

Crown Agency Audit Committees

A GOOD PRACTICES CHECKLIST



Crown Agencies Secretariat • Board Resourcing and Development Office



Canada's
Pacific Gateway



Introduction

Crown Agency Audit Committees – A Good Practices Checklist is one of a series of guides developed by the Crown Agencies Secretariat (CAS) and the Board Resourcing and Development Office (BRDO) to support strong corporate governance and accountability in BC Crown Agencies. The Checklist incorporates good practices used in the public and private sectors, and is intended to provide guidance for British Columbia's Commercial and Service Delivery Crown Corporations, Health Authorities, Colleges, Universities and the Boards of Trustees for School Districts.

Where information provided here is not consistent with legislation, including the enabling legislation for a particular Crown Agency, the legislation prevails.

While the committee approach is good practice, organizations sometimes choose to have the functions of the Audit Committee performed by the Board as a whole.



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Audit Committee Mandate and Process

THE AUDIT COMMITTEE:

- ▶ Has a well defined mandate and written Terms of Reference that sets out its purpose, structure (e.g., size, qualifications, frequency and timing of meetings, appointment of chair) and roles and responsibilities – to be approved by and reviewed regularly by the Board.
- ▶ Annually reviews its Terms of Reference to ensure they continue to reflect the needs of the Board and address all aspects of the operating environment of the organization.
- ▶ Annually assesses its performance in carrying out its duties.
- ▶ Has a meeting calendar and work plan/framework for the year and meets regularly through the year with pre-determined agendas.
- ▶ Has more than two members.
- ▶ Reports regularly to the Board on the results of its activities, and ensures the Board has the relevant information and sufficient time to review recommendations that the Committee brings forward for Board approval.
- ▶ Provides an orientation to new members, and ongoing training and development opportunities for its members.

Audit Committee Composition

- Members have no direct or indirect material relationship with the organization.
- Members are financially literate and at least one member has accounting or financial management expertise.
- The Chair of the Audit Committee is not the Chair of the Board.
- At the Audit Committee Chair's request, the external auditor, internal auditor, Chief Financial Officer and other corporate executives may attend meetings. They do so in an ex-officio capacity. In-camera sessions are structured by the Chair and do not include corporate staff.



Financial Systems, Risk and Internal Controls Oversight

THE AUDIT COMMITTEE:

- ▶ Is responsible for reviewing and approving financial and performance information provided to Government and stakeholders.
- ▶ Reviews the quality and accuracy of financial and performance information (including the Management Discussion and Analysis portion of the Annual Report) to ensure it accurately and completely portrays the organization's economic circumstances.
- ▶ Reviews significant accounting accruals, reserves, judgements and estimates, and any accounting policy changes for reasonableness and appropriateness.
- ▶ Regularly reviews information related to the organization's financial and operational risks, and management's processes to mitigate these risks, to assess whether the organization has appropriate systems in place to identify and manage risk.
- ▶ Reviews the corporate risk profile at least annually and is educated and aware of key warning signals that indicate problems (i.e. indicators of fraud, potential risks and exposure to the organization).
- ▶ Regularly reviews the organization's internal control framework, including controls over financial reporting, information technology and data security, for adequacy and effectiveness.

- Reviews all public reporting by the organization to ensure it represents a complete, accurate and balanced picture of the organization's performance and financial situation.



External Audit Oversight

THE AUDIT COMMITTEE:

- ▶ Recommends the appointment and compensation of the external auditor.
- ▶ Oversees the independence of the external auditor. The external auditor reports directly to the Audit Committee.
- ▶ Works with the external auditor to define the purpose of the audit, identify areas for review, review and approve the audit plan, and review audit results.
- ▶ Reviews and pre-approves any non-audit related services to be provided by the external auditor.
- ▶ Meets with the external auditor at least twice per year.
- ▶ Holds in-camera meetings with the external auditor.

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Internal Audit Oversight

THE AUDIT COMMITTEE:

- Establishes an internal audit function, either in-house or on contracted-out basis.
- Periodically evaluates the internal audit function, its mandate, how it is delivered and makes appropriate recommendations to the Board.
- Hires, evaluates and, as necessary, replaces the head of the internal audit function.
- Ensures that internal audit unit reports functionally to the Audit Committee and administratively to an appropriate position within senior management.
- Ensures that the internal audit unit has adopted recognized standards such as the Institute of Internal Auditors International Professional Standards.
- Reviews and approves internal audit scope of operations, terms of reference, resource requirements, and annual audit plans, and initiates and approves requests for any required additional audits.
- Annually evaluates the internal audit unit's performance.
- Reviews all findings and reports of internal audit.
- Follows up to ensure internal audit recommendations are implemented.
- Ensures internal audit has a direct channel of communication to the Chair of the Audit Committee.
- Holds in-camera meetings with internal audit at least once per year.

Other Responsibilities

THE AUDIT COMMITTEE

- ▶ Monitors the organization's compliance with legislation, regulations, legislative mandate and public sector reporting requirements.
- ▶ Sets the tone for and ensures organizational ethics are maintained.
- ▶ Ensures that the organization establishes a formal whistle blower policy, a code of conduct and a conflict of interest policy, and reviews the adequacy of the policies and the organization's adherence to them.
- ▶ Provides a direct link to Provincial audit authorities such as the Auditor General's Office and the Internal Audit Branch of the Office of the Comptroller General.
- ▶ Interviews the Chief Executive Officer and Chief Financial Officer and, where appropriate, other members of the organization's executive/senior management team at least once per year to maintain current and adequate knowledge of the organization.
- ▶ Reviews any proposed changes to the position of the organization's Chief Financial Officer.
- ▶ As required, engages independent counsel and other advisors with the prior approval of the Board Chair.





For Further Information:

Visit our website at www.gov.bc.ca/cas or contact us for further copies of this pamphlet, or for any of our publications.

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