ASBOA
ASSOCIATION OF SCHOOL BUSINESS OFFICIALS OF ALBERTA

Section 4 - Functions of the Audit Committee

The primary responsibility of the committee is to provide oversight of the organization's financial statements and evaluate the management of risk.

Legislative Responsibilities

The previous School Act and the new Education Act has two legislated responsibilities:

1. Review of the Audited Financial Statements
2. Selection of the External Auditor

Review of the Audited Financial Statements

The review of the Audited Financial Statements is done during a meeting with the external auditors, administration and the Audit Committee. This meeting will encompass the financial viability of the Board; the ability of the Board to meet its contractual, financial and educational obligations. The second component of the review of the Audited Financial Statements is the effectiveness of planning; the assumptions and financial outcomes in carrying out the work of the authority: was the authority able to appropriately plan and allocate resources to carry out their work. This is intended to demonstrate the prudent management of public funds.

As background, the committee will need to:

- Understand the **accounting policies** and information used in reporting financial information of the jurisdiction.
- Ensure the reliability of the Board's financial information
- Understand the board's **financial/business risks**
- Monitor management's **internal control framework**.

The audit committee should have financial context available to them when reviewing the financial statements: historical and comparative data on key financial measures. This allows the committee to evaluate the financial position of the jurisdiction in terms of its own financial health. If there are negative trends, the committee should be noting those in its comments to the Board.

In addition there should be a discussion on the assumptions in the fiscal planning of the budget and the actual results reported in the financial statements. This is referred to as the variance between budget and actual. This is becoming more commonly presented in the Management Discussion and Analysis (MD&A) report.

The financial statements will also include a report on management processes, to protect the organization from the risk of loss: the Management Letter. The discussion between the External Auditor and the Audit Committee, will identify items of concern that the External Auditor identified as significant in ensuring the risk of loss is minimized. Discussions with Administration should include why recommendations made in the Management Letter were accepted, rejected or are being considered. Again, the audit committee may identify issues that need to be brought forward to the Board, in support of management, to avoid a potential loss.

Selection of the External Auditor

The selection of the External Auditor should consider the following:

1. Independence and whether to retain such auditor for each **fiscal year** after consultation with appropriate management and the internal auditor.
2. The fees paid to the external auditor on an annual basis and any non-auditing services performed by the external auditor.

On an annual basis, review and discuss with the **external auditor** all significant relationships with the jurisdiction that could impair such auditor's independence. It is important both perceptually and in fact, that the auditor can not be influenced by any part of the organization, in its examination during testing and probing in the audit. Perceptually this means that the stakeholders: general public (who are taxpayers), parents (who are concerned about the level of services to their children) and employee groups, believe that the audit report is fair and that any concerns will be brought to the attention of the Board of Trustees. In fact, this is a requirement of the Auditors, in order to maintain their status within their professional organization.

A review of the fees is an opportunity to review the ability of Management to prepare the financial statements and what areas require additional support in their preparation. Circumstances may be outside of management’s control in terms of the additional support, or the work of the external auditors may form an integral part of the financial statement preparation processes. During the selection process the Audit Committee should carefully review the tender for any assumptions about the audit fees that were made at the time of tender by the Board and the Auditor, so charges for any additional work required by the Auditor, can be anticipated.

Audit Oversight and Planning

The Audit Committee should review the planning and results of the external audit. This work will include:

1. the auditor's engagement letter
2. the reasonableness of the estimated audit fees
3. the scope of the audit, including materiality, audit reports required, areas of audit risk, deadlines and coordination with internal audit staff.
4. the post audit management letter together with management's responses, and
5. any other matters the external auditor brings to the attention of the Committee.

The Auditor's' Engagement Letter outlines the responsibilities of the Auditor and Management in the preparation of the Financial Statements, presentation of evidence to the Financial Statement information, and discussions to be undertaken by the Auditor with Management and/or the Board. Typically, this is a form-type letter that is easy to read and understand. Meeting with the Auditor to review the Engagement Letter is an opportunity to clarify its contents.

A review of the reasonableness of the estimated audit fees, should flow from the selection process and tender documents. However, Management may need to present circumstances that require additional work by the Auditors, which will lead to fees which are higher than originally intended. Reviewing this additional work and the associated fees provides the Audit Committee with information about the organization (generally in terms of its ability to respond for unforeseen circumstances); and the auditors (generally in their ability to respond to additional requests for services); which may form criteria in the selection of the Auditor in the future.

Reviewing the scope of the audit, including **materiality**, **audit reports** required, areas of **audit risk**, deadlines and coordination with internal audit or management staff, requires the most background knowledge for the Audit Committee. In order to review these items, the audit committee members need to have and understanding of the underlying concepts of materiality, risk, and audit testing. Management should be present at this meeting to provide the context to the work required for the auditor; and assist in establishing timelines for work done by the organization and support to the Auditors while on site. It should also establish a time to meet with the Auditor, without the management, to highlight concerns from the Board or the committee itself. This may also include independent consultation with specific trustees, most commonly the Board Chair.

The Audit Committee, together with the Auditor, will then review the post-audit Management Letter together with management's responses. The discussion of the Management Letter will indicate areas of where the organization faces the risk of financial loss due to its own internal processes. Management's responses should identify what actions the organization can take to mitigate this exposure, but may also indicate the limitations that exist within the organization to eliminate the risk entirely: in many cases elimination of risk is impossible, or cost-prohibitive. The Audit Committee should evaluate management's responses, which should effectively balance the cost to reduce risk, and the amount of risk being reduced. In the planning phase, the Audit Committee should focus on those actions the Management had undertaken to reduce significant risk; and ensure that the audit confirms the actions were taken; or were modified to a more appropriate action (given limitations on resources or effectiveness to reduce risk); and the exposure to loss has been reduced.

During the year, operations and circumstances will change. An Audit Committee may be aware of some of these changes, and other items they may not be aware of. However, in the course of the audit, the Auditor may identify issues, although not material or significant to the Financial Statements, or authority; but the Audit Committee should monitor to ensure that the item does not become more serious. In the future this may develop into an area of concern highlighted in a Management Letter. During the Planning stage, the Committee will want to review those previous items, to see if they have evolved into an area of concern and ask that the Auditor investigate.

Financial Statement Review

Once the audit is complete, the Audit Committee, together with the auditor, will review the financial statements. Management will be present to address any specific questions that are not resolved within the notes. Again the Committee will be expected to have significant background knowledge about the meaning of descriptive lines within the report and accounting policies. When reviewing the Financial Statements, the committee should identify any areas of concern that will need to be brought forward to the Board. During this process the Audit Committee should discuss how the Financial Statements are to be presented to the Board, and any recommendations they have for the Board as a result of their review.

The review will also include the Management Letter. The committee should include in the review of this document a response from Management to the recommendations contained within the Letter. The Committee should discuss with Management, represented by the Treasurer (or the position responsible for this function) and his/her support team, why recommendations made in the Management letter were accepted, rejected or are being considered.

The Committee should meet with the Auditor without Management present, to assess other areas of concern from their perspective, or the Auditors'. This is important so the Committee remains independent of the influence of Management in its recommendations to the Board.

At the end of the review the Audit Committee should resolve whether to recommend acceptance of the Audit Report and Financial Statements to the Board of Trustees. It is the responsibility of the Board to receive and accept the Financial Statements, and forward them to the Minister.

Other Responsibilities

The Education Act, allows Boards to determine other responsibilities that can be assigned to the Audit Committee. Some of the more common responsibilities are:
- Review the effectiveness of internal controls
- Determine the scope of the auditors' review
- Evaluate the performance of the auditors
- Oversee the **internal audit function**
- Prepare ad hoc opinions on financial processes, reporting and risk management
- Ensure compliance with regulations and policies

Some additional items that an audit committee may be responsible for:
- Act as finance committee
- Review the budget assumptions
- Review the jurisdiction's quarterly reports
- Review other financial reports or reporting cycles
- Relationship between financial and non-financial results
- Review Trustee and senior management expenses
- Oversee the organization's ethics (Whistleblower)

We will not review the implications of these additional responsibilities, as each Board should review them, and assess how they fit within the organizational and management structure of the authority.

Internal Audit Function

For larger organizations, an internal auditor may perform work to minimize the cost of the external audit, as well as ensuring adherence to policies and procedures of the jurisdiction. Typically these are directed by Administration, but:

- The internal auditor shall have a direct reporting relationship to the Audit Committee.
- The Audit Committee will annually review the budget and independence of the internal auditor function.
- The Audit Committee reviews the significant reports prepared by the internal auditor function together with management's response, including target dates for implementation of recommendations, and the identification of individuals responsible to action.
- The Audit Committee will meet with the internal auditor at least annually and preferably at each Committee meeting or as requested by the auditor (internal or external) without management representatives present.

As with any committee, there should be a process of evaluation to determine the:

- Need for skills development and financial literacy of committee members and the Board
- Effectiveness in performing its legislative and delegated responsibilities.

Assignment:

1. What are the 2 legislated responsibilities of an Audit Committee under the Education Act?
2. In meeting with the Auditor prior to the Audit, what are 3 of the 5 topics outlined, that should be discussed?
3. Can the Board assign additional duties to the Audit Committee? If so, what are 2 typical tasks?
4. Who manages the internal auditors?