

The Role of Audit Committees in a Changing Public Sector?

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Deficit in the Public Finances

*“The gap between what we as a Government spend and what we raise in taxes is huge. Overall Government spending in 2011 will be roughly **€18 billion** more than this year’s overall Government income. The Government will get €42 billion from tax and PRSI this year. My Department alone is expected to spend over €20 billion of this.”* (Burton, 25 Nov 2011)

Can Good Come From a Crisis?

If good can come from the current crisis, it will be the instituting of a more rigorous and thoughtful approach to the use of taxpayer's money to replace the if-I-have-it-I'll-spend-it idiocy of the boom-era administration

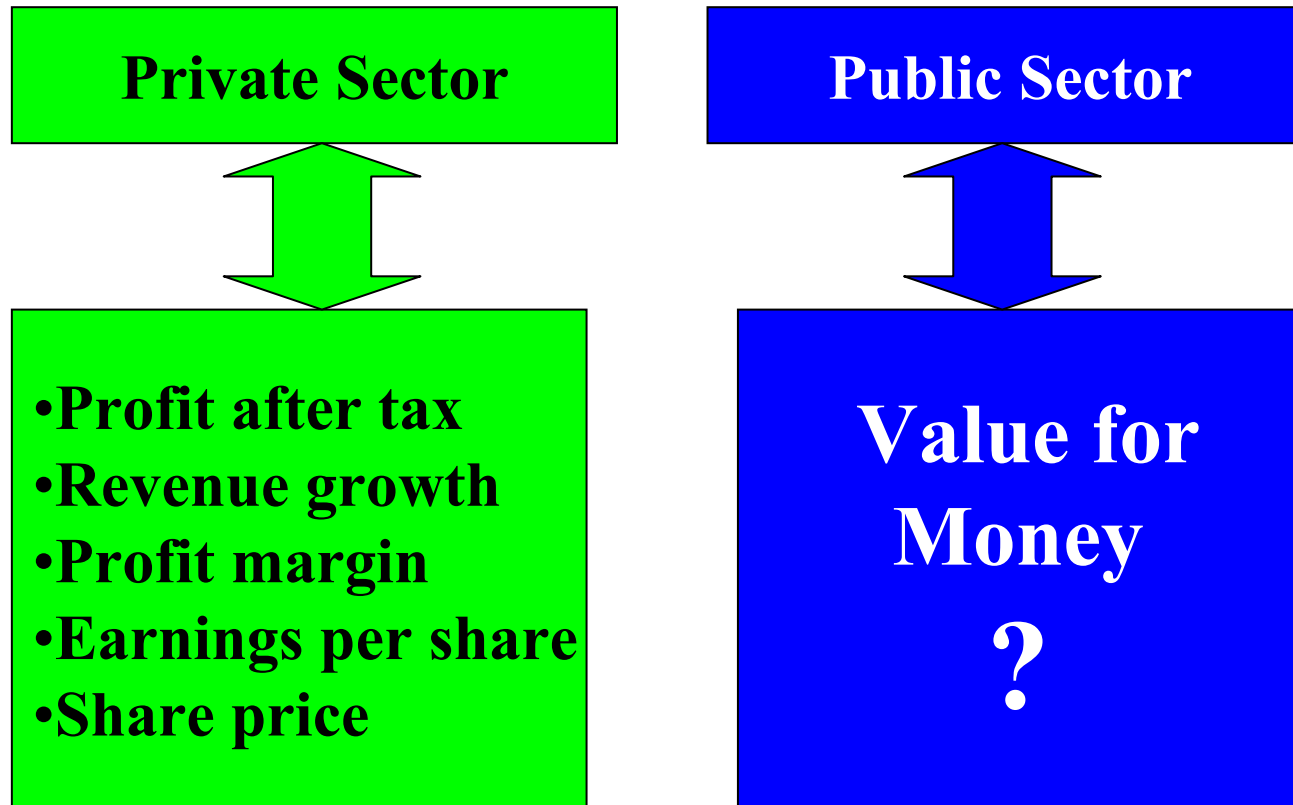
(Dan O'Brien, Irish Times July 2011).

Corporate Governance – What Is It?

- **Fundamental to any effective organisation, the hallmark of any well managed corporate entity.**
- **There is an ever increasing demand in both the public & private sectors, for accountability & transparency.**
- **Governance focuses on an organisation's stakeholders, the associated objectives, and the responsibility of the organisation's management to achieve those objectives.**
- **In most countries the public sector plays a major role in society, and effective governance in the public sector can encourage the efficient use of resources.**
- **Governance in the public sector is complicated by factors not found in the private sector. (e.g. the role of the minister, government policy & public service obligations).**

Evaluating Performance

Private v Public Sectors



Corporate Governance: Conformance v Performance

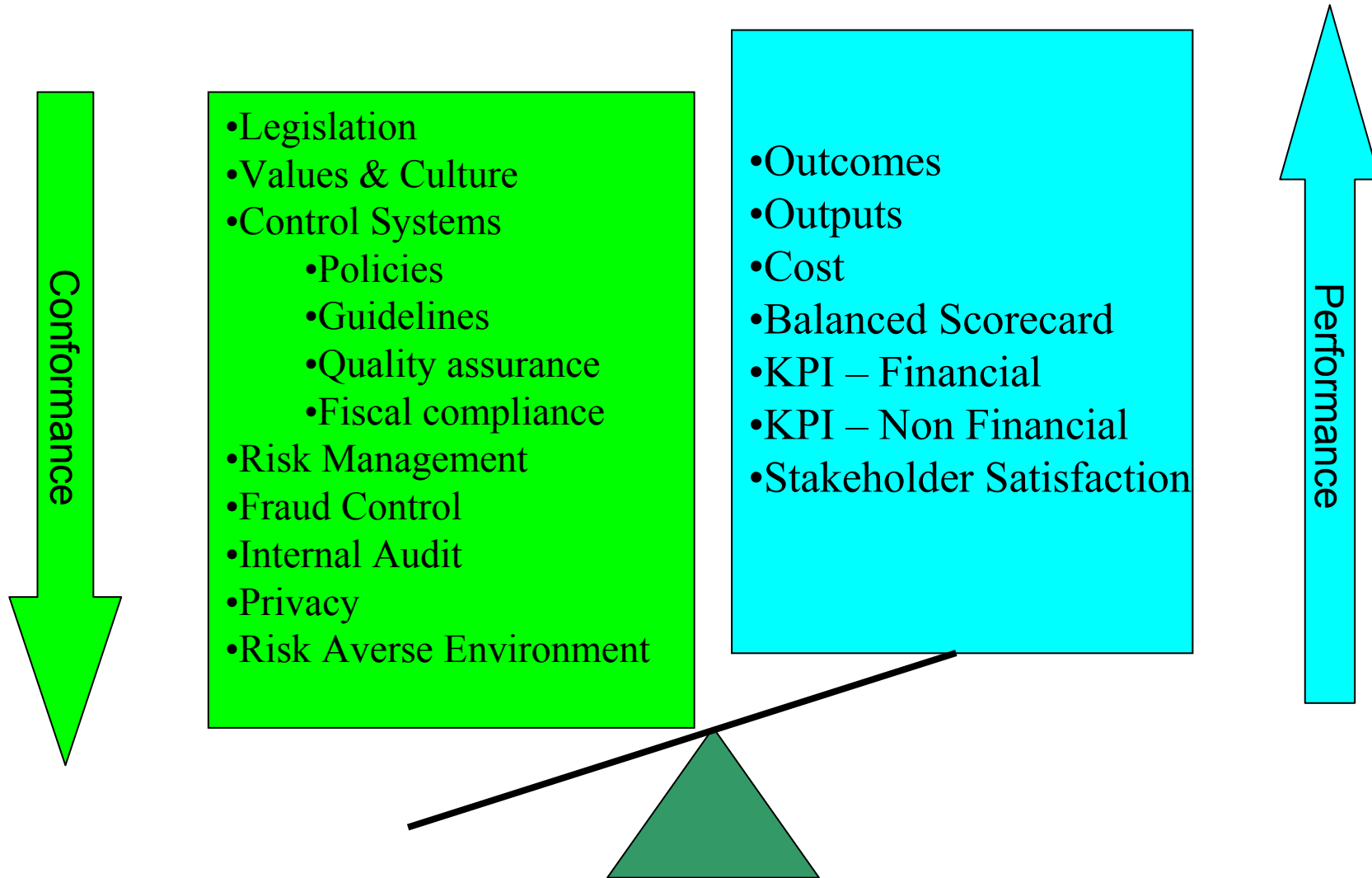
- **Conformance**

- How an agency uses governance arrangements to ensure it meets the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness

- **Performance**

- How an agency uses governance arrangements to contribute to its overall performance and the delivery of goods, services and programme

The Performance - Conformance Nexus



Source: Australian National Audit Office

Core Responsibilities of the Audit Committee

- **Financial Reporting**
 - Review significant financial reporting issues, judgements, accounting policies, disclosures
 - Review related information presented with financial statements, including the operating and financial review & corporate governance statements.
- **Internal Controls & Risk Management**
 - Review internal controls and risk management systems
 - Review statements included in annual reports re internal control and risk management
- **The Internal Audit Process**
 - Monitor and review effectiveness of Internal Audit
 - Review and approve the Internal Audit function's remit
- **The External Audit Process**
 - Make recommendations re the appointment of external auditors
 - Assess annually the qualification, expertise, resources & independence of the external auditors
- **Whistle-blowing**
 - Review arrangements by which staff can raise concerns about possible improprieties
 - Ensure matters are investigated and followed up

Source: Financial Reporting Council, Guidance on Audit Committees, December 2010

Other Responsibilities of the Audit Committee (particularly for public sector audit committees)

- **Effectiveness of governance arrangements**
- **All external reporting, including non-financial performance**
- **Clarity of links between non-financial performance and strategy**
- **Monitoring Value for Money**
- **Overseeing management of significant projects**

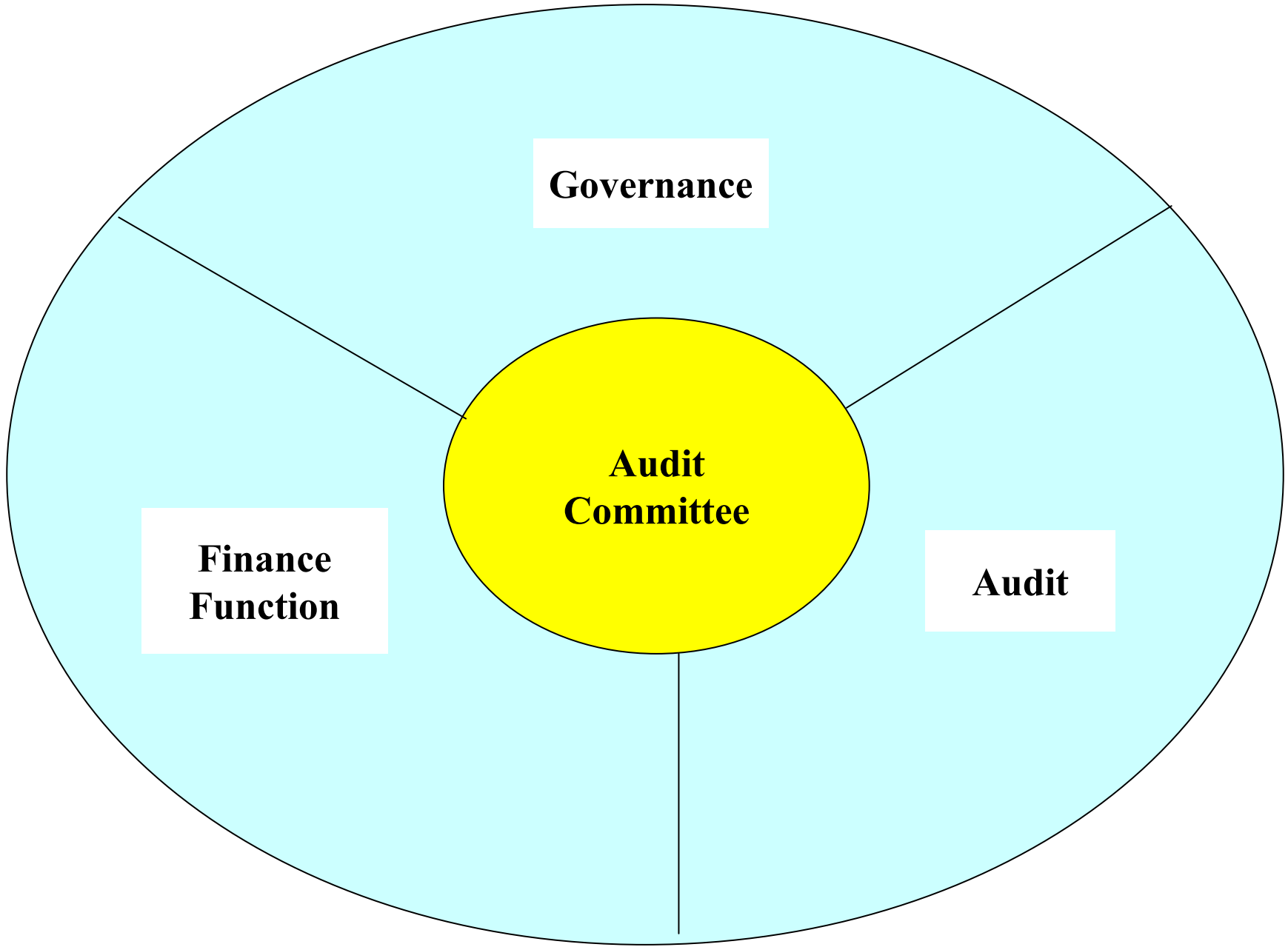
Audit Committee Effectiveness

- **Effective audit committees are cornerstones of the public's confidence in corporate governance.**
- **Cadbury identified a number of benefits:**
 - Improve the quality of financial reporting
 - Strengthen position of external auditor
 - Increase public confidence
- **Research shows there is no evidence of automatic relationship between establishing audit committees & improved governance.**
- **One suggestion of audit committee popularity may be found in their ceremonial function (comforting display of concern for corporate governance).**
- **Questions have been asked about the role of audit committees in the banking system failures.**

How Does The Audit Committee Add Value?

- The role of the Audit Committee is fundamental to ensuring that organisations function according to good governance and accounting and auditing standards, and adopt appropriate risk management arrangements.
- As well as providing assurance within the governance and accountability structures of the organisation, it is essential that the Audit Committee is seen to contribute, **deliver results and value** to the organisation.

Source: NAO, United Kingdom



Governance

**Audit
Committee**

**Finance
Function**

Audit

Role of C&AG and Peer Review 2008

- **A number of areas for improvement were identified**
 - **Client expectations were narrow and limited**
 - **Annual audit seen as a “necessary evil”, rather than a process that could add value to the client**
 - **Need to improve relationship between C&AG and bodies it audits**
 - **Quality of Output Statements limiting role of C&AG**
 - **Lack of resources**
 - **Restricted mandate re Value for Money audits**
- **My research has found that there is much greater support provided to public sector audit committees by the equivalent of the C&AG in other countries (e.g. The UK NAO)**
- **It is well established (in both the public and private sectors) that good communication between the audit committee and the external audit can enhance corporate governance.**
- **The issues identified in the Peer Review limits the effectiveness of public sector audit committees & by extension the effectiveness of corporate governance.**

The Need to Improve Accountability

(Not just an issue for the public sector)

- **Effective communication with shareholders & stakeholders is a vital constituent of good governance, including a clear view of an organisation's performance.**
- **In the report; The 21st Century Annual Report, (ICAEW, 1999) it was envisaged that more information on performance including non-financial performance indicators would be required by future users of financial statements.**
- **Public service performance should be approached from the perspective of enhancing services to citizens and improving value for money.**

The Need to Improve Public Sector Accountability

- **OECD – 2008**
 - Agencies not given appropriate accountability frameworks
- **An Bord Snip Nua (McCarthy Report)– 2008**
 - Management focus is more on maximising expenditure
 - Consideration of outputs & actual performance seem secondary
 - Annual output statements had been ineffective in bringing about greater accountability
- **Transforming Public Services – 2008 (section on governance mentions)**
 - Organisational and sectoral performance and delivery
 - The efficiency and effectiveness of agencies and regulators
 - The governance of agencies and regulators
 - The governance of the Civil Service & its relationship with other sectors & levels of Government
- **Programme for Government (2011-2014)**
 - Commitment to address shortcomings in public sector accountability
 - Committed to giving C&AG more powers re VFM
 - Annual reports to include output statements and audited financial statements
- **Performance Budgeting/Revised Appropriation Account (2011)**
 - New form of annual financial statement/appropriation account, with outputs and KPI

Survey of Public Sector Audit Committees

Themes Covered

- **Communication & engagement between audit committee and C&AG/external auditor**
- **Giving audit committees responsibility for monitoring value for money**
- **Role of the audit committee in reviewing financial statements, policies, etc**
- **Members skills (e.g. financial expertise)**
- **Comments**

Survey of Public Sector Audit Committees - Key Findings

- 89% of audit committee chairman surveyed agreed that giving responsibility for monitoring VFM to the audit committee would be a positive development.**
- A better focus on value for money issues would improve the effectiveness of the audit committee's work.**
- Greater investment in in-house Internal Audit resources rather than using external contractors**
- There is still a major gap in the apparent appreciation by the C&AG's Office that they are accountable for their work, at least in part to the organisation whose accounts they are auditing.**

Survey of Public Sector Audit Committees – Key Findings

- The C&AG has still to fully embrace the professional courtesies and conventions of an auditor and client, or the importance of pre and post audit meetings with the audit committee.**
- There is a wide variation in the quality of the professional relationship between the C&AG's Office and organisations being audited by them.**
- The relationship of audit committees with the C&AG is one sided. Openness seems to be ad-hoc.**
- Enhanced guidelines, whether from the centre or emerging from a network of audit committees, would be helpful.**
- Training/development is required with an emphasis on how audit committees can add value in the public sector.**
- A process of regular evaluation of the audit committee should be in place**

Key Conclusions from Survey

- ✓ **Improved engagement and communication between the C&AG and audit committees is needed.**
- ✓ **Better Internal Audit Resources to support Audit Committee**
- ✓ **Public sector governance would be improved by giving audit committees responsibility for monitoring value for money.**

Key Conclusions from Survey

- ✓ **Updated guidelines for public sector audit committees are needed**
- ✓ **Structured training for public sector audit committees is required**
- ✓ **Regular evaluation of public sector audit committees is needed**

How To Improve Effectiveness of Public Sector Audit Committees?

No	Issue to be Addressed	Action Required	Owner
1	Role of the C&AG	Give C&AG responsibility for auditing <u>output statements</u> . C&AG to improve communication and engagement with the audit committee in each body it audits	PER* C&AG*
2	Role of Public Sector Audit Committees	Issue a revised code setting out the roles required to be performed. This should address the relationship between it and the C&AG on all aspects of the annual audit. The role should also include monitoring value for money.	PER* & C&AG* Sponsoring organization
3	Value for Money	Put in place a <u>performance framework</u> for each organisation, including meaningful <u>key performance indicators</u> , which can be used to assess the performance and value for money delivered by each department/agency. <u>Annual output statements</u> to be audited by the C&AG and published in the annual report.	PER & Sponsoring Organisation Sponsoring organization
4	Membership of Audit Committees	Members of audit committees needs have necessary <u>skills and experience</u> to deal with the role they are being asked to carry out.	Sponsoring organization
5	Other Matters	All audit committee members to receive <u>induction training</u> and undergo regular training to ensure that are competent to carry out their role. All public sector audit committees to undergo <u>evaluation</u> to ensure effective operation.	Sponsoring organisation