

# Effective Use of Audit Committees

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# Background

- 1997 GFOA issued a recommended practice on Audit Committees
- Enron/ World Com led to Sarbanes – Oxley Act of 2002
- GFOA issued “Best Practice – Audit Committees” October 2006, updated 2008

# Responsibility for the Financial Statements ultimately rests with the Governing Body

- Management is responsible for the financial statements
- Internal control assures the integrity of the underlying data
- Ultimately, the governing body is responsible for both

“An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government’s financial reporting processes, internal controls and independent auditors.”

# Nature and Purpose

## Fundamental Goals of the Committee

1. Satisfy itself that management is maintaining a comprehensive framework of internal control
2. Ensure that management's financial reporting practices are assessed objectively
3. Determine to its own satisfaction that the financial statements are properly audited and that any problems disclosed in the course of the audit are satisfactorily resolved

# Membership

- Committee members should be members of the governing body.
- All members of the committee should possess or obtain understanding of governmental financial reporting and auditing.
- Terms of membership should be determined by a balance of continuity (retaining members) and new perspective and objectivity (new members) – so multi year staggered terms should be considered.

# Structure

- An audit committee should be:
  - Formally established by the governmental body
    - By resolution, ordinance or other appropriate order
  - Adequately funded
    - May need funding for training or professional assistance
  - Properly documented
    - Committee activities should be documented – including meeting agendas, minutes
- The governing body should review and assess the operation of the committee periodically – no less than every 5 years



# Structure

## Internal Auditor

- The committee should have access to the annual work plan and the reports of the internal auditor
- The committee should establish mechanisms for reporting fraud, abuse or internal control override.

## External Auditor

- Procure and contract with auditor
- Confer with auditors; both internal and external
- Receive audit report and report on internal control
- Follow up on actions by management

# Basic Tasks of the Committee

1. Determine the appropriate scope of the audit
  - Are there areas of specific concern?
  - Should “agreed-upon procedures” work be contracted for?
2. Select the independent auditor
  - Competition, when possible, is recommended
  - Formal RFP process
  - Multi year contracts, up to 5 years

# Basic Tasks of the Committee

3. Review the financial statements and consider:
  - Accounting policies
  - Accruals and estimates
  - Audit adjustments
  - Disagreements between auditors and management
  - Consultation with other accountants
  - Difficulties during the audit
  - Fiscal situation

# Basic Tasks of the Committee

4. Review the independent auditor's report
  - "Clean" opinion on financial statements
  - Additional reports
    - Single Audit
    - Management Letter / Audit Findings
      - Review management's response
5. Review the comprehensive framework of internal control
  - Audit reports
  - Internal Audit
  - Code of Conduct
  - Special Challenges – size, policies
  - Complaints

# Basic Tasks of the Committee

6. Assess the performance of the independent auditor
  - Contractual performance
  - Timeliness
  - Coordination with staff
  - Professionalism
  
7. Provide an independent forum for internal auditors to report findings of management fraud, abuse, or control override.

# League City

- Finance Committee appointed by Council
- Comprised of Councilmembers and citizens
- Meets on a monthly basis
- Primary duties –
  - Review the annual internal audit plan
  - Review internal audit reports
  - Review external audit reports
  - Review investment policies and investment reports

# City of Killeen

- Audit Committee separate from Finance/Investment Committee
- Appointed by Council – comprised of Councilmembers
- Meets quarterly and as needed
- Primary duties –
  - Review the annual internal audit plan
  - Review internal audit reports
  - Review external audit reports
  - Review internal audit activity, to include activities that don't necessitate an official report

# City of Killeen

- Audit Committee Charter – outlines the duties and expectations of the Audit Committee
- Committee evaluates the City Auditor's employment and oversees appointment, salary, and dismissal
- Committee ensures the City Auditor has free and unrestricted access to the City Council
- Meetings not publicly posted (no Council quorum)



# The External Auditor Experience

The use of audit committees varies among entities

The success depends on the members

Interaction with committee –  
Planning and Reporting

# Audit Planning (Interim) Meeting

## Review:

- Required communications
- Audit Process
- Risk Areas

Receive input from the  
committee

# Final Report

## Review:

- Required communications
- Audit results
- Financial highlights
- Opportunities for improvement
- Upcoming changes in standards and potential impact

Answer Committee questions

# Most Important Takeaways for the Committee Members

- Understanding of audit process
- Understanding of significant financial issues in the financial statements
- Understanding of internal control issues (if there are any)