



**Comptroller and Auditor General
Special Report**

**Effectiveness of Audit
Committees in State Bodies**

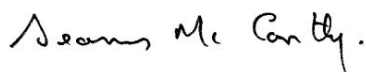
Report of the Comptroller and Auditor General

Effectiveness of Audit Committees in State Bodies

I have, in accordance with the provisions of Section 9 of the Comptroller and Auditor General (Amendment) Act 1993, carried out a review of the effectiveness of audit committees in State bodies.

This report was prepared on the basis of information, documentation and explanations obtained from the bodies and persons referred to in the report. The Department of Public Expenditure and Reform and the named State bodies were asked to review and comment on relevant parts of the draft report. Where appropriate, the comments received were incorporated in the final version of the report.

I hereby submit my report for presentation to Dáil Éireann in accordance with Section 11 of the Act.



Seamus McCarthy
Comptroller and Auditor General

26 September 2014

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Summary

Summary

Audit committees play a key role in the governance framework of public service organisations in Ireland. They provide management and boards charged with governance of public bodies with an independent and objective source of assurance on matters relating to, inter alia, financial reporting, internal controls, risk management, internal and external audit and whistle-blowing.

The role of audit committees in the public service is essentially one of oversight, since management is ultimately responsible for matters such as internal controls and the financial statements.

The Department of Public Expenditure and Reform is responsible for the development and dissemination of guidance to State bodies in the area of corporate governance. The Department's role does not include monitoring compliance by State bodies with guidance issued.

The ***Code of Practice for the Governance of State Bodies***, last updated in 2009, sets out the current requirements for Irish State bodies in relation to corporate governance, including the composition and operation of audit committees. In addition, there are numerous sources, both within the State and in other jurisdictions, to which public bodies and their audit committees can refer for good practice principles and guidance.

This examination reviewed the operation of audit committees in a sample of six non-commercial State bodies and assessed the level of their compliance with the requirements of the Code of Practice. It also compared the current requirements for State bodies in Ireland with good practice principles, and considered the extent to which good practice is being applied in the selected State bodies.

With one minor exception, the examination found full compliance with the Code of Practice requirements in relation to audit committees among the selected non-commercial State bodies. However, it is notable that a comparison with good practice showed that the Code of Practice contains only basic requirements.

In addition to the high level of compliance with the Code of Practice, it was found that the selected audit committees have incorporated many features of good practice. This underlines the need for the Code of Practice to be updated – an exercise that the Department of Public Expenditure and Reform has already initiated.

The key areas identified where good practice is generally not being followed include

- the use of formal selection criteria and standard letters of appointment for new audit committee members
- identifying and recording conflicts of interest
- performance appraisal for committee members, including the chair
- measuring the effectiveness of audit committees.

In finalising and promulgating updated guidance for audit committees in State bodies, the Department should pay particular attention to the areas identified above, as they offer the greatest potential for improving the effectiveness of audit committees.

In conjunction with updated guidance, the Department should develop and issue a questionnaire/checklist for use, on a self-assessment basis, by audit committees in State bodies to determine their level of compliance with good practice principles.

Report

1 Introduction

- 1.1 Corporate governance concerns the systems and procedures by which organisations, both public and private, are directed, controlled and held to account. The OECD considers that high standards of corporate governance in State bodies are critical to ensuring a positive contribution to a country's overall economic efficiency and competitiveness.¹
- 1.2 An entity's governance framework consists of the processes in place to enable its governing body to effectively assess management and overall corporate performance.
- 1.3 In government departments, the accounting officer has primary responsibility for ensuring that an appropriate governance framework is in place. In other public sector bodies, that responsibility usually lies with the head of the body – the chief executive officer or director – and (in many cases) a board of directors or governing body.
- 1.4 Audit committees play a key role in the governance framework of public service organisations in Ireland by providing an independent and objective source of assurance on matters relating to
- financial reporting and the annual financial statements
 - internal controls
 - risk management
 - internal and external audit
 - whistle-blowing.
- 1.5 The role of audit committees in the public service is essentially one of oversight, since management is ultimately responsible for matters such as internal controls and the financial statements.

Requirements for Audit Committees in Public Bodies

- 1.6 A range of guidelines, codes and statutory provisions prescribe requirements in relation to the composition and operation of audit committees in public entities in Ireland. While the requirements are broadly similar, there may be some variations depending on the type of public body involved and the sector in which it operates.
- 1.7 The current requirements in respect of audit committees in government departments and offices date back to 2002.² The Department of Public Expenditure and Reform has said that it is currently developing a new guidance document which will aim to provide clarity on the role of the audit committee and to define and promote best practice across the central government sector.
- 1.8 Corporate governance guidelines for commercial and non-commercial State bodies in Ireland, including guidance on the operation of audit committees, are set out in the **Code of Practice for the Governance of State Bodies** (updated May 2009). The Code of Practice is currently being updated by the Department of Public Expenditure and Reform.

¹ *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, 2005.

² *Report of the Working Group on the Accountability of Secretaries General and Accounting Officers*, Department of Finance, July 2002.

Other Codes and Guidelines

- 1.9** In some cases, specific codes of governance have been developed for particular sectors. For example, the Higher Education Authority and the Irish Universities Association have developed a code of governance for universities in Ireland. Where sector-specific codes exist, the sections in respect of audit committees largely reflect the requirements of the **Code of Practice for the Governance of State Bodies**.
- 1.10** Unusually, the governance arrangements for the Health Service Executive (HSE) have been put on a statutory footing in the Health Service Executive (Governance) Act 2013. Section 17 of the Act includes detailed provisions in relation to the appointment, membership and functions of the HSE's audit committee.

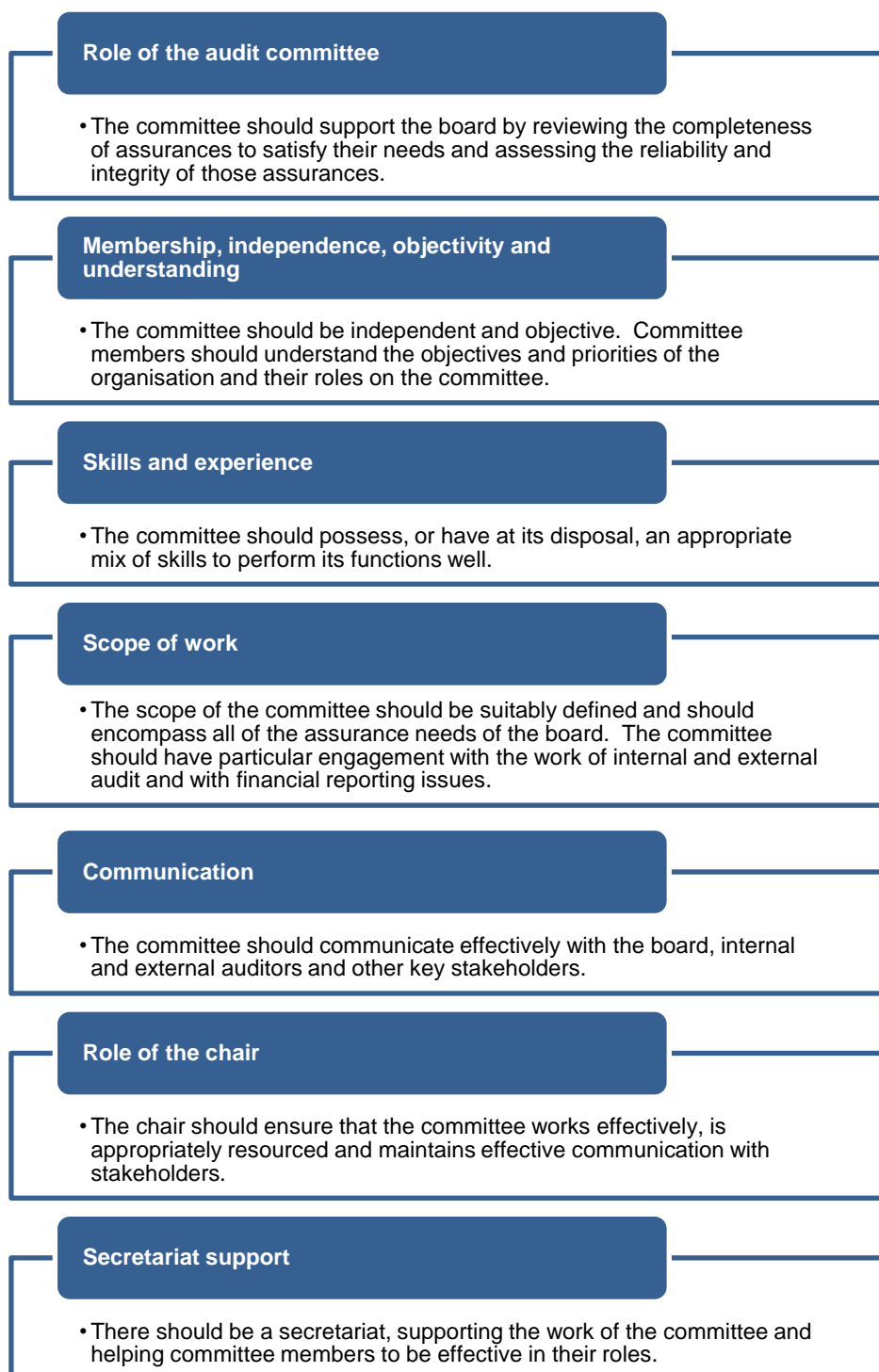
Good Practice

- 1.11** The role of the audit committee has developed significantly in recent years. There has been an ongoing initiative to embed effective risk management at all levels of the management of State organisations, which has increased the need for explicit assurance about risk, control and governance in the organisation. Consequently, the reliance that accounting officers and boards place on the work of audit committees has increased. This is reflected in the fact that audit committees in some organisations are now designated as audit and risk assurance committees.
- 1.12** A 'good practice model' in relation to the operation of audit committees in Irish public bodies was developed for the purposes of this examination, drawing on UK public sector sources. As shown in Figure 1.1, this centres on seven key dimensions in relation to the effectiveness of audit committees. The model was elaborated as a test questionnaire, which is presented as Appendix A.

Focus of Examination

- 1.13** This examination was undertaken to assess the level of compliance in selected public bodies with the requirements of the **Code of Practice for the Governance of State Bodies** and the extent to which good practice is being applied. The report on the examination aims to make information about good practice in relation to audit committees available to public bodies generally.
- 1.14** The examination reviewed the operation of audit committees in a sample of non-commercial State bodies. Audit committees of commercial State bodies and of government departments and offices were excluded from the scope.

Figure 1.1 Good practice model for Irish public sector audit committees



Source: Office of the Comptroller and Auditor General, drawing on the ***Audit and Risk Assurance Committee Handbook***, HM Treasury, April 2013 and ***The Audit Committee Self-assessment Checklist***, National Audit Office, January 2012. The National Audit Office checklist was designed for use by central government bodies in the UK. The questionnaire developed for the purposes of this examination was based on the features that are applicable to non-commercial State bodies in Ireland.

Examination Methodology

- 1.15** The operation of the audit committees in six non-commercial State bodies was reviewed, comprising two each from the education, semi-State and health sectors. The bodies included in the sample were
- University College Dublin
 - National University of Ireland, Maynooth
 - National Transport Authority
 - Fáilte Ireland
 - Irish Blood Transfusion Service
 - Beaumont Hospital.
- 1.16** The examination involved
- developing a questionnaire based on the requirements of the ***Code of Practice for the Governance of State Bodies*** and good practice principles
 - a desk-based exercise to complete the questionnaire to the extent possible
 - interviews with audit committee chairpersons and other relevant stakeholders (e.g. audit committee secretary, head of internal audit unit or chief finance officer) to address any outstanding sections of the questionnaire
 - obtaining and reviewing evidence to support the questionnaire responses
 - determining the extent of compliance with the Code of Practice and the degree to which good practice principles are being applied in the bodies examined.

Report Structure

- 1.17** Chapter 2 reviews the extent to which the six selected bodies comply with the requirements set out in the ***Code of Practice for the Governance of State Bodies***.
- 1.18** Chapter 3 compares the current requirements for State bodies in Ireland with good practice principles and identifies areas of significant variance. It also considers the extent to which good practice is being applied in the six selected bodies.
- 1.19** Chapter 4 makes recommendations as to how governance arrangements in regard to audit committees in State bodies could be improved.

2 Assessing Compliance

- 2.1 The role of the Department of Public Expenditure and Reform (the Department) in regard to corporate governance arrangements is confined to the development and dissemination of guidance to State bodies. The Department's role does not include monitoring compliance by State bodies with guidance issued.





























































Code of Practice Requirements

- 2.2 The first set of guidelines on corporate governance in State bodies was issued by the Department of Finance in 1992. Current guidance is set out in the **Code of Practice for the Governance of State Bodies** (the Code of Practice) which was updated in May 2009.
- 2.3 The stated aim of the Code of Practice is to provide a framework for the application of best practice in corporate governance by State bodies. State bodies are required to provide annual confirmation to the relevant Minister that they comply with the requirements of the Code of Practice in their governance practices and procedures.
- 2.4 The Code of Practice applies to State bodies of all sizes. However, it makes provision for State bodies to adapt the requirements, by agreement with the overseeing department, in cases where it is considered that a requirement of the Code of Practice would have a disproportionate effect.
- 2.5 The Code of Practice requires that State bodies with more than 20 employees should establish an audit committee. Specific requirements in relation to the composition and operation of audit committees in non-commercial State bodies include that
- the membership should consist of at least three (or two, in the case of smaller bodies) independent non-executive directors
 - there should be written terms of reference which deal clearly with the audit committee's authority and duties
 - at least one member should have recent and relevant financial experience
 - the audit committee should monitor and review the effectiveness of the State body's internal audit activities
 - there should be at least four audit committee meetings a year
 - the committee should have explicit authority to investigate any matters within its terms of reference, as well as the resources it needs to do so and full access to information
 - the committee should be able to obtain outside professional advice and, if necessary, invite outsiders with relevant experience to attend meetings
 - any audit issues that relate to the board's areas of responsibilities should be communicated to the board as soon as they are identified
 - the audit committee should have a discussion with the external auditors at least once a year, without executive members of the board or employees of the State body being present.



Compliance

2.6 Figure 2.1 illustrates the extent of compliance among the six bodies reviewed for this examination.

Figure 2.1 Compliance with the Code of Practice

Requirement	UCD ^a	NUIM ^a	NTA ^a	FI ^a	IBTS ^a	BH ^a
Audit committee in place						
At least three independent non-executive directors ^b						
Written terms of reference setting out the committee's authority and duties						
At least one member with recent and relevant financial experience						
Committee should monitor and review the effectiveness of internal audit activities						
At least four committee meetings a year						
Committee should have authority and resources to investigate matters within its terms of reference and have full access to information						
Access to outside professional advice and ability to invite outsiders with relevant experience to attend meetings						
Committee should inform the board of relevant audit issues as soon as they are identified						
Committee should invite the external auditors to attend a meeting at least once a year						

Source: Analysis by the Office of the Comptroller and Auditor General

- Notes:
- a UCD – University College Dublin; NUIM – National University of Ireland, Maynooth; NTA – National Transport Authority; FI – Fáilte Ireland; IBTS – Irish Blood Transfusion Service; BH – Beaumont Hospital.
 - b Membership of the audit committees in two of the bodies examined included only two independent non-executive directors. In both cases, there were three other audit committee members drawn from outside the board, so the requirement in relation to independence is deemed to have been met. There were no executive directors on any of the audit committees.
 - c  = fully compliant;  = non-compliant or part compliant.

2.7 In five of the six bodies examined, the composition and operation of the audit committees were found to be in full compliance with the Code of Practice requirements.

2.8 The one area of non-compliance in the National Transport Authority related to the requirement for the audit committee to invite the external auditors – i.e. the Office of the Comptroller and Auditor General – to attend a meeting at least once a year. The National Transport Authority was established in 2009 and an audit committee was put in place during 2010. The audit committee met with the external auditors in 2010 but no meeting has taken place since then.

3 Audit Committee Good Practice

- 3.1** The examination has identified instances where State bodies have, to varying degrees, gone beyond the formal requirements of the Code of Practice, by adopting some of the more demanding aspects of good governance practice in regard to their audit committees.

Source of Good Practice

- 3.2** There are numerous sources both within the State and in other jurisdictions to which public bodies and their audit committees can refer for good practice principles and guidance. The good practice model developed for the purposes of this examination consists of a set of detailed questions grouped under five good practice principles, which provide a sound basis for assessing the effectiveness of audit committees. It also includes questions about the role of the chair and the level of secretariat support as these are considered key to an effective audit committee.
- 3.3** The good practice model was used
- to benchmark the adequacy of the Code of Practice for maximising the effectiveness of audit committees
 - to determine the extent to which the selected examination bodies are applying good practice in regard to the operation of their audit committees
 - to identify enhancements which could be made to current guidelines to ensure the application of good practice.







Application of Good Practice

- 3.4** This section is concerned with the extent to which good practice principles are covered by the Code of Practice and the degree to which the State bodies selected for the purposes of this examination have adopted these requirements in the operation of their audit committees.

Principle 1: The Role of the Audit Committee




- 3.5** A primary role of the audit committee is to support the board by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the accuracy and completeness of the financial statements and annual report.
- 3.6** While just two of the key good practice requirements are included in the Code of Practice, it was found that five out of six are being applied in all of the selected bodies (see Figure 3.1).
- 3.7** It was found that none of the selected bodies had systems in place for the review of audit committee effectiveness. Good practice in this area would involve inclusion in the audit committee terms of reference of a requirement for the committee to regularly review its own effectiveness.

Figure 3.1 The role of the audit committee

Key good practice requirements ^a	Included in Code of Practice	Application in bodies examined ^b
Written charter or terms of reference	✓	
Audit committee to meet at least four times per year	✓	
Prescribed items to be covered by terms of reference	✗	
Terms of reference to be regularly reviewed	✗	
Roles and responsibilities to be communicated to members	✗	
Audit committee effectiveness to be regularly reviewed	✗	

Source: Analysis by the Office of the Comptroller and Auditor General











Notes: a Good practice requirements are summarised here. The requirements are set out in full in the questionnaire at Appendix A.

- b
-  = requirement being applied in 5 or 6 of the bodies
 -  = requirement being applied in 2 – 4 of the bodies
 -  = requirement being applied in 1 or none of the bodies.

Principle 2: Membership, Independence, Objectivity and Understanding


- 3.8** Audit committees should be comprised of members who are both independent and objective. Members should have a clear understanding of the objectives, priorities and risks of the organisation and of their roles on the committee.
- 3.9** The Code of Practice covers only two out of ten good practice requirements. It was found that the majority of the other good practice requirements were being applied in all of the selected bodies. However, only one of the bodies reported using a standard letter of appointment for new audit committee members.
- 3.10** Another key area where good practice is not being widely applied relates to the identification and recording of conflicts of interest. Good practice in this area would involve maintaining a register of audit committee members' interests and ensuring that members are requested, at the outset of committee meetings, to declare any potential conflicts of interest in relation to the agenda items.


Figure 3.2 Membership, independence, objectivity and understanding

Key good practice requirements ^a	Included in Code of Practice	Application in bodies examined ^b
Relationship of size of committee to number of employees	✓	
Breakdown of membership in terms of executive/non-executive directors and external members	✓	
Fixed duration of appointments for committee members	✗	
Standard letter of appointment specifying terms and conditions of service for committee members	✗	
Chair of audit committee different from chair of board	✗	
Executive members of the organisation invited to attend meetings for discussion and provision of information, as necessary	✗	
Attendance by the CEO, finance director, head of internal audit and external auditor at all committee meetings, or when requested to attend by audit committee members	✗	
Register of audit committee members' interests	✗	
Members required to declare conflicts of interest	✗	
Specified action to be taken when conflicts of interest arise	✗	

Source: Analysis by the Office of the Comptroller and Auditor General

Notes: a Good practice requirements are summarised here. The requirements are set out in full in the questionnaire at Appendix A.

b  = requirement being applied in 5 or 6 of the bodies










 = requirement being applied in 2 – 4 of the bodies

 = requirement being applied in 1 or none of the bodies.

Principle 3: Skills and Experience


- 3.11** To carry out its functions effectively, an audit committee must collectively possess a range of skills and experience. In addition, the committee should have access to specialist skills and advice, when required.
- 3.12** While the Code of Practice covers just two of the nine key good practice requirements, it was found that six of the nine requirements are being implemented in most of the selected bodies.
- 3.13** A key area where good practice is not being uniformly implemented is in relation to the selection of audit committee members. In three of the bodies, the audit committee terms of reference provide that the committee be drawn from members of the board or governing authority while two others provide for external members to be appointed. In one body, there are no provisions in the terms of reference in relation to membership of the committee.
- 3.14** Good practice in relation to selection would involve identifying the skills required and setting assessment criteria for the appointment of audit committee members and the chair. An audit committee is more likely to possess the broad range of skills and experience necessary where its membership is not restricted to the board or governing authority.

Figure 3.3 Skills and experience

Key good practice requirements ^a	Included in Code of Practice	Application in bodies examined ^b
At least one member with recent and relevant financial experience	✓	
Committee to have access to specialist skills and advice	✓	
Skills set required for audit committee effectiveness identified	✗	
Formal criteria for selection of committee chair	✗	
Formal criteria for selection of committee members	✗	
Committee to corporately possess the required range of knowledge, skills and experience	✗	
Formal induction process (including individually tailored training) for new committee members	✗	
Committee to make recommendations to the board in relation to group and individual training needs	✗	
Committee to keep up to date with best practice and developments in corporate governance	✗	

Source: Analysis by the Office of the Comptroller and Auditor General

Notes: a Good practice requirements are summarised here. The requirements are set out in full in the questionnaire at Appendix A.

b  = requirement being applied in 5 or 6 of the bodies

 = requirement being applied in 2 – 4 of the bodies

 = requirement being applied in 1 or none of the bodies.

Principle 4: Scope of Work

- 3.15** The scope of the audit committee's work should be defined in its terms of reference and should cover all of the assurance needs of the board.

Figure 3.4 Scope of work

Key good practice requirements ^a	Included in Code of Practice	Application in bodies examined ^b
Committee to review effectiveness of Internal Audit Unit	✓	●
Committee to review internal audit reports and management responses	✓	●
Head of internal audit to have direct access to committee chair	✓	●
Committee to consider appropriateness of internal audit independence, expertise, experience, professional standards, scope of work and access	✗	●
Committee to approve internal audit plan and receive regular progress reports	✗	●
Committee to regularly request the views of the external auditor on the effectiveness of the audit committee	✗	●
Committee to consider the management letter and other reports by the external auditor	✗	●
Committee to arrange meeting with external auditors at least once a year without executive board members being present	✗	●
Committee to request confirmation from external and internal audit of the effectiveness of their relationship	✗	●
Consideration of effectiveness of anti-fraud and anti-corruption policies and staff awareness of them	✗	●
Consideration of the adequacy of whistle-blowing arrangements	✗	●
Committee to satisfy itself that the system of internal control has operated effectively throughout the reporting period	✗	●
Consideration by committee of the appropriateness and adequacy of the statement of internal financial control	✗	●
Consideration of adequacy of financial controls	✗	●
Consideration of whether the system of internal reporting gives early warning of control failures and emerging risks	✗	●
Committee to review first draft financial statements before audit	✗	●
Prior to financial statements being signed off, committee to consider accounting policies, completeness of accounts, anti-fraud policy, reporting of losses, issues of regularity, probity and propriety and responses to issues raised by the external auditor	✗	●
Consideration by committee as to whether the financial statements present fairly the financial position of the body	✗	●
Review by committee of letter of representation before issue	✗	●

Source: Analysis by the Office of the Comptroller and Auditor General

Notes: a Good practice requirements are summarised here. The requirements are set out in full in the questionnaire at Appendix A.

b ● = requirement being applied in 5 or 6 of the bodies

● = requirement being applied in 2 – 4 of the bodies










● = requirement being applied in 1 or none of the bodies.

- 3.16** Three out of 19 key good practice requirements are addressed in the Code of Practice. Notwithstanding this, 13 of the requirements are being met in at least five of the selected bodies. A further five requirements are being met in at least two of the bodies. It was found that the good practice of the audit committee reviewing draft annual financial statements in advance of the audit is only being met in one of the bodies.

Principle 5: Communication


- 3.17** The audit committee should ensure that it communicates effectively with the board, the head of internal audit, the external auditor and other stakeholders.
- 3.18** The Code of Practice does not explicitly deal with the effectiveness of communication between the audit committee and key stakeholders. It was found that none of the audit committees are reporting their views on their own effectiveness to their governing boards.


Figure 3.5 Communication

Key good practice requirements ^a	Included in Code of Practice	Application in bodies examined ^b
Audit committee to provide oral updates at executive board meetings or send regular reports to the board	x	
Annual report by committee to executive board	x	
Annual report to present committee's opinion on:		
• comprehensiveness of assurances	x	
• reliability and integrity of assurances	x	
• whether the assurances are sufficient to support the board and CEO in their decisions and their accountability obligations	x	
• the implication of these assurances for the overall management of risk	x	
• any issues considered pertinent to the governance statement and any long-term issues the committee believes the board/CEO should give attention to	x	
• financial reporting for the year	x	
• the audit committee's view on its own effectiveness, including advice on ways in which it considers it needs to be strengthened and developed	x	

Source: Analysis by the Office of the Comptroller and Auditor General

Notes: a Good practice requirements are summarised here. The requirements are set out in full in the questionnaire at Appendix A.

b  = requirement being applied in 5 or 6 of the bodies

 = requirement being applied in 2 – 4 of the bodies

 = requirement being applied in 1 or none of the bodies.

The Audit Committee Chair


- 3.19** The role of the chair is critical to the effective operation of audit committees. The chair has particular responsibility for ensuring that the committee is appropriately resourced and that it is maintaining effective communication with stakeholders.
- 3.20** The Code of Practice does not contain any specific requirements in relation to the committee chair.
- 3.21** The examination found that the selected bodies are applying many aspects of good practice. The one area where good practice was not being applied was in relation to performance appraisal. Good practice in this area would involve the implementation of a formal appraisal process for the performance of committee members and the chair.


Figure 3.6 Role of the audit committee chair


Key good practice requirements ^a	Included in Code of Practice	Application in bodies examined ^b
Executive board secretary and audit committee secretary not to be the same person	x	
Chair and secretary to discuss and agree the business of the audit committee before meetings	x	
Items under “any other business” to be formally requested in advance of meetings	x	
Outline agendas to be planned one year in advance to cover core activities and specific issues on a cyclical basis	x	
Open lines of communication between chair and executive board, head of internal audit and external auditor	x	
Reports to the committee to contain relevant information and to be provided at the right time in an appropriate format	x	
Guidelines by the audit committee on the format and content of papers to be presented to it	x	
Chair or secretariat to ensure that action points are followed up	x	
Chair or secretariat to ensure that absent committee members are subsequently briefed on meetings they have missed	x	
Report on matters arising to be prepared and included in the minutes of the subsequent meeting	x	
Records of audit committee attendance maintained and reviewed annually by the executive board	x	
Chair to ensure that members are provided with an appropriate appraisal of their performance as committee members	x	
Appraisal of chair's performance carried out by the CEO or chair of the executive board	x	
Involvement of chair in appointment of new committee members	x	

Source: Analysis by the Office of the Comptroller and Auditor General

Notes: a Good practice requirements are summarised here. The requirements are set out in full in the questionnaire at Appendix A.

b  = requirement being applied in 5 or 6 of the bodies

 = requirement being applied in 2 – 4 of the bodies

 = requirement being applied in 1 or none of the bodies.

Audit Committee Support

- 3.22** The effectiveness of audit committees can be increased where appropriate secretariat support is provided. The secretariat function should go beyond minute-taking and involve supporting the work of the committee and helping members to be more effective in their roles.
- 3.23** The examination found that the key good practice requirements are being met in full across all of the selected bodies.

Figure 3.7 Audit committee support

Key good practice requirements ^a	Included in Code of Practice	Application in bodies examined ^b
Audit committee to be provided with secretariat support ^c	x	●
Audit committee secretariat to:		
• commission papers to support agenda items	x	●
• circulate meeting documents in good time before each meeting	x	●
• keep records and minutes of meetings and circulate to committee members, internal audit and external audit, as necessary	x	●
• ensure that minutes include all agreed actions, stating who is responsible and when the action is due to be completed	x	●
• ensure that action points are being progressed between meetings	x	●
• support the chair in preparing audit committee reports	x	●
• keep the committee informed and up to date on developments in the organisation	x	●
• maintain a record of when members' terms of appointment are due for renewal or termination	x	●
• ensure that appropriate appointment procedures are initiated when necessary	x	●

Source: Analysis by the Office of the Comptroller and Auditor General

- Notes:
- a Good practice requirements are summarised here. The requirements are set out in full in the questionnaire at Appendix A.
 - b ● = requirement being applied in 5 or 6 of the bodies
 ● = requirement being applied in 2 – 4 of the bodies
 ● = requirement being applied in 1 or none of the bodies.
 - c The Code of Practice does not include a specific requirement for an audit committee secretariat, but it does contain a general provision that the committee should have the resources it needs to investigate matters within its terms of reference.

4 Conclusions and Recommendations

- 4.1 The **Code of Practice for the Governance of State Bodies**, last updated in 2009, sets out requirements for commercial and non-commercial State bodies in relation to corporate governance, including the composition and operation of audit committees.

Compliance

- 4.2 While the Department of Public Expenditure and Reform is responsible for the development and dissemination of codes and guidelines on good governance in State bodies, it does not monitor compliance with the requirements, which it states is a matter for supervising departments.
- 4.3 The Code of Practice requires the chairperson of each State body to submit an annual report to the supervising Minister including, inter alia, confirmation of compliance with the Code and provision of a formal statement on internal financial control.
- 4.4 This examination found almost full compliance with the Code of Practice requirements in relation to audit committees among the six selected non-commercial State bodies.

Good Practice

- 4.5 A comparison with good practice shows that the Code of Practice contains only basic requirements. In addition to the high level of compliance with those requirements, it is evident that the selected audit committees have incorporated many features of good practice. This underlines the need for the Code of Practice to be updated – an exercise that the Department of Public Expenditure and Reform has already initiated.
- 4.6 Key areas where good practice is generally not being followed include
- use of formal selection criteria and standard letters of appointment for new audit committee members
 - identifying and recording conflicts of interest
 - performance appraisal for committee members, including the chair
 - measuring the effectiveness of audit committees.
- 4.7 This suggests that, in updating the Code of Practice, there is merit in focusing particularly on these areas, in order to improve the effectiveness of audit committees.

Recommendation 1.1

In finalising and promulgating updated guidance for audit committees in State bodies, the Department should pay particular attention to embedding requirements regarding the selection of committee members, identification of conflicts of interest, performance assessment and measuring committee effectiveness. These areas offer the greatest potential for improvement.

Response of Secretary General, Department of Public Expenditure and Reform

Agreed. I welcome the report on the effectiveness of audit committees in public bodies, which is very timely in the context of the work currently being undertaken by the Department in updating the **Code of Practice for the Governance of State Bodies**. The issues raised in this report, and in particular this recommendation, have been taken into consideration in the revision of the Code. The Department is also developing a separate guidance document for audit committees in government departments and offices, the principles of which will also have relevance for public bodies.

Recommendation 1.2

In conjunction with updated guidance, the Department should develop and issue a questionnaire/checklist for use, on a self-assessment basis, by audit committees in State bodies to determine their level of compliance with good practice principles.

Response of Secretary General, Department of Public Expenditure and Reform

Agreed. A questionnaire/checklist will be developed and included in the revised **Code of Practice for the Governance of State Bodies**. The revised Code will be published later this year.

Appendix

Appendix A Effectiveness of Audit Committees Questionnaire

CoP (Code of Practice), GP (Good Practice Principles)

Principle 1: The Role of the Audit Committee	
The audit committee fulfils an important role in the governance framework of an entity by providing the executive board with independent assurance and advice. The committee does not undertake management responsibilities and is not a substitute for entity management controls and accountabilities.	
1. Is there a written charter or terms of reference, setting out the roles and responsibilities of the audit committee and its members? (CoP)	
2. Have the audit committee's roles and responsibilities been communicated to all audit committee members? (GP)	
3. Do the terms of reference include provisions in regard to	
<ul style="list-style-type: none"> • membership of the committee • reporting requirements • timing, frequency and conduct of meetings • information requirements • responsibilities as regards <ul style="list-style-type: none"> ➤ entity's financial statements ➤ risk management ➤ internal control ➤ internal audit ➤ external audit ➤ performance management/reporting (GP) 	
4. Do the terms of reference require the audit committee to regularly review its own effectiveness? (GP)	
If so, when was the last time such a review was carried out? (GP)	
5. How frequently are the terms of reference reviewed by the executive board and the audit committee? (GP)	
6. How often does the audit committee meet? (CoP)	

Principle 2: Membership, Independence, Objectivity and Understanding	
The audit committee should be independent and objective. In addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as a committee member.	
Membership and Terms of Appointment	
7. How many employees does the entity have? (CoP)	
8. If more than 20 employees, does the audit committee have at least three independent non-executive directors (or at least two, if less than 20 employees)? (CoP)	
9. For what duration are audit committee members appointed? (GP)	
10. Is there a standard letter of appointment for new audit committee members and does it include	
▪ role of audit committee	
▪ duration of appointment and renewal provisions	
▪ the support and training to be provided	
▪ the time commitment involved	
▪ level of remuneration (where appropriate)	
▪ rules regarding conflicts of interest	
▪ performance management arrangements	
▪ termination arrangements (GP)	
Independence	
11. What is the breakdown of audit committee members in terms of executive directors, non-executive directors and external members? (CoP)	
12. Is the audit committee chair different to chair of the board? (GP)	
13. Is the chair of the audit committee an executive director, non executive director or external member? (CoP)	
Relationship with the Executive and Other Participants	
14. Are the executive members of the organisation invited to attend audit committee meetings, participate in discussions and provide information to the audit committee as required? (GP)	
15. Do the CEO, finance director, head of internal audit and the external auditor routinely attend all audit committee meetings?	
If not, do they attend for specific meetings or specific agenda items, at the request of the committee? (GP)	
Managing Conflicts of Interest	
16. Is there a register of audit committee members' interests? (GP)	
17. Are members regularly required to declare any potential conflict of interest with any of the business items on the agenda for audit committee meetings? (GP)	
18. In instances where a member declares an interest in an agenda item, what action is taken? (GP)	

Principle 3: Skills and Experience	
The audit committee should collectively possess an appropriate range of skills (skills mix) to perform its functions to the required standard.	
Range of Skills	
19. Have the audit committee and executive board identified the skill set required for audit committee effectiveness? (GP)	
20. Are there formal assessment criteria for the appointment of the audit committee chair? (GP)	
21. Do the assessment criteria for committee members include (or expect members to acquire as soon as possible after appointment)	
<ul style="list-style-type: none"> • understanding of the objectives of the organisation and current significant issues facing it • understanding of the organisation's structure, including key relationships such as that with the sponsoring Department • understanding of the organisation's culture • understanding of relevant legislation or other rules governing the organisation • broad understanding of the Government environment, particularly accountability structures and current major initiatives? (GP) 	
22. Does the audit committee corporately possess knowledge, skills and experience of	
<ul style="list-style-type: none"> • accountancy/finance – with at least one member having recent and relevant financial experience (CoP) • governance, assurance and risk management • audit • technical or specialist issues pertinent to the organisation's business • the wider environments, including the Government and accountability structures, in which the organisation operates? (GP) 	
23. Specifically, what accounting or financial qualifications, skills and experience do individual audit committee members have? (CoP)	
Access to Additional Skills	
24. Is the audit committee empowered to co-opt members on a short-term basis to provide specialist skills needed at a particular time? When was the last time this was done? (GP)	
25. Can the audit committee procure specialist advice (at reasonable and approved expense to the organisation) on an ad-hoc basis, to assist the members with specific areas of committee business? When was the last time this was done? (GP)	

<i>Training and Development</i>	
26. Is there a formal induction process (including individually tailored training) for new audit committee members? (GP)	
27. Does the audit committee and the chair make recommendations to the board on the committee's and individual members training needs? (GP)	
28. Does the audit committee keep up to date with best practice and developments in corporate governance? How is this done? (GP)	

Principle 4: Scope of Work	
The scope of the audit committee's work should be defined in its terms of reference, and encompass all of the assurance needs of the executive board or the CEO, including particular engagement with the work of internal audit and external audit and financial reporting issues.	
<i>Relationship with Internal Audit</i>	
29. Does the audit committee monitor and review the effectiveness of the internal audit unit? (CoP)	
30. Does the audit committee consider the independence of the internal audit unit? (GP)	
31. Does the audit committee consider that the experience, expertise and professional standard of the internal audit team are appropriate for the organisation? (GP)	
32. Does the audit committee consider whether the scope of internal audit work, the resources at its disposal and their access to information and people allow it to address significant risks within the organisation? (GP)	
33. Does the audit committee review and approve the internal audit plan before they commence any work and make suggestions regarding risk and problem areas that the audit could address? (GP)	
34. Does the audit committee receive regular progress reports on work undertaken by internal audit? (GP)	
35. Does the audit committee review internal audit reports and management responses to issues raised, and monitor the progress made on internal audit recommendations? (GP)	
36. Does the head of internal audit have direct access to the chair of the audit committee? (CoP)	
<i>Relationship with External Audit</i>	
37. Does the audit committee periodically request the views of the external auditor on the work and effectiveness of the audit committee? (GP)	
38. Does the audit committee consider the management letter and other relevant reports and the management response, and monitor the progress made on the recommendations? (GP)	
39. Does the audit committee meet the external auditors at least once a year, without executive board members being present, to discuss any issues of concern? (CoP)	

Relationship between Internal and External Audit	
40. Does the audit committee seek confirmation from internal audit and the external auditors on the effectiveness of their relationship? (GP)	
Fraud	
41. Does the audit committee consider whether effective anti-fraud and corruption policies and procedures are in place and operating effectively? (GP)	
42. Does the audit committee consider whether there is an anti-fraud policy and code of conduct and its distribution to employees? (GP)	
43. Does the audit committee consider whether management arrangements for whistle-blowing are satisfactory? (GP)	
Internal Control	
44. Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period? (GP)	
45. Does the audit committee consider whether the Statement of Internal Financial Control is sufficiently comprehensive and meaningful, and the evidence that underpins it? (GP)	
46. Does the audit committee consider whether financial control, including the structure of delegations, enables the organisation to achieve its objectives and achieve good value for money? (GP)	
47. Does the audit committee consider whether the system of internal reporting gives early warning of control failures and emerging risks? (GP)	
Financial Reporting	
48. Does the audit committee review the first draft of the annual accounts before the external auditor commences the audit? (GP)	
49. Before the accounting officer/CEO signs off the financial statements, does the audit committee consider:	
<ul style="list-style-type: none"> that the accounting policies in place comply with relevant requirements that there has been a robust process in preparing the accounts to ensure completeness and whether appropriate processes are in place to ensure accurate accounting records are maintained whether there is an appropriate anti-fraud policy in place, and whether losses are properly recorded and accounted for whether suitable processes are in place to ensure regularity, probity and propriety are achieved; and whether issues raised by the external auditors have been given appropriate attention? (GP) 	
50. Does the audit committee satisfy itself that the annual financial statements represent fairly the financial position of the organisation, regardless of the pressures on executive management? (GP)	
51. Before the accounting officer/CEO signs off the letter of representation, does the audit committee review it and give particular attention to non-standard issues of representation? (GP)	

Principle 5: Communication

The audit committee should ensure it has effective communication with the board, the head of internal audit, the external auditor, and other stakeholders.

52. Does the audit committee provide oral updates at executive board meetings or send regular reports that are reviewed at executive board meetings? (GP)	
53. Does the audit committee provide an annual report to the executive board? (GP)	
54. Does the annual report of the audit committee present the committee's opinion about:	
<ul style="list-style-type: none"> the comprehensiveness of assurances in meeting the executive board and accounting officer/CEO's needs the reliability and integrity of these assurances whether the assurance available is sufficient to support the executive board and accounting officer/CEO in their decisions taken and their accountability obligations the implication of these assurances for the overall management of risk any issues the audit committee considers pertinent to the governance statement, and any long-term issues the committee thinks the executive board and/or accounting officer/CEO should give attention to financial reporting for the year the audit committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed. 	
(GP)	

The Role of the Audit Committee Chair – Good Practice	
The chair of the audit committee has responsibility for ensuring that the work of the committee is effective, that the committee is appropriately resourced, and that it is maintaining effective communication with stakeholders.	
Agenda Setting	
55. Is the executive board secretary different from the audit committee secretary? (GP)	
56. Does the chair of the audit committee meet with the committee secretary before every meeting to discuss and agree the business for the meeting? (GP)	
57. Are inputs on any other business formally requested in advance from audit committee members and attendees? (GP)	
58. Are outline agendas planned one year ahead to cover core activities and specific issues on a cyclical basis? (GP)	
Communication	
59. Does the chair of the audit committee have open lines of communication with the executive board, the head of internal audit and the external auditors? (GP)	
60. Do reports to the committee communicate relevant information at the right frequency, time and format to be effective? (GP)	
61. Does the audit committee issue guidelines concerning the format and content of the papers to be presented to the committee? (GP)	
Monitoring Actions	
62. Does the chair or the secretariat ensure that all action points from committee meetings are appropriately acted upon? (GP)	
63. Does the chair or the secretariat ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence? (GP)	
64. Is a report on matters arising made and minuted at the audit committee's next meeting? (GP)	
Appraisal	
65. Are records of attendance maintained and reviewed annually by the board? (GP) What was average attendance over 2010, 2011 and 2012? (GP)	
66. Does the chair ensure that committee members are provided with an appraisal of their performance as a committee member? (GP)	
67. Does the audit committee chair seek appraisal of their personal performance from accounting officer or chair of the board? (GP)	
Appointments	
68. Is the chair involved in the appointment of new committee members, including providing advice on the skills and experience required of the new individual? (GP)	

Audit Committee Support – Good Practice

The organisation should provide its audit committee with appropriate secretariat support to enable it to be effective. This is more than a minute-taking function, it involves providing active support for the work of the committee and helping its members to be effective in their role.

69. Is the audit committee supported by a secretariat? (GP)	
70. Does the audit committee secretariat :	
<ul style="list-style-type: none"> • commission papers as necessary to support agenda items? 	
<ul style="list-style-type: none"> • circulate meeting documents to all committee members, internal audit and external auditors in good time (at least one week) before each meeting? 	
<ul style="list-style-type: none"> • keep records of meetings and minutes after they have been approved by the audit committee chair and circulate them to committee members, head of internal audit, external auditors, board and the accounting officer on a timely basis (within one week)? 	
<ul style="list-style-type: none"> • ensure that the minutes clearly state all agreed actions, the responsible owner, when they will be done by and any advice given by any stakeholders? 	
<ul style="list-style-type: none"> • ensure action points are being taken forward between meetings? 	
<ul style="list-style-type: none"> • support the chair in the preparation of audit committee reports to the Board? 	
<ul style="list-style-type: none"> • keep the committee up to date with developments and relevant background information about developments in the organisation? 	
<ul style="list-style-type: none"> • maintain a record of when members' terms of appointment are due for renewal or termination? 	
<ul style="list-style-type: none"> • ensure that appropriate appointment procedures are initiated when required? (GP) 	

