

# Audit Committees in the Public Sector

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# Presentation of the Knowledge Product

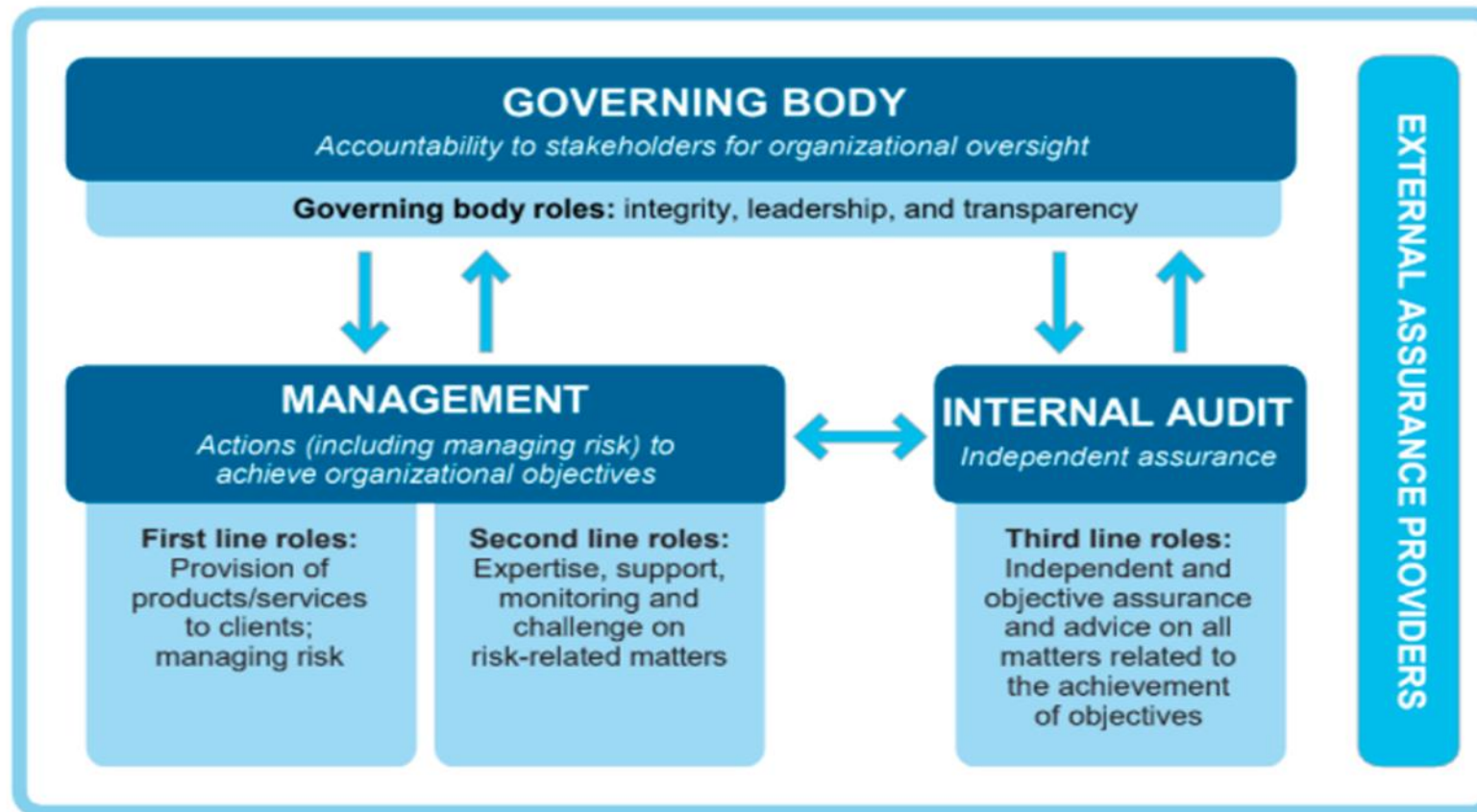
- Position of the audit committee
- Mandate and responsibilities of the audit committee
- Composition of the audit committee
- Reporting line of the audit committee



## **Position of the audit committee**

# Position of the audit committee

## The IIA's Three Lines Model



**KEY:**    ↑ Accountability, reporting    ↓ Delegation, direction, resources, oversight    ↔ Alignment, communication coordination, collaboration

## Position of the audit committee

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*Most PEMPAL countries require state-owned enterprises to have an audit committee but only half require line ministries to have one.*

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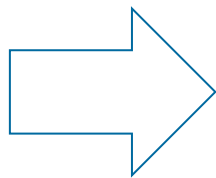


# **Mandate and responsibilities of the audit committee**

# Mandate and responsibilities of the audit committee

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- ❑ Mandate through legislation or regulations, highlighted in a charter
- ❑ Monitor the internal audit function
  - ❑ Quality assessment and improvement program
  - ❑ Actions regarding the chief audit executive / head of internal audit
  - ❑ Endorsement of internal audit plans
- ❑ Oversee the financial reporting process (optional)
- ❑ Monitor the implementation of internal / external audit recommendations
  - ❑ Escalation mechanism
  - ❑ Managerial accountability
- ❑ Oversee the risk management and internal control processes / whistleblowing process and ethics



**! Oversight responsibility, no operational responsibility !**

## Mandate and responsibilities of the audit committee

Where audit committees exist within the PEMPAL network, their focus is generally on the following areas: monitoring/overseeing the internal audit function, the financial reporting process, and risk management and internal control. They also play a role in monitoring management's progress implementing internal and external audit recommendations.





# **Composition of the audit committee**

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- ❑ Size: 3 – 8 members, 4 – 5 ideal
- ❑ Chair (prime) minister
- ❑ Good mix of skills, collectively and individually
- ❑ Independence from management / political environment
- ❑ No conflict of interest
- ❑ Remuneration of independent members is a common practice
- ❑ Length of term should support continuity, 4 years common practice
- ❑ Annual assessment of performance
- ❑ CHU provides support

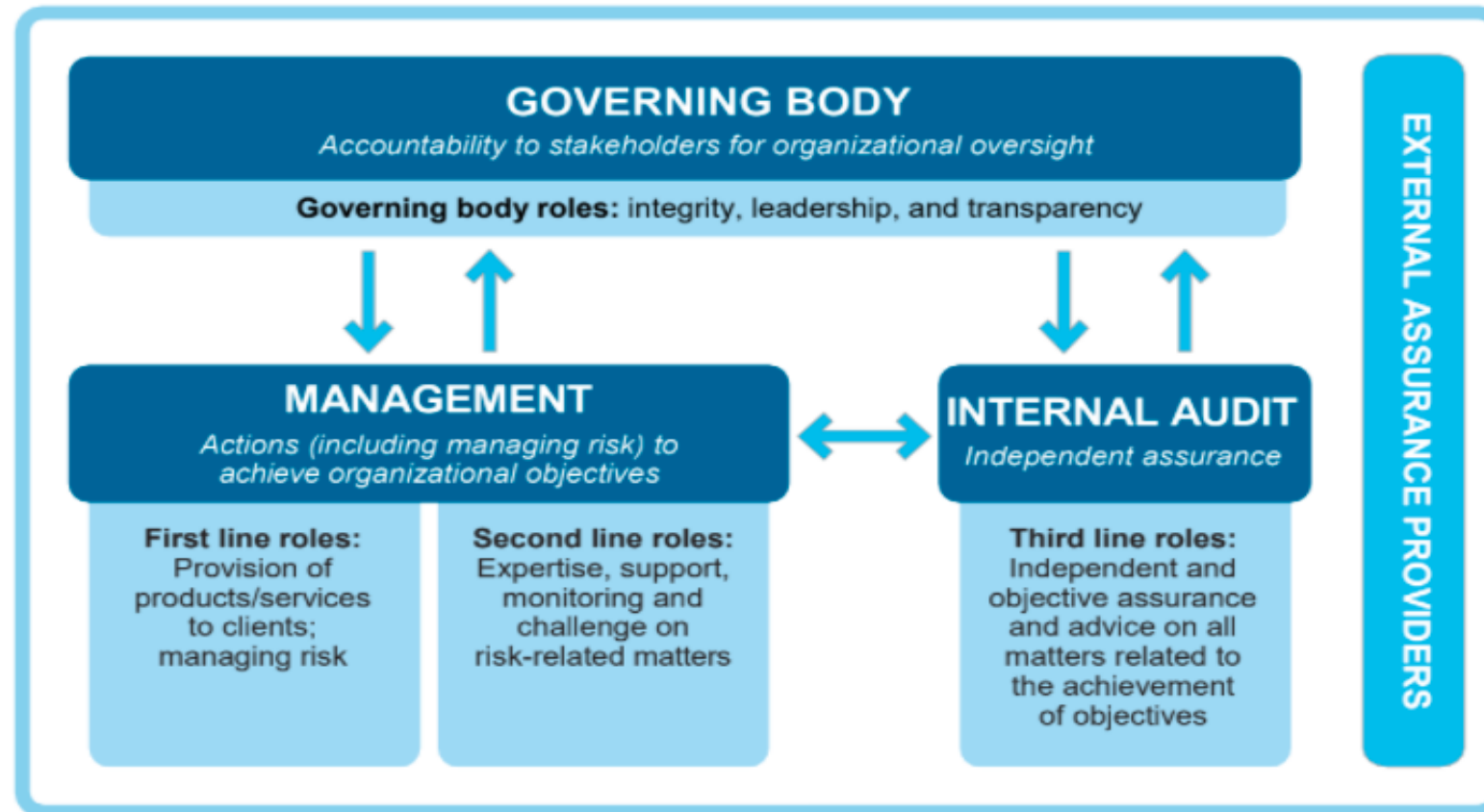
## Composition of the audit committee

With regard to the composition of audit committees, there are differences and discrepancies across the PEMPAL community. Some countries, for example, have a minimum requirement of two independent members in every audit committee but with no maximum for the number of “executive” or non-independent committee members. This has led to examples of committees with two independent members and one “executive” member and conversely with two independent and six members of management, resulting in rather limited independence. In some countries there is one audit committee for the entire government and other countries have an audit committee for each Ministry.

# Reporting line of the audit committee

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# Reporting line of the audit committee

When considering reporting lines, the new three lines model shows the audit committee operating at the governing body level, usually as a small committee of specialists reporting to a larger body. Reporting lines vary across PEMPAL, there are examples of audit committees reporting to the minister overseeing internal audit, normally the minister of finance; to the cabinet of ministers; to boards of directors; and also to parliament, which is perhaps the ideal situation given the accountability of parliament to taxpayers.

**THANK YOU!**

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