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Board of Commissioners Audit Committee Briefing—Audit Committee Roles and Responsibilities



Critical Role of the Audit Committee

- In some organizations, internal auditing is not widely recognized for its invaluable role. It is critical that internal audit customers throughout an organization understand the value that internal auditors can bring to their operations by identifying opportunities for enhancing efficiencies and effectiveness. The audit committee, in concert with executive management, can play a critical role in empowering and elevating the image of the internal audit activity, ensuring that it is not misunderstood.



Core Principles for the Professional Practice of Internal Auditing (IIA Standards)

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.



Audit Committee Oversight Checklist

1. The audit committee engages in an open, transparent relationship with the chief audit executive (CAE).
2. The audit committee reviews and approves the internal audit charter annually.
3. As a result of discussions with the CAE, the audit committee has a clear understanding of the strengths and weaknesses of the organization's internal control and risk management systems.



Oversight List cont'd

4. Internal audit is sufficiently resourced with competent, objective internal audit professionals to carry out the internal audit plan, which has been reviewed and approved by the audit committee.
5. Internal audit is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.
6. The audit committee addresses with the CAE all issues related to internal audit independence and objectivity.



Oversight List cont'd

7. Internal audit is quality-oriented and has in place a Quality Assurance and Improvement Program.
8. The audit committee regularly communicates with the CAE about the performance and improvement of the internal audit activity as a whole.
9. Internal audit reports are actionable, and audit recommendations and/or other improvements are satisfactorily implemented by management.
10. The audit committee meets periodically with the CAE without the presence of management. (Florida's Sunshine Laws may prohibit this)



Oversight: Communication is Critical

- Audit committees must communicate openly and often with management, carefully review information received, and challenge management as appropriate.
- The lines of authority for audit committees and management should in no way be murky.
- There should be a clear understanding and consensus regarding where management ends, and the audit committee begins.



KEY ISSUES OF CONCERN

- **Financial Accuracy:**

- Primary concerns include the completeness of financial disclosures, significant business and accounting policy changes, correct and truthful reporting, and interim reviews of financial statements.

- **Risk Management:**

- An enterprise-wide risk management process should be implemented, in which key risks to all areas of the organization are identified.
- The organization should learn from the past by monitoring the risk realization history, as well as plan for the future by identifying emerging risks.



Issues cont'd

- **Control Assessment:**

- The audit committee should understand management's process for assessing internal controls, applicable regulatory controls, and the greatest risks the organization faces.
- There should be in place a process for assessing and reporting on not only financial controls, but also controls throughout the enterprise.
- Also, a fraud prevention and detection program should be established.

- **External Auditor Oversight:**

- The Audit Committee should “own” the relationship with the external auditors who provide an annual opinion on the financial statements.
- Ownership requires direct reporting, ongoing communication, frequent meetings and robust discussions about scope and results.
- Oversight issues also include compensation, scope selection criteria, independence, rotation, monitoring and performance assessment.



Issues cont'd

- **Effective Use of Internal Auditing:**

- Performed by professionals with an in-depth understanding of the business culture, systems and processes, the IA activity provides assurance that internal controls in place are sufficient to mitigate risks, that governance processes are adequate, and that organizational goals are met.
- The audit committee and the internal auditors are interdependent and should be mutually accessible with the internal auditors providing objective opinions, information, support and education to the audit committee; and the audit committee providing validation and oversight to the internal auditors.
- The CIA demonstrates professionalism and competency, and the International Standards for the Professional Practice of Internal Auditing outline the tenets of the internal audit profession.
- The IA activity should have in place a Quality Assurance and Improvement Program, and audit activity should be managed from within the organization.



Concluding Thoughts

- By routinely communicating internal audit's value throughout the organization, those at the top can and should promote the importance of the internal audit activity. They can position the function as fully empowered to provide a critical check for management, to be a knowledgeable provider of assurance and a revered consultant, and to add value to the organization's governance, risk management, and internal control processes.
- Maintaining the committee's effectiveness requires strong leadership, prioritizing the committee agenda, monitoring its oversight processes, and periodically reassessing its skills and composition. The audit committee, with the approval of the full board, should also periodically consider whether its risk oversight responsibilities still make sense as the risk landscape evolves.