

Section 2 - Audit Committee Operations

Audit committees can—and should—be key contributors to audit quality. Effective audit committees and auditors build confidence in the integrity of financial reporting. The audit committee plays a critical role in creating the right environment for quality auditing. It is the audit committee's responsibility to create an environment that accommodates an open discussion in a culture of integrity, respect and transparency between management and auditors.

Audit committees are responsible for overseeing the work of the auditors. Among other things, they need to understand the audit strategy, be satisfied that it addresses the major audit risks, and make sure the auditors exercise appropriate professional skepticism. They also need to ensure that the auditor has an appropriately independent mindset from management and is truly objective. Ultimately, this will enable the audit committee to draw conclusions about the effectiveness of the audit.

Audit Committees are responsible for ensuring supervision of the financial resources to ensure that they are appropriately and effectively used in alignment with local board priorities, and not at risk of loss. Formation of audit committees will be a legislated requirement. The legislation is brief covering specific roles of the committee and allows the Board to expand the role, as they deem appropriate. The last clause in the legislation, allows the Board to assign additional tasks, where the knowledge of the committee members will enhance the decision making of the Board.

The Education Act, S.142 outlines the following requirements of the Audit Committee:

- 142(1) Each board shall establish an audit committee to*
- (a) recommend external auditors to the board,*
 - (b) review the annual financial statements and report to the board, and*
 - (c) attend to other matters as the board may determine in the establishment of the audit committee.*

Implications for school boards

Boards should review any existing policy they currently have in place, which speaks to the establishment and operation of committees, to ensure that an audit committee is established and that appropriate terms of reference are provided. Considerations for the committee should include matters such as: membership; setting the total number of individuals to be appointed to the committee (at a minimum, there must be five members), including the number of trustees; selection process for membership; and the term of (including the possible staggering of) appointments. The terms “business community” and “adult learning community” are not defined in the *Education Act*; therefore boards may need to describe in policy, how they will determine that an individual fits within that criteria and is therefore eligible for membership in the audit committee.

In addition to the responsibilities of the audit committee outlined in the Act, boards may determine what other responsibilities to assign to the committee, such as a review of the internal audit processes. Additional procedural issues for consideration include matters such as: number and scheduling of meetings, quorum, record keeping (e.g. minutes), reporting, manner of making decisions, rules or order, honoraria and expenses, budget, procedures for termination of appointments, and committee member conduct.

Considerations for Audit Committee

When forming or reviewing effectiveness, Trustees should contemplate the following:

1. Membership
 - In addition to the required membership, who else should sit on the committee?
 - Should the audit committee trustee members include the whole Board, or a subset of trustees, in addition to the non-trustee members?
 - What should the term of appointment be for any or all members?
 - Should there be a staggering of trustee appointments so that all trustees sit on the audit committee during their term?
 - What actions need to be taken to recruit the non-elected members?

2. **Power/Terms of Reference**
 - In addition to the required responsibilities under the Act, what other responsibilities should the committee have?
 - What is the relationship of the Accounts/Finance Committee to this committee, if the Board has such a committee?
 - What does “review the annual financial statements and report to the Board” mean?
3. **Decision Making Processes**
 - Are there any responsibilities delegated to this committee?
 - Does there have to be an appeal process if responsibilities are delegated?
4. **Quorum**
 - If there are responsibilities delegated to this committee, what are the requirements for quorum?
 - Who are the required members in order for a meeting to be held?
5. **Status of Minutes**
 - If there are responsibilities delegated, are there any requirements for the minutes in terms of content?
 - What is the purpose of the minutes?
6. **Reporting Requirements**
 - What reporting does should be Board expect from the Committee?

In addition, Trustees should also contemplate:

- a. What is the remuneration for non-trustee members, if any?
- b. What expenses for non-trustee members will be covered by the Board, if any?

Terms of Reference

The terms of reference should include information on the follow items:

- role
- authority
- composition
- meetings
- compensation
- responsibility

The terms of reference describe the role of an audit committee in relationship to the board of trustees responsibility for the financial reporting process, the system of internal controls, and the audit process.

The authority that the audit committee is given should include:

- retain outside sources to advise the committee or assist in the conduct of an investigation.
- seek any information required from employees.
- meet with the external auditors as necessary.

The responsibility should address the areas of financial statements, internal control, audit and compliance.

Effectiveness

There are several great articles and resources available to assist in the development and evaluation of board audit committees.

- [Audit Committee Self Assessment and Audit Committee Questions – KPMG](#)
- Assessing Audit Committee Effectiveness – Deloitte
<http://bit.ly/2xTFefm>
- Audit Committee Effectiveness - What Works Best, Bromilow & Keller
<https://pwc.to/2x8IYWZ>



Assignment:

- 1) In considering your board's operations, what existing committees may have financial overseeing responsibilities?
- 2) What situations have you experienced where financial expertise would have been beneficial?
- 3) What are the six components to be considered when forming an audit committee?

