope of its relationship with the internal auditors and should work to enhance its oversight ability — thereby strengthening the audit activity.

To provide adequate oversight of internal audit, an audit committee must ensure:

- The audit committee engages in an open, transparent relationship with the CAE.
- The audit committee annually reviews and approves the internal audit charter.
- As a result of discussions with the CAE, the audit committee has a clear understanding of the strengths and weaknesses of the organization's governance, internal control, and risk management systems.
- The audit activity is sufficiently resourced with competent, objective internal audit professionals to carry out the internal audit plan, which the audit committee has reviewed and approved.
- The audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.

- The audit committee addresses with the CAE all issues related to internal audit independence and objectivity.
- The audit activity is quality-oriented and has in place a quality assurance and improvement program.
- The audit committee regularly communicates with the CAE about the performance and improvement of the position and the audit activity.
- Internal audit reports are actionable, and management implements audit recommendations and other improvements.
- The audit committee meets periodically with the CAE without the presence of management

Internal Audit Oversight Tool	1	2	3	4	5
Rating scale 1 = Strongly disagree    2    3    4    5 = Strongly agree					
Considerations for the Chief Audit Executive					
1. Governance and Communication <ul style="list-style-type: none"> <li>• Management considers internal audit’s views.</li> <li>• The senior management team supports the internal audit function.</li> <li>• Internal audit is sufficiently independent from management.</li> <li>• Internal audit and the audit committee support each other.</li> <li>• Matters that warrant audit committee attention are brought forth on a timely basis.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Proficiency <ul style="list-style-type: none"> <li>• Internal audit has the expertise it needs to conduct its assignments.</li> <li>• Existing skill sets are appropriate.</li> <li>• Team members have acquired professional designations that demonstrate their competence.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Continuing Professional Education <ul style="list-style-type: none"> <li>• Internal audit staff stays current with changes in audit and accounting standards and best practices.</li> <li>• Team members participate in professional development training.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<p>4. Quality Assurance and Improvement Plan</p> <ul style="list-style-type: none"> <li>The audit activity has a quality assurance and improvement program.</li> <li>The audit activity has performed its work in accordance with its charter.</li> <li>The internal auditors adhere to The IIA's Code of Ethics.</li> <li>Internal audits are conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i>.</li> <li>The audit activity engages in ongoing internal review and analysis of supervision, documentation, policies, and procedures.</li> <li>The audit activity engages in periodic reviews that include customer surveys, risk assessments, work paper reviews, review and analysis of performance metrics, and best practice benchmarking.</li> <li>The audit activity has obtained an independent external quality assessment within the past five years.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>5. Planning, Risk Assessment, and Internal Controls</p> <ul style="list-style-type: none"> <li>Internal audit has a clearly articulated strategy.</li> <li>The internal audit plan has been developed.</li> <li>Internal audit plan is aligned to key risks of the organization and other assurance activities.</li> <li>Risks are identified.</li> <li>The organization has adequate internal controls over its major risks.</li> <li>The information systems control environment, including key business information systems, is assessed, and security over these systems is maintained.</li> <li>Procedures are in place to prevent/address the risk of management override of controls.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>6. Fraud, Waste, and Abuse</p> <ul style="list-style-type: none"> <li>The organization's policies and procedures are monitored to prevent improprieties.</li> <li>Internal audit considers issues related to the potential for fraud, waste and abuse.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>7. Resources</p> <ul style="list-style-type: none"> <li>Staff size is adequate.</li> <li>There are areas of concern that were not reviewed due to budget or other limitations.</li> <li>The activity has the tools and other resources it needs.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>8. Coordination</p> <ul style="list-style-type: none"> <li>There is an effective working relationship between internal and external audit.</li> <li>Internal audit activities are coordinated with those of external audit.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<p><b>9. Reporting and Results</b></p> <ul style="list-style-type: none"> <li>• Audits have identified areas of concern to the overall environment. Specific locations or areas have been identified.</li> <li>• Internal audit has a clear set of performance expectations that are aligned with the success measures of the audit committee.</li> <li>• Internal audit has met expectations of the audit committee.</li> <li>• Internal audit has accomplished its audit plan.</li> <li>• Internal audit contributes to the improvement of organizational operations and is perceived by stakeholders to add value.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>10. Monitoring Progress</b></p> <ul style="list-style-type: none"> <li>• Management required to respond to internal audit findings and recommendations.</li> <li>• Management has been responsive to internal audit's previous findings and recommendations.</li> <li>• Recommendations made in previous years with respect to internal controls have all been adopted.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>11. Standards checklist items. This tool provides a checklist of responsibilities related to the board that the CAE is required to perform under The IIA's International Professional Practices Framework.</b></p> <ul style="list-style-type: none"> <li>• The CAE reviewed the internal audit charter and presented it to senior management and the board for approval.</li> <li>• The CAE discussed The IIA's Definition of Internal Auditing, Code of Ethics, and <i>Standards</i> with senior management and the board.</li> <li>• The CAE has direct and unrestricted access to senior management and the board.</li> <li>• The CAE confirms to the board, at least annually, the organizational independence of the audit activity.</li> <li>• The CAE reports functionally to the board.</li> <li>• The CAE communicates and interacts directly with the board.</li> <li>• The CAE discusses with the board the form and frequency of external assessment and the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest.</li> <li>• The CAE communicates the results of the quality assurance and improvement program to senior management and the board.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<ul style="list-style-type: none"> <li>• When non-conformance with the Definition of Internal Auditing, the Code of Ethics, or the <i>Standards</i> affects the overall scope or operation of the audit activity, the CAE discloses the non-conformance and the effect to senior management and the board.</li> <li>• Input from senior management and the board has been incorporated into the audit plan.</li> <li>• The CAE has communicated the audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.</li> <li>• The CAE reports periodically to senior management and the board on the audit activity's purpose, authority, responsibility, and performance relative to its plan.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Appendix 6: External Assurance Provider Oversight Tool

External Assurance Provider Oversight Tool	1	2	3	4	5
Rating scale 1 = Strongly disagree    2    3    4    5 = Strongly agree					
1. The audit committee considers and understands the external audit plan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The committee reviews external audit reports and management letters and considers management responses to findings and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The committee provides input and feedback on external audit coverage and performance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The audit committee considers the relationship between planned internal and external audit coverage.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The activities of internal audit are coordinated with those of external audit.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The external assurance provider had complete and timely access to the organization's books, records, information, and staff.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Business risks that may affect the conduct of the work of the external assurance provider have been communicated to him or her.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. The external assurance provider has adequate independence of the public sector organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. There are adequate safeguards over the threat of familiarity.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# Appendix 7: Management Action Plans Oversight Tool

Management Action Plans Oversight Tool	1	2	3	4	5
Rating scale 1 = Strongly disagree	2	3	4	5 = Strongly agree	
1. The audit committee reviews the results of completed audit work.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The committee evaluates the findings and related risk exposures in terms of the impact on achievement of the organization’s mandate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The committee reviews and assesses management’s response to audit recommendations and considers their completeness and adequacy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The audit committee reviews the action plan established by management to address the observations raised.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The audit committee receives periodic reports on the progress that management is making in correcting the identified weaknesses.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The audit committee is provided with periodic reports on the recommendations fully addressed and those that remain outstanding.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



# Appendix 8: Financial Statements and Public Accountability Reports Oversight Tool

Financial Statements and Public Accountability Reports Oversight Tool	1	2	3	4	5
Rating scale 1 = Strongly disagree    2    3    4    5 = Strongly agree					
1. The audit committee work plan provides time to review financial statements and public accountability reports.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit committee has reviewed the appropriateness of the organization's accounting policies and financial statement note disclosures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The key estimates and judgments that management has made in preparing the financial statements are appropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The audit committee has obtained reasonable assurance that the financial statements are presented fairly in accordance with GAAP or the organization's stated accounting policies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The audit committee has reviewed the financial statements and note disclosures with the external assurance providers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The audit committee has reviewed public accountability reports.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# Glossary of Terms

**Accountability.** An obligation to give an account (explain) of one’s actions and accept responsibility and/or consequences arising thereof.

**Add value.** Provides objective and relevant assurance and contribution to the effectiveness and efficiency of governance, risk management, and control processes. *(Source: Standards Glossary)*

**Agencies.** Public organizations that are clearly a part of the government and deliver public programs, goods, or services, but that exist as separate organizations in their own right — possibly as legal entities — and operate with a partial degree of operational independence.

**Board.** The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organization. “Board” may refer to an audit committee to which the governing body has delegated certain functions. *(Source: Standards Glossary)*

**Chief audit executive (CAE).** A person in a senior position responsible for effectively managing the audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The CAE or others reporting to him or her will have appropriate professional certifications and qualifications. The specific job title of the CAE may vary across organizations. *(Source: Standards Glossary)*

**Core government.** All departments, ministries, or branches of the government that are integral parts of the structure and are accountable to and report directly to the central authority — the legislature, council, cabinet, or executive head. The core government includes both central/federal governments and local governments.

**Independence.** The freedom from conditions that threaten the ability to carry out responsibilities in an unbiased manner. *(Source: adapted from the Standards Glossary)*

**International Professional Practices Framework (IPPF).** The conceptual framework that organizes the authoritative guidance promulgated by The IIA, the global guidance-setting body. The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as mandatory guidance and strongly recommended guidance. *(Source: Standards Glossary)*

**Members of the public.** Citizens of a locale who are primary beneficiaries of the goods and services provided by public sector.

**Objectivity.** An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. (*Source: Standards Glossary*)

**Public enterprises.** Agencies that deliver public programs, goods, or services but operate independently of government and often have their own sources of revenue in addition to direct public funding. They also may compete in private markets and may make profits.

**Public sector.** Governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver public programs, goods, or services as elaborated in The IIA guidance titled *Public Sector Definition*.

# Authors and Reviewers

## Authors

Bruce C. Sloan, CPA, CA, CRMA  
Tina Kim, CPA, CIA, CGAP, CMA, CFF, CITP, CFE  
Bruce Turner, CGAP, CRMA, CISA, CFE, CFIIA(Aus)  
Christie O'Loughlin, CGAP, CRMA  
Mmathabo Sukati, CIA, CCSA  
Martin Bikuri  
Chen Hua, CIA  
Ahadi Chacha, CIA

## Reviewers

Greg Hollyman, CIA, CCSA, CFSA, CGAP, CRMA  
Kenneth J. Mory, CIA, CPA, CISA, CRMA  
Dr. Tea Enting-Beijering  
Elizabeth MacRae, CGAP





## About The Institute

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

This material is not part of the IPPF but may be useful for internal audit practitioners and their stakeholders.

For other materials for the public sector provided by The IIA, please visit our global website at [www.globaliia.org](http://www.globaliia.org) or the American Center for Government Auditing at [acga.theiia.org/](http://acga.theiia.org/).

## About the Public Sector Committee

The IIA's Public Sector Committee (PSC) is an IIA volunteer group focused on developing guidance to serve the needs of internal auditors and other stakeholders in the public sector. At the time of writing this guidance in 2014 the PSC included 19 representatives from 12 countries spread across all of the six most populated continents – Africa, Asia, Australia, Europe, North America and South America.

The mission of the PSC is twofold. First, to provide authoritative positions and comment on, or support, matters relating to the public sector auditing profession. Second, to influence and provide thought leadership and advice to The IIA and its international committees and institutes on public sector auditing matters and to promote the interests of The IIA's public sector audit members.

## Disclaimer

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*Global*

**GLOBAL HEADQUARTERS**

247 Maitland Ave.

Altamonte Springs, FL 32701 USA

**T:** +1-407-937-1111

**F:** +1-407-937-1101

**W:** [www.globaliia.org](http://www.globaliia.org)