

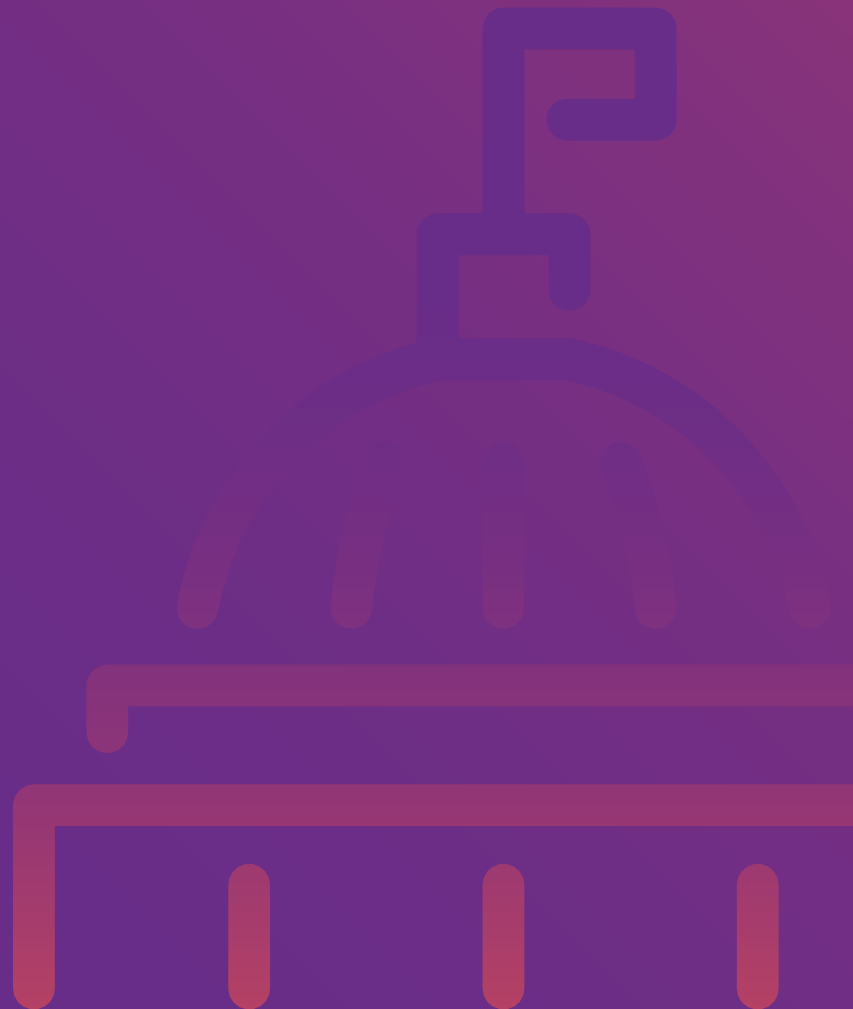
May 7, 2026  
Audit Advisory  
Committee Special  
Meeting

Information distributed  
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# Government audit committees

Part 1 — Getting started: Creating a charter and defining roles and responsibilities



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# Introduction

Audit committees are a critical component to enhancing an organisation's governance and oversight. Entities operating in the public sector have a heightened transparent level of scrutiny and accountability required. The governing entity – whether federal, state or local – is expected to provide governance and oversight to the government's financial reports and processes, internal controls and both internal and external auditors. The most effective manner to address the public's need for transparency, accountability and effectiveness is through the government's audit committee.

A government's audit committee addresses the same issues as business and not-for-profit along with some unique caveats. These caveats include responsibilities that come with being a custodian of public funds. These include responsibilities specific to minimizing fraud, waste, and abuse and identifying opportunities for performance improvements.

This report is the first in a four-part series of best practices of government audit committees globally. It is intended to be used independently, as well as collaboratively. The four parts of the series are:

1. **Understanding of the audit committee** will be explained in the level-setting Part 1. Discussed will be how to develop and enhance your current audit committee charter as well as ensure the committee is appropriately maintained with the right people who are relevantly skilled and trained to understand and address the unique issues facing the entity. The roles and responsibilities may vary from committee to committee, however, there are best practices that are global.
2. **Management of risk** is a key activity of the audit committee. Part 2 will continue the development of the audit committee directors' responsibility into the management of the specific risks. A large part of management of an entity's risk is the evaluation of those tasked with managing risk. An audit committee self-evaluation tool will be provided at this stage to assist the committee and directors for confidence in their abilities and actions.
3. **The expansion of risk management and related resources** is the theme of Part 3. Attention to tolerances, risk limits and a tool for the evaluation of the external auditors is the focus of this report. A greater understanding of the more mature aspects of the risk management area will be discussed here.
4. **Tools for government** will conclude by expanding upon the resources explained, developed and presented in the prior reports and provide additional assistance for a hands-on approach to varying aspects required by the audit committee. This is a must-have for any government audit committee.

# Audit committee member roles and responsibilities

**Overview:** Audit committee roles and responsibilities depend on the governing body and management structure of a government entity and the country, state or municipality in which it operates. The content presented are best practices identified for government entities.

Government entities face ongoing challenges related to the governance of their organization, risks associated with achieving their organization's objectives, and compliance with revised and emerging laws and regulations.<sup>1</sup> The governing body ultimately identifies responsibilities and assigns them to various governing committees, including the audit committee. Delegation of responsibilities and roles of the audit committee varies from entity to entity and continues to evolve. Beyond their responsibility for ensuring reasonably accurate and transparent information

to legislatures and other interested parties, audit committee members are asked to address increasing challenges.

Audit committees generally consist of a minimum of three independent members, at least one of whom is a "financial expert."<sup>2</sup> Other key qualifications may include risk management expertise, and broad government, business or leadership experience. Audit committee responsibilities vary from organization to organization and from country to country.

The effectiveness of internal and external audit, the finance function, and the Audit Committee is increased when the parties work in partnership, providing a highly sound base for governance:



This approach is most effective when the three parties work together in an open environment of communication, and support each other in constructive challenge.

<sup>1</sup> This report uses the term *governing body* to describe those in government entities that have the ultimate authority and responsibility for accountability of that government's public resources. At the federal, state, and local levels of government, the governing body may be a federal agency department head, legislative body, elected official(s), governing board, supervisory board, council or any designee established by law or charter. This report also refers generically to chief executive officers, chief financial officers, and chief audit executives for positions in government entities that are responsible for management, financial and accounting, and internal audit matters.

<sup>2</sup> A financial expert is an individual who possesses, among other attributes: (a) an understanding of appropriate accounting principles and financial statements; (b) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves; (c) experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth, depth, and level of complexity of accounting issues that can reasonably be expected to be raised by the government entity's financial statements, or experience actively supervising one or more persons engaged in such activities; (d) an understanding of internal control and the procedures for financial reporting; and (e) an understanding of audit committee functions.

The following information provides areas for a government entity to consider while defining, assigning and implementing an audit committee's responsibilities. In addition to the items discussed, your government entity should consult concurrently with your identified experts, such as legal, accounting, auditing, risk management, or compliance.

The audit committee assists the governing body in its oversight of

- integrity of the organization's financial statements;
  - internal control including internal control over operations, compliance with laws and regulations, and financial reporting;
  - internal and independent auditor's qualifications, independence and performance; the organization's risk management and overall governance process; and
  - the organization's ethics and compliance program, which includes legal and regulatory requirements.
- Set an agenda for the audit committee meetings based on the audit committee charter and other relevant issues.
  - Ensure that the audit committee prepares and approves the meeting minutes.
  - Provide audit committee reporting responsibilities to the governing body.
  - Educate the other governing body members on the understanding of financial statements, compliance, risks, and internal control.
  - Prepare periodic audit committee reports.
  - Conduct regularly scheduled and documented meetings with the independent external auditor,<sup>3</sup> chief audit executive (leader of the internal audit function), as well as the general counsel, head of the governing body, senior management (for example, the CEO and CFO), and others as needed.

Specific responsibilities assigned to an audit committee are set forth in an audit committee charter that the governing body approves. An audit committee charter should address the audit committee process, procedures and responsibilities. Audit committee responsibilities can vary by government entity due to factors such as the size of the entity, the type of entity, and the complexity of the government entity's service or business model.

The following illustrative lists, which are not intended to be complete, address the overall audit committee process, procedures and oversight responsibilities, as well as best practices for audit committee members.

### Audit committee processes and procedures

- Develop an audit committee charter and obtain approval from the governing body.
- Conduct an annual review of the audit committee charter.

### Oversight of the financial reporting process

- Review critical accounting policies, practices, judgments, estimates, significant issues, significant transactions, adjustments, unusual items, complex issues and business arrangements.
- Review annual and interim financial statements including management's discussion and analysis and budgetary comparisons for structural compatibility and period to period consistency.
- Review annual audited financial statements.
- Obtain explanations from management on all significant variances.

<sup>3</sup> The independent auditor may be mandated by law or regulation to perform audits for external reporting purposes. In turn, a government entity may contract an independent public accountant to perform the audit.

- Question management and the independent auditor about significant financial reporting issues.
- Review comparative data from other corresponding government entities to perform reasonableness tests of the entity's results.
- Facilitate the resolution of disagreements between management and the independent auditor regarding financial reporting issues.
- Determine when a subject-matter expert is required and hire advisers when needed.
- Review management letters containing the independent auditor's recommendations and management's responses to those recommendations.
- Determine that adequate procedures are in place for reviewing the government entity's disclosure of financial information extracted or derived from its financial statements and assess periodically the adequacy of these procedures.
- Understand complex accounting and reporting topics and how management addresses them.
- Review new accounting and reporting requirements and assess how pending financial reporting and regulatory developments may affect the organization.
- Discuss succession planning for the CFO and other key staff.

### Oversight of internal controls

- Oversee the adequacy of the entity's system of internal controls.
- Determine if the entity has adopted an internal control framework (Such as the *Standards for Internal Control in the Federal Government (U.S. Green Book)*)
- Review the development and the implementation of an internal control process over daily operations and compliance with related laws, regulations, or other requirements.

### Oversight of the independent auditor

- Review the audit plan and the scope of audit the independent auditor will conduct.
- Provide pre-approval of all audits, permitted non-audit services and proposed fees.
- Conduct evaluations of the independent auditor. Meet periodically with legal, IT, actuarial, and other specialists.

### Oversight of the internal audit function

- Approve the internal audit department charter.
- Ensure that the internal audit department maintains an effective quality assessment and improvement program.
- Concur in the appointment of the chief audit executive (CAE).<sup>4</sup>
- Review the internal audit department's planning and risk assessment process.
- Review and approve the internal audit department's annual (or periodic) audit plan and scope of audits to be conducted.
- Conduct evaluations of the chief audit executive.
- Ensure that the chief audit executive reports functionally to the audit committee and administratively to senior management such as the head of the governing body.
- Discuss succession planning for the CAE and other key staff.

### Oversight of risk management

- Oversee the system of risk assessment and risk management as the governing body determines.
- Oversee and respond to enterprise risk management activities.
- Periodically reassess the list of top enterprise risks, determining who in the senior leadership team is responsible for each risk.

<sup>4</sup> This may not apply if the CAE is an elected official.

## Oversight of ethics and compliance

- Oversee the system for compliance with legal and regulatory requirements.
- Ensure that management exhibits ethical behavior and reported violations receive action.
- Ensure that a code of conduct has been developed, reviewed, and updated as needed, and that all employees are given the code of conduct, understand it and receive training on a regular basis.
- Ensure that a chief ethics and compliance officer or equivalent has been appointed and has enough personnel and resources commensurate with the entity's needs.
- Review the government entity's procedures for reporting problems, including whistleblower hotline and other communication methods.
- Establish a process for audit committee special investigations, including but not limited to whistleblower allegation, anti-fraud plan compliance, discovery of error and illegal acts.
- Ensure that the chief ethics and compliance officer or equivalent has direct access to the governing body or one of its committees (or similar bodies).

# Audit committee charter and matrix

**Overview:** Preparing an audit committee charter is a best practice for government entities as it creates a clear awareness of the committee's key responsibilities. This matrix is designed to assist audit committees in making the charter a living document. This tool is a sample and users of the tool should put their own charters in the first column and use this example as a guide for defining the steps to accomplish each objective, the associated performance measure and the scheduling. The audit committee charter presented in the following matrix is an example of a best practice charter.

## Purpose

An entity's governing body appoints the audit committee to:

- a. oversee the accounting and financial reporting process and the audit of the entity's financial statements by an independent auditor, and
- b. monitors internal controls and compliance with respect to the entity's operations and related laws and regulations
- c. oversees the entity's risk management process

## Reporting

The audit committee reports directly to the governing body.

## Committee membership

The audit committee shall consist of no fewer than three members, each of whom should be independent. One member shall be designated as a financial expert.<sup>5</sup> The members of the audit committee shall be appointed by the governing body. Audit committee members may be replaced by the governing body at any time. The governing body shall designate the chairperson of the audit committee.

## Committee authority and responsibilities

The audit committee shall meet as often as it determines necessary or appropriate to fulfill its responsibilities, but no fewer than twice annually — once to review the audit plan and once to review the audited financials, and related documents, and to review the audit engagement, special investigations, financial irregularities and internal control failures.

*The roles and responsibilities of the audit committee and its members are expanded upon later within this document (beginning on page 8).*

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<sup>5</sup> A financial expert is a person who has the following attributes: (a) an understanding of generally accepted accounting principles and financial statements; (b) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities; (d) an understanding of internal controls and procedures for financial reporting; and (e) an understanding of audit committee functions.

# 20 best practices – Government audit committee charter matrix for the year ending: \_\_\_\_\_

Audit committee charter	Steps to accomplish the objective	Deliverable	When to achieve (frequency due date)	Date completed
1. Each member of the audit committee shall be appointed by the governing body and shall be independent.	Test for independence.	Indicate in the minutes when a new member is appointed, and their independence has been verified.	Affirm annually and when a change in the status of any audit committee member occurs.	
2. At least one member of the audit committee shall be designated as a financial expert.	Ascertain that at least one member of the audit committee meets the requirements of a financial expert.	Indicate in minutes which member of the audit committee is designated as the financial expert.	Affirm annually, unless there is a change in status.	
3. Review the audit committee's charter annually.	Review the charter each year. Consider adequacy, changes (that are necessary as a result of new laws or regulations) and recommendations.	Report to the governing body on the appropriateness of the audit committee charter and any revisions recommended.	Review annually, unless changes are needed during the year.	
4. The audit committee shall meet as deemed appropriate, but at least twice per year.	All members are expected to attend each meeting in person, or via telephone or videoconference.  The agendas and related materials for meetings should be prepared and provided to members in advance.	Ensure minutes document decisions made, action steps and approvals and that meeting minutes should be filed with the governing body.	Minutes should be distributed as soon as possible but no later than prior to the next meeting.	
5. Conduct executive sessions with the independent auditors, government entity head, chief audit executive (CAE), general counsel, chief information officer (CIO) and others.	Establish these sessions in conjunction with meetings or as necessary.	Develop action steps to be taken if appropriate.	Review as necessary.	

Audit committee charter	Steps to accomplish the objective	Deliverable	When to achieve (frequency due date)	Date completed
6. Review and concur in the appointment, replacement, reassignment, or dismissal of the CAE.	Meet in executive session at each meeting with the CAE the audit committee chair should be present at each meeting.	Report to the full governing body on the performance of the CAE, including the effectiveness of the internal audit function.	Conduct ongoing reviews, as changes can be made at any time during the year.	
7. Appoint or concur with the appointment of the independent auditors and pre-approve any non-audit services provided by the independent auditors.	Review and evaluate the performance of the independent auditors and review with the full governing body any proposed discharge of the independent auditors.	Report on and recommend the performance and fees paid to the independent auditors. Review the scope of <i>all</i> services provided to the entity.	Review soon after year-end, so that the recommendation for the appointment of the independent auditor can be met for the following year.	
8. Review with management policies and procedures related to officers' expense accounts and consider the results of any review of these areas by the internal auditor or the independent auditors.	Review policies and procedures annually. Discuss with the CAE the need for testing by either the internal auditors, independent auditors, or other parties.	Report issues, if any, to the governing body.	Review policies and procedures at a regularly scheduled meeting and discuss the audit plan.  Review any significant findings as they arise.	
9. Make inquiries to management, the CAE, and the independent auditors about significant risks or exposures facing the government entity; assess the steps management has taken or proposes to take, and periodically review compliance with such steps.	Create a portfolio that documents the material risks that the entity faces in developing an enterprise risk management strategy. Update as events occur. Review with management (audit committee, CRO, etc.) and the CAE.	Submit a risk report including mitigation strategies, quantifiable risks, and insurance to cover risks such as property loss or fraud.	Review at least once each year, and more frequently if necessary.	
10. Review the audit scope and plan and address the coordination of audit efforts.	Meet with the independent audit partner, the controller, and CAE to discuss the scope of the previous year's audit and lessons learned. Later, discuss the planned scope for the audit of the current year.	Document the meeting in the audit committee meeting minutes.	At each meeting related to the planning for the annual financial statement audit, review the scope of the previous year's audit, and the inter-relationship between the internal and independent auditors.	

Audit committee charter	Steps to accomplish the objective	Deliverable	When to achieve (frequency due date)	Date completed
<p>11. Review with management and the CAE</p> <ul style="list-style-type: none"> <li>• significant findings on internal audits during the year, and management’s responses,</li> <li>• any difficulties the internal audit team encountered and</li> <li>• any changes required to the scope of their internal audit.</li> </ul>	<p>Review and discuss:</p> <ul style="list-style-type: none"> <li>• findings for each audit completed since the prior meeting, and management’s response to the report,</li> <li>• internal audit department budget and staffing and</li> <li>• internal audit’s compliance with regulatory requirements.</li> </ul>	<p>Document the meeting in the audit committee meeting minutes.</p>	<p>Review as necessary.</p>	
<p>12. Inquire of the government entity head, CFO, independent auditor, CIO, general counsel, and anyone else desired by the audit committee, regarding the subjective and objective condition of the government entity.</p>	<p>Discuss the <i>condition</i> with the government entity head, CFO, CIO, independent auditor, general counsel, and other executives. Identify any issues addressed, and their resolution.</p>	<p>Include in agenda for executive sessions.</p>	<p>Review, as necessary, but at annually.</p>	
<p>13. Review with the independent accountants and the CAE</p> <ul style="list-style-type: none"> <li>• the adequacy of the government entity’s internal controls including computerized information system controls and security and</li> <li>• any related significant findings, recommendations and management responses of the independent auditors and internal audit.</li> </ul>	<p>Review key internal controls with the CAE to understand how these will be tested during the year.</p> <p>Review plans with the independent auditor to understand their scope with respect to key controls.</p> <p>Determine that all internal control weaknesses are quantified, reviewed, and addressed.</p>	<p>Report to the governing body on issues relating to internal controls, with emphasis on management’s ability to override and related monitoring and testing.</p>	<p>Submit a comprehensive report to the governing body each year.</p> <p>Update on anything new, or any changes to the internal control system, at every meeting.</p>	

Audit committee charter	Steps to accomplish the objective	Deliverable	When to achieve (frequency due date)	Date completed
<p>14. Review with management and the independent auditor the effect of any new regulatory and accounting initiatives.</p>	<p>Identify new developments related to the industry and the environment in which the government entity operates, including any regulatory or statutory requirements to which it may be subject.</p> <p>Discuss with management and the independent auditors in meetings.</p>	<p>Record discussion and any action steps in audit committee meeting minutes.</p>	<p>Review as necessary.</p>	
<p>15. Review with the external auditor</p> <ul style="list-style-type: none"> <li>• all critical accounting policies and practices used by the government entity,</li> <li>• all alternative treatments of financial information and</li> <li>• all material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.</li> </ul>	<p>Discuss each matter and related matters that may come to the attention of the audit committee or the independent auditors through this process.</p> <p>Create an action plan and follow-up plan as necessary.</p>	<p>Submit reports and documentation of discussions and resolution of disagreements.</p>	<p>Review, at least annually, and in conjunction with the year-end audit.</p>	
<p>16. Review with management and the independent auditors</p> <ul style="list-style-type: none"> <li>• the government entity's annual financial statements and related footnotes,</li> <li>• the independent auditors' audit of the financial statements and their report,</li> <li>• any significant changes required in the independent auditors' audit plan and.</li> <li>• any serious difficulties or disputes with management encountered during the audit.</li> </ul>	<p>Discuss each matter that may come to the attention of the audit committee through this process, with management (including the CAE) and the independent auditors.</p> <p>Review with management the course of action to be taken.</p> <p>Monitor any follow-up action that requires continued audit committee intervention.</p>	<p>Submit reports and documentation of discussions, resolution of disagreements, or action plan for any item requiring follow up.</p>	<p>Review at the completion of the independent audit.</p>	

Audit committee charter	Steps to accomplish the objective	Deliverable	When to achieve (frequency due date)	Date completed
17. Review with the general counsel and the CAE legal and regulatory matters.	Discuss whether the government entity is in compliance with laws and regulations.	Report to the governing body that the review has taken place and any matters that need to be brought to its attention.	Review at each meeting.	
18. Periodically review with the CAE and general counsel the government entity code of conduct and compliance with this document.	Consider steps to be taken to ensure compliance is at the highest possible level.	Report to the governing body that the review of the code of conduct was done. Recommend changes to the code of conduct to the governing body as needed.	Review annually at the fourth-quarter meeting. Review any significant findings as they arise.	
19. The audit committee will evaluate the independent auditors and internal auditors.	Use information from executive sessions conducted throughout the year. Use a formal assessment tool for each group.	Submit recommendations for changes in processes and procedures. For independent auditors, request RFPs, if changes are being considered.	Review after completion of the annual audit.	
20. The audit committee should review its effectiveness.	It is recommended that an audit committee conduct a self-assessment.	Discuss and record in the minutes any recommendations for improving the effectiveness of the audit committee with the governing body.	Review annually.	

# Conclusion

Audit committee roles and responsibilities depend on the governing body and management structure of a government entity and the country, state or municipality in which it operates. The content presented represent best practices identified for government entities.

Based upon the public awareness and environments surrounding the government sector, best practices include: 1. development of the charter, 2. defining roles and responsible and 3. understanding and obtaining appropriate training for the members. The management accountant provides financial expertise as well as a proficiency in the entity's governance structure.

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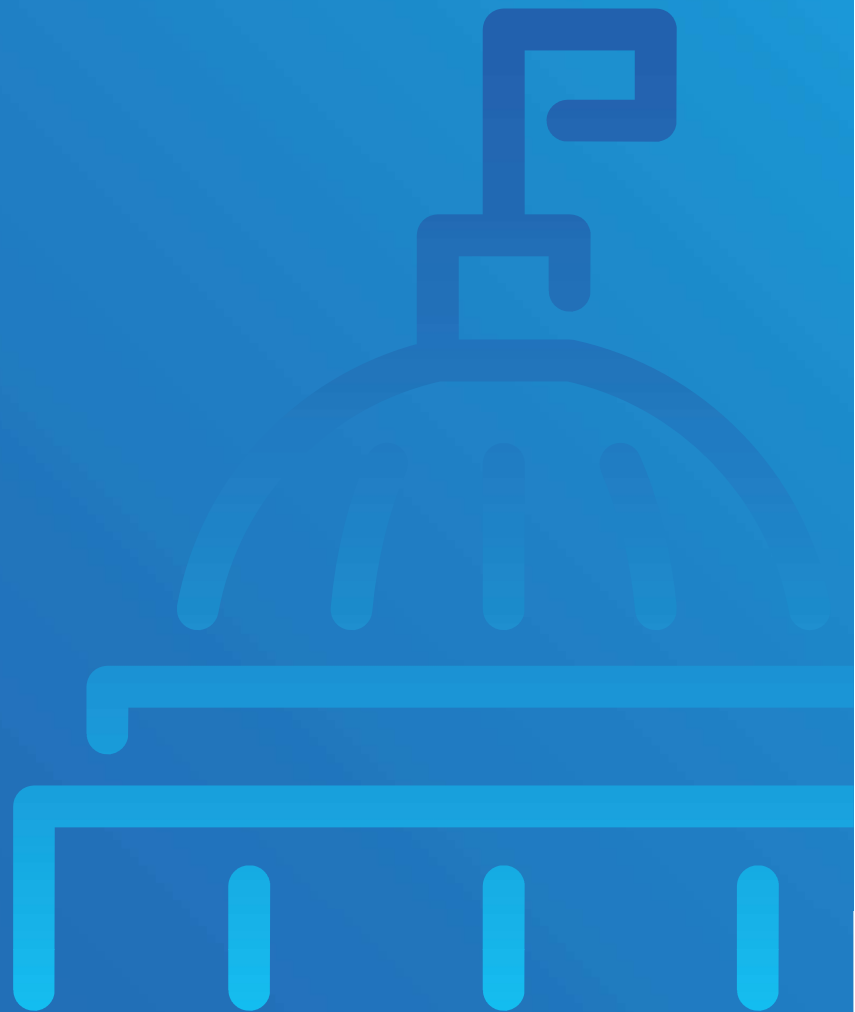


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# Government audit committees

Part 2 – Hitting your stride: Understanding internal controls, fraud and audit findings



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# Introduction

As previously introduced, audit committees are a critical component to enhancing an organisation's governance and oversight. The work of the committee may seem daunting to those that have never served before; however, ample tools and resources are available to support those tasked with this governance responsibility.

This report will provide an overview of the functions and responsibilities along with some tools that could be used to assess risk in the organisation. Additional resources are available on [cgma.org](http://cgma.org), [cimaglobal.com](http://cimaglobal.com) and [aicpa.org](http://aicpa.org).

This report is the second in a four-part series of best practices of government audit committees globally. It is intended to be used independently as well as collaboratively. Within this series the:

1. **Understanding of the audit committee** was explained in the level-setting Part 1. This part covers 1) structure; how to develop and enhance your current audit committee charter, 2) staffing; how to ensure the committee is appropriately maintained with the right people and 3) training; ensuring personnel are appropriately skilled and trained to understand and address the unique issues facing the entity. The roles and responsibilities may vary from committee to committee, however, there are best practices that are global.
2. **Management of risk** is a key activity of the audit committee. In Part 2 we continue the development of the audit committee's responsibility by introducing an understanding, evaluation and management of internal controls and risk. A discussion cannot be held without including attention to fraud as well as the identification and mitigation of material weaknesses.
3. **Expansion of risk management and related resources** is the theme of Part 3. Attention to tolerances, risk limits and a tool for the evaluation of the external auditors is the focus of this report. A greater understanding of the more mature aspects of risk management area discussed here.
4. **Tools for government** will conclude by expanding upon the resources explained, developed and presented in the prior reports and provide additional assistance for a hands-on approach to varying aspects required by the audit committee. This is a must-have for any government audit committee.

# Internal Control: Guidelines and Tool for the Audit Committee

**Overview:** This section is intended to give the audit committee function basic information about internal control systems, including their purpose and limitations, how to most effectively use them in the entity, and the requirements of management concerning controls over financial reporting. Note that the primary responsibility of the audit committee with respect to internal controls is the system of internal controls over financial reporting and over compliance with laws, regulations, contracts, grant agreements, abuse and operations.

In 1992, the Committee of Sponsoring Organisations (COSO)<sup>1</sup> of the National Commission on Fraudulent Financial Reporting, also known as the Treadway Commission, published a document called *Internal Control – Integrated Framework* (framework).<sup>2</sup> The COSO framework was cited as an example of a “suitable control framework” by the SEC, along with similar frameworks issued by Canadian and UK-based organisations, and has become widely used by U.S. companies, both public and private, and not-for-profit entities. The framework was updated in 2013 and provides a comprehensive principles-based approach to understanding internal control while retaining the definitions and components of the original framework. This includes a codification of the 17 principles, which were implicit in the original framework, that support the five components. These provide clarity for designing and implementing systems of internal control and understanding requirements for effectiveness.

The COSO framework defines internal control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.” The nature, extent, and formality of an entity’s system of internal

control will vary because the entities are different in terms of organisational size; products and services offered (government, public, private, or not-for-profit); customer base; and regulatory requirements. Therefore, the internal control process should be tailored to fit that entity’s operating environment. The process consists of ongoing tasks and activities effected by people who can provide reasonable but not absolute assurance of operating effectiveness. As such, the system of internal controls may range from highly formal and structured to informal and less structured and may still be effective.

## Internal Control

“A process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.”

<sup>1</sup> The Committee of Sponsoring Organisations consists of the American Institute of CPAs (AICPA), the Institute of Management Accountants (IMA), the Institute of Internal Auditors (IIA), Financial Executives International (FEI), and the American Accounting Association (AAA).

<sup>2</sup> The COSO publication *Internal Control—Integrated Framework* (Product Code Numbers 990025P and 990025E), may be purchased through the AICPA store at [www.cpa2biz.com](http://www.cpa2biz.com). The proceeds from the sale of the Framework are used to support the continuing work of COSO.

**The European Court of Auditors (ECA) uses IFAC's *The International Framework: Good Governance in the Public Sector (GGPS)*, which was jointly developed by IFAC and the Chartered Institute of Public Finance and Accountancy (CIPFA) to help improve and encourage effective public sector governance. The Framework encourages better governed and managed public sector organisations by improving decision making and the efficient use of resources. Enhanced stakeholder engagement, robust scrutiny, and oversight of those charged with primary responsibility for determining an entity's strategic direction, operations, and accountability leads to more effective interventions and better outcomes for the public at large. The guiding principles of the Framework identifies two behaviors which acting in the public interest requires:**

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency

The COSO framework introduced the five components of internal control. Standards for Internal Control in the *U.S. Federal Government* (known as the Green Book),<sup>3</sup> adapts these components for a government environment. According to COSO and the Green Book, internal control consists of five interrelated components as follows:

- 1. Control environment.** The control environment is the foundation of the system of internal controls and sets the tone for the organisation. It provides the discipline, structure, and expectations for carrying out internal control across the organisation. The governing body and senior management establish the tone at the top regarding the importance of internal control and expected standards of conduct and how directions are provided and responsibilities and authorities are assigned. The control environment also comprises the employees' integrity, ethical values, knowledge, and management's philosophy and operating style, including how employees are developed.
- 2. Risk assessment.** Risk assessment involves an ongoing process for identifying, analysing, and managing risks to help the entity achieve its objectives. Management should be cognizant of the ever-changing conditions in the entity's internal and external environments, including economic, regulatory, and operating conditions, and adopt mechanisms to effectively manage business risks.

- 3. Control activities.** Control activities are the actions established by policies and procedures to help ensure that management directives are carried out and that objectives are met. Control activities are the actions to mitigate risks and are performed at all levels of the entity and various stages within business processes. Control activities can prevent or detect errors and may be manual or automated. These activities include, but are not limited to, approvals, authorisations, verifications, reconciliations, reviews of operating performance, the security of assets, and segregation of duties.

- 4. Information and communication.** Information is necessary for people to carry out their responsibilities so an entity can achieve its objectives. It must be identified, captured, and communicated to people in the right format and at the right time. Communications occur both externally and internally. Within an organisation, information must be communicated in all directions to allow employees to carry out day-to-day activities. Communication enables employees to understand internal control responsibilities and their importance to the achievement of objectives.

- 5. Monitoring activities.** Monitoring activities consist of ongoing assessments, separate evaluations, or a combination to assess the quality and operation of the system of internal

<sup>3</sup> This document (GAO-14-704G, September 2014) is available through GAO's website (<http://www.gao.gov>).

control. They are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, is present and functioning. The ongoing assessments are the activities of managers and supervisors to continually evaluate control requirements. On the other hand, separate evaluations are used periodically to determine whether controls are established and functioning as intended. While assessments are done at different times, deficiencies should be identified and communicated to staff and management in a timely manner, with serious matters reported to senior management and to the governing body.

The five components of the system of internal control are intertwined with the organisation's operating activities and are most effective when controls are built into the organisation's infrastructure, becoming part of the very essence of the organisation.

### Internal Control Effectiveness

An effective system of internal controls provides an entity with reasonable assurance of achieving its objectives. An effective system of internal controls reduces, to an acceptable level, the risk of not achieving an entity's objectives. Effective internal control requires that each of the five components is present and functioning; it also requires that the components operate together in an integrated

manner. Internal control can be judged as effective if the governing body and management have reasonable assurance of achieving an entity's operations, reporting, and compliance objectives.



### Key point

The organisation should know which controls are working and what their limitations are.

### Internal Control Limitations

Even though a system of internal control is important to an organisation in achieving its objectives, an effective system of internal controls is not a guarantee that the organisation will be successful. An effective internal control structure will keep the right people informed about the organisation's progress in achieving its objectives, but it cannot turn a poor manager into a good one. Internal control cannot ensure success, or even survival.

Internal control is not an absolute assurance to management and the governing body that the organisation has achieved its objectives. It can only provide reasonable assurance, due to limitations inherent in a system of internal controls.

In a **government entity, executives and senior management should**, among other things, **set the appropriate "tone at the top"** for the entity's control environment by doing the following:

- Ensuring that executives and management at all levels of the entity understand their role in cultivating the proper level of control awareness and play an integral part in establishing and maintaining internal control
- Mandating accountability through properly established policies and procedures and monitoring compliance on an ongoing basis
- Designing internal control so that risks are effectively managed and that material weaknesses are identified and reported to the appropriate level of management in a timely manner
- Requiring disclosure to the entity's auditors and the audit committee of (a) all significant deficiencies in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarise, and report financial data, as well as any material weaknesses in internal control; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the entity's internal control

In addition, controls can be circumvented by collusion or by management override. Otherwise, effective internal controls cannot be relied upon to prevent, detect, or deter fraudulent financial reporting perpetrated by senior management. The audit committee must evaluate whether there are oversight mechanisms in place and functioning that will prevent, deter, or detect management override of internal controls.

### Day-to-day internal controls functions

There are many participants in an organisation's internal control structure:

**Accounting (and Finance) Staff.** The accounting staff is responsible for many of the key control activities for financial reporting. It is important for them to understand the need for a system of internal control, to be committed to carrying out the requirements, and to communicate its importance within the organisation. Leadership must demonstrate the commitment to the controls through his or her actions.

**Other Personnel.** The system of internal control is only as effective as the employees throughout the organisation who must comply with it. Employees should understand their roles in the system of internal controls, the importance of supporting controls through their actions, and encouraging compliance by colleagues throughout the organisation. These employees are not just limited to those in finance or accounting. The IT infrastructure plays a large role in a sound internal control environment.

**Internal Audit.** Internal audit is independent of management and responsible for evaluating the effectiveness of the system of internal control. Additionally, internal audit will often know about issues that the external auditor may not be privy to.



#### Key point

Internal controls are management's responsibility, not that of the internal or external auditor.

**External Audit.** The external auditor is engaged by the organisation to audit the reliability of financial reporting and, in certain reporting jurisdictions, the effectiveness of internal control over financial reporting and compliance.

### Practices in Understanding Audit Findings

The audit committee will be briefed on audit findings and should have a solid understanding of what the different types of findings mean and how they can impact the goal of financial reporting. The following graphic depicts findings from worst to least severe.

Material Weakness

Significant Deficiency

Deficiency

**Material Weakness.** A deficiency, or a combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A tool on how the audit committee should respond to a material weakness is included in the appendix.

*Examples of weaknesses that likely would be considered material depending on the circumstances include the following:*

- Ineffective oversight by the audit committee over the external financial reporting process, and internal controls over financial reporting
- Material misstatements in the financial statements not identified initially by internal controls
- Significant deficiencies that have been communicated to management and the audit committee but that remain uncorrected after a reasonable period
- Restatement of previously issued financial statements to correct a material misstatement

- For larger, more complex entities, ineffective internal audit functions
- Fraud of any magnitude on the part of senior management
- An ineffective control environment

**Example:** An organisation has several small findings related to IT management: password lockouts, patch management, review of user access, etc. Individually, these are most likely “deficiencies”. However, when aggregated, the auditor considers these issues to be a Material Weakness. The auditor has determined that the organisation cannot rely on its internal controls over access to the IT infrastructure and the accounting system.

**Significant Deficiency.** A deficiency, or a combination of deficiencies, in internal controls over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the entity’s financial reporting. Alone or combined with other deficiencies, a significant deficiency results in more than a remote likelihood that a misstatement of the financials that is more than inconsequential in amount will not be prevented or detected.

**Example:** A variety of grant agreements and contracts fund the organisation, making it necessary for the accounting department to review each grant agreement and contract to ensure proper revenue recognition. Because each grant agreement and contract is not always reviewed, revenue has been misstated on occasion. It is unlikely that any single grant agreement or contract could result in a material misstatement of revenue, and there are controls in place to ensure that material misstatements do not occur. However, a misstatement that is more than inconsequential yet less than material could result, creating a significant deficiency in internal control.

**Deficiency.** The design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect errors or misstatements on a timely basis.

**Example:** A member of the accounting department has been assigned responsibility to perform reconciliations on all bank accounts on a monthly basis. This person also has responsibility for opening the mail and preparing the daily deposit to the bank. The person’s manager is required to review each completed reconciliation, but the manager does not sign off consistently on the reconciliation indicating review.

In this scenario, two internal control deficiencies exist: (1) the lack of segregation of duties because one individual is preparing the cash deposit and reconciling the cash accounts, and (2) the lack of documentation of a control because the manager did not sign off the reconciliation indicating a completed review.

The severity of a deficiency depends on two factors: (1) whether there is a reasonable possibility that the entity’s controls will fail to prevent or detect a misstatement of an account balance or disclosure, and (2) the magnitude of the potential misstatement resulting from the deficiency or deficiencies. It is important to note that the severity of a deficiency does not depend on whether a misstatement occurred but rather on a reasonable possibility that the entity’s controls will fail to prevent or detect a misstatement. In determining whether a deficiency rises to the level of resulting in a misstatement of an account balance, risk factors need to be considered. These risk factors include, but are not limited to the following:

- The nature of the financial statement accounts, disclosures, and assertions involved
- The susceptibility of the related assets or liability to loss or fraud
- The subjectivity, complexity, or extent of judgment required to determine the amount involved

- The interaction or relationship of the control with other controls, including whether they are interdependent or redundant
- The interaction of the deficiencies
- The possible future consequences of the deficiency (for example, reduced grant or government funding)

The audit committee needs to be advised and updated regularly on the external auditor's consideration of internal controls as part of the financial statement audit and should have a clear understanding of the expected outcome. If the auditor identifies internal control deficiencies, management should have a plan in place to correct weaknesses, and the audit committee should already be engaged in the review and approval of that plan.

### Another Internal Control consideration

Internal controls exist throughout an organisation and may cover the organisation as a whole or may cover individual functions or transactions. Frequently used terms when discussing internal controls include:

**Entity-level controls.** Entity-level controls permeate all levels of the organisation, and they establish the "tone at the top." Examples include the following:

- Controls related to the control environment\*
- Controls over management override
- The risk assessment process\*
- Centralised processing and controls, including shared service environments
- Controls to monitor results of operations
- Controls to monitor other areas, including activities of the internal audit function, the audit committee, and self-assessment programmes\*
- Controls over the period-end financial reporting process
- Policies that address significant business control and risk management practices\*

\* These items will be expanded upon in the next report when we discuss Enterprise Risk Management.

# Internal Control – Checklist of Essentials for the Governing Body

**Purpose of this tool:** This checklist provides an understanding of key governing body-level responsibilities within each of the five interrelated components of an entity's system of internal controls. The audit committee's role within the framework focuses on internal controls over financial reporting and the processes in place to design, implement, and monitor the entity's broader system of internal controls. It is also responsible to aid the governing body in its oversight of internal controls, risk management and overall governance process. This can be achieved through the committee's interaction with senior management, independent auditors, external and internal auditors, and other key members of the financial management team. These questions are written in such a manner that a "No" response indicates a weakness that should be addressed.

Internal Control Checklist	Yes	No	Not Sure	Comments
<b>Control Environment – Demonstrates Commitment to Integrity and Ethical Values</b>				
1. Do comprehensive standards of conduct exist to address acceptable business practice, conflicts of interest, and expected standards of ethical and moral behavior for the entity? Is the governing body accountable for the definition and application of the standards?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are the standards of conduct regularly communicated and reinforced to all levels of the entity, outsourced service providers, and business partners? Are management's efforts to communicate the standards both sufficient and effective in creating awareness and motivating compliance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Do the governing body and management demonstrate through actions and behaviors their commitment to the standards of conduct? Is there consistency at all levels of the entity? Is appropriate action taken in response to violations of the standards of conduct?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Environment – Exercises Oversight Responsibility</b>				
4. Does the governing body define, maintain, and periodically evaluate the skills and expertise needed among its members to enable them to ask probing questions of senior management and take commensurate actions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Does the governing body set the expectations for the performance, integrity, and ethical values of senior management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Internal Control Checklist	Yes	No	Not Sure	Comments
6. Does the governing body assume oversight responsibility for management's design, implementation, and conduct of internal control?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Environment – Establishes Structure, Authority and Responsibility</b>				
7. Has the governing body established appropriate oversight structures and processes (i.e. board and committees) for the entity? Is the organisational structure within the accounting function appropriate for the size of the entity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Does the governing body retain authority over significant decisions and review management's assignments and limitations of authorities and responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Environment – Demonstrates Commitment to Competence</b>				
9. Do governing body committees contain members who have the requisite level of skills and expertise commensurate with the committee's responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are governing body oversight effectiveness reviews commissioned periodically, with opportunities for improvement identified and addressed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Is the governing body effective in exercising its fiduciary responsibilities to external stakeholders (as applicable) and due care in oversight (for example, prepare for and attend meetings, review the entity's financial statements and other disclosures)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Does the governing body or its committee evaluate the performance, integrity and ethical values of senior management and address shortcomings? Is the governing body informed about the turnover of key personnel?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13. Do succession plans, contingency plans or both exist for the CEO and other key personnel to assign key responsibilities in internal controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Internal Control Checklist	Yes	No	Not Sure	Comments
<b>Control Environment – Enforces Accountability</b>				
14. Does the governing body challenge senior management by asking probing questions about the entity’s plans and performance, and require follow-up and corrective actions, as necessary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Does the governing body act to address competence, internal control, and standards of conduct shortcomings among the head of the agency, the entity, and its outsourced service providers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Does the governing body or its committee align executive compensation, incentives, and rewards appropriately, including consideration of related pressures, with the fulfillment of internal control responsibilities in the achievement of objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Risk Assessment</b>				
1. Does the governing body consider significant risks to the achievement of objectives from external sources, such as creditor demands, economic and regulatory conditions, labor relations, and sustainability? Does the entity identify related issues and trends?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does the entity consider significant risks to the achievement of objectives from internal sources, such as business continuity, retention of and succession planning for key employees, financing and the availability of funding for key programmes, competitive compensation and benefits, and information systems security and disaster recovery? Does the entity identify related issues and trends?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Does management have a process in place to proactively assess risk of significant changes, such as entering a new market, disruptive innovations, economic/geo-political shifts, fraud, and management override of internal controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Does the governing body apply an appropriate level of skepticism and challenge management’s assessment of risks? Is the risk of misstatement of the financial statements considered, and are steps taken to mitigate that risk?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Internal Control Checklist	Yes	No	Not Sure	Comments
<b>Control Activities</b>				
1. Does the governing body assume the responsibility to oversee senior management effectively in its performance of control activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does the governing body have necessary assurance from management, internal and external auditors, and others (as appropriate) that control activities are designed effectively and operating to address all significant risks to the preparation of reliable financial statements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Does the governing body make specific inquiries of management regarding the selection, development, and deployment of control activities in significant risk areas and remediation as necessary? Does the entity design control activities proactively to address emerging significant risk areas?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Information and Communication</b>				
1. Do the governing body and management have an effective level of communication in place to enable the fulfillment of their roles concerning the entity's objectives and to enable consistency in direction and tone at the top?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does the governing body receive the necessary operational and financial information relating to the entity's achievement of objectives on a timely basis and in a format that facilitates its use? Does the governing body review and discuss this information?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Does the governing body apply critical judgment effectively to scrutinise the information provided and present alternative views?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Does the governing body review disclosures to external stakeholders for completeness, relevance and accuracy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Does the governing body receive communications regarding relevant information from third party assessments?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Internal Control Checklist	Yes	No	Not Sure	Comments
6. Do open communication channels exist to allow relevant information to flow to the board from internal and external sources including stakeholders, auditors, regulators, and employees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Is there an effective process established and publicised periodically to political officials, employees, and others to allow open communication of suspected instances of wrongdoing by the entity or employees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Monitoring Activities</b>				
1. Does the governing body understand the nature and scope of monitoring activities including ongoing assessment and/or separate evaluations to enable an effective determination of whether the components of internal control continue to function over time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does the governing body inquire of management, internal and external auditors, and others (as appropriate) to understand the presence and nature of any management overrides of controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Does the governing body receive regular communications from management regarding its evaluation of internal control and the status of remediation of deficiencies?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Does the governing body engage with management, internal and external auditors, and others (as appropriate) to evaluate the adaptability of the entity's strategies and internal control framework to evolving business, infrastructure, regulations and other factors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Once an understanding and evaluation of the Internal Control functions has taken place, the audit committee function needs to carry out its responsibilities with an understanding of fraud. The following section contains an overview of the audit committee's responsibilities as it relates to fraud.

# Fraud and the Responsibilities of the Audit Committee

An audit committee should take an active role in the prevention and deterrence of fraud, in addition to implementing and maintaining an effective ethics and compliance programmes. Effective audit committees challenge management constantly, and the auditors should take steps continually to ensure that the government entity has appropriate antifraud programmes and controls in place. With those controls, management will be able to identify potential fraud and undertake investigations when instances of fraud are detected. The audit committee should take an interest in ensuring that appropriate action is taken against known perpetrators of fraud.

The public's expectations have been raised about all parties involved in organisational governance, including the audit committee, management, independent auditors, internal auditors, regulators, and law enforcement. The audit committee's role has been elevated greatly as a result of such fraud discoveries. Fraud can be costly to all types of organisations, including government entities.

## Definition and Categories of Fraud

An understanding of fraud is essential for the audit committee to carry out its responsibilities. According to *Black's Law Dictionary* and the Association of Certified Fraud Examiners, a condensed definition of *fraud*:

*A knowing misrepresentation or knowing concealment of a material fact made to induce another to act to his or her detriment.*

Fraud affecting the organisation generally falls within one of three categories:

1. **Financial statement fraud**, where an employee intentionally causes a misstatement or omission of material information in the organisation's financial reports (for example, recording fictitious revenues, understating reported expenses or artificially inflating reported assets).

2. **Corruption**, where an employee misuses his or her influence in a business transaction in a way that violates his or her duty to the employer to gain a direct or an indirect benefit, such as schemes involving bribery or conflicts of interest.
3. **Asset misappropriation**, where an employee steals or misuses the organisation's resources (for example, theft of organisation cash, false billing schemes or inflated expense reports).

These fraud schemes can arise from the following sources within an entity:

1. **Executive fraud**, which involves senior management's intentional misrepresentation of financial statements, or theft or improper use of entity resources.
2. **Management fraud**, which involves middle management's intentional misrepresentation of financial statement transactions, for example, to improve their apparent performance. Because of management's ability to override controls, this is one of the most difficult to control.
3. **Employee fraud**, which involves non-senior employee theft or the improper use of entity resources.
4. **External fraud**, which involves theft or the improper use of resources by people who are neither management nor employees of the entity. Outside individuals may, for example, collude with management or employees. Those doing business with the government (vendors, grantees, benefit recipients) may attempt to defraud the government which might have a material effect on the financial statements.

## Roles of the Audit Committee in the Prevention, Deterrence, Investigation, and Discovery or Detection of Fraud

The members of the audit committee should understand their role of ensuring that the government entity has a strong internal control environment in place, including the design and implementation of programmes and controls to prevent and detect fraud. The audit committee also needs to be prepared to aid in the discovery of fraud, investigate, and report on its findings to the governing body or head of the government entity. The components of a robust fraud control programme should include (1) a fraud risk assessment,<sup>4</sup> (2) fraud reporting mechanisms and protocols, (3) investigation protocols, (4) a disciplinary action policy applied consistently, and (5) a process to identify and report conflicts of interest, usually in the form of an annual conflict of interest questionnaire completed by all employees.

The audit committee should ensure that the government entity has implemented an effective ethics and compliance programme and that it is tested periodically. The design of the internal control system should consider the risk of fraud explicitly. Since the occurrence of significant frauds can be attributed frequently to an override of internal controls, the audit committee plays an important role by validating the accuracy of information received by applying skepticism and ensuring that internal control both addresses appropriate risk areas and is functioning as designed.

Internal auditors can serve a vital role in aiding in fraud prevention and deterrence. Internal audit staff who are experienced and trained in fraud prevention and deterrence can help to provide assurance that (1) risks are effectively identified and monitored, (2) organisational processes are effectively controlled and tested periodically, and (3) appropriate follow-up action is taken to address control weaknesses. The audit committee needs to ensure that internal auditors are carrying out their responsibilities in connection with potential fraud.

The most effective method for detecting fraud historically has been tips. In many cases, these tips are obtained using whistleblower policies and hotlines. Government entities should require the audit committee to establish procedures for the receipt, retention, and treatment of complaints received. Some levels of government may have laws or regulations that establish specific requirements applicable in a specific government entity.

## Governance Considerations

To set the appropriate tone at the top, elected government officials should first ensure that the elected officials themselves are governed properly. This encompasses all aspects of governance.

The elected government officials also have the responsibility to ensure that management designs effective fraud risk management documentation to encourage ethical behavior and to empower employees, customers, and vendors to insist those standards are met every day. To understand fraud risks relative to the entity's mission and operations, the governing body should do the following:

1. Maintain oversight of the fraud risk assessment by ensuring that fraud risk has been considered as part of the entity's risk assessment and strategic plans. This responsibility should be addressed under a periodic agenda item at management meetings when general risks to the entity are considered.
2. Monitor management's reports on fraud risks, policies, and control activities, which include obtaining assurance that the controls are effective. Management should also establish mechanisms to ensure it is receiving accurate and timely information from management, employees, internal and external auditors, and other stakeholders regarding potential fraud occurrences.
3. Oversee the internal controls established by management.
4. Set the appropriate tone by actively promoting the ethical values of the entity by insisting that ethical behavior is an integrated part of all key executives' job descriptions, hirings, evaluations, and succession-planning processes.

<sup>4</sup> The COSO publication *Internal Control—Integrated Framework*, Principle 8, (p. 78) describes the assessment of fraud risk as one of the fundamental concepts of internal control within an organisation.

5. Have the ability to retain and pay outside experts where needed.
6. Provide external auditors with evidence regarding the governing body's and the head of the government entity's active involvement and concern about fraud risk management.
7. Monitor and assess reports of fraud in comparable organisations.

The governing body and the head of the government entity may choose to delegate oversight of some or all such responsibilities to management or a committee established by the governing body. These responsibilities should be documented in the applicable job description or committee charters. The governing body should ensure it has enough resources of its own and approve enough resources in the budget and long-range plans to enable the entity to achieve its fraud risk management objectives through their delegates.

### Expertise of Forensic Accounting Consultants

In some situations, it may be necessary for an organisation to look beyond the independent audit team for expertise in the fraud area. In such cases, CPA and certified fraud examiner (CFE) forensic accounting consultants can provide additional assurance or advanced expertise, since they have special training and experience in fraud prevention, deterrence, investigation, and detection. Forensic accountants may also provide fresh insights into the organisation's operations, control systems, and risks. Forensic accounting consultants, however, cannot act as insurers to prevent or detect fraud.

### When Fraud Is Discovered

Fraud can be discovered through many sources, including internal or external auditors forensic accounting consultants, employees, and vendors. Establishing a confidential hotline can also be an important source of information leading to fraud discovery, as part of a government entity's overall ethics, compliance, and fraud prevention programme. Although a confidential hotline is something that could be accomplished internally, a variety of outside service providers can be engaged to provide this service for the government entity.

If fraud or improprieties are asserted or discovered, the audit committee — through the independent external auditors, internal auditors, forensic accounting consultants, or others as appropriate — should investigate, and, if necessary, retain legal counsel to assert claims on the government entity's behalf. Forensic accounting consultants, in particular, may be needed to provide the depth of skills necessary to conduct a fraud investigation, and if it is desirable, for an independent assessment. Criteria should be in place describing the audit committee's level of involvement, based on the severity of the offense. Audit committees will also want to obtain information about all violations of the law and the organisation's policies.

A final area within this report is for audit committee oversight is to address material weaknesses as identified in a report by the independent auditors.

# Responding to the Identification of a Material Weakness — A Checklist for the Audit Committee

## Internal Control Evaluation Requirements

The auditor should be required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of material misstatement. In making those risk assessments, the auditor considers internal control to design audit procedures that are appropriate in the circumstances. The auditor may identify deficiencies in internal control not only during this risk assessment process but also at any other stage of the audit.

When auditors identify such findings, they should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit objectives.

## Responding to the Identification of a Material Weakness

When a financial audit report discloses deficiencies in internal control, auditors obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. The audit committee should be engaged in the review and approval of that response and any subsequent corrective action plan. The checklist in this section provides guidance and questions which the audit committee can ask as part of its review.

## Steps the Audit Committee Can Consider If Faced with an Adverse Report on Internal Control

**Instructions for using this tool:** In a government entity facing a negative report on internal control, those charged with governance should take steps to ensure that (1) any material weakness(es) in internal control are swiftly corrected or a plan has been created to address the issues, and (2) key stakeholders are assured that corrective action has been taken. This tool has been prepared purposefully for broad application. No single tool of a practical length could be developed to address all different situations that could cause a negative report on an organisation's internal controls over financial reporting. When faced with a negative report, those charged with governance should use this tool in the context of the deficiencies noted. As with all tools of this type, users must apply their insight and judgment to the situation to maximise benefits.

The following are sample questions to help guide the audit committee through this process.

Sample Questions	Comments
<b>Management Team</b>	
<p>1. Interview members of the management team, including the chief financial officer (CFO), controller, and other management, as necessary, closer to the situation, about the weakness(es). You should consider conducting these interviews in an executive session.</p>	
<ul style="list-style-type: none"> <li>• Who identified the weakness, and in what context, such as the annual financial statement audit, routine internal audit or management review was it identified?               <ul style="list-style-type: none"> <li>a. Management</li> <li>b. Internal audit</li> <li>c. Independent auditors</li> <li>d. Another third party</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• What are the nature and root cause of the control failure?</li> </ul>	
<ul style="list-style-type: none"> <li>• How long has the weakness existed?</li> </ul>	
<ul style="list-style-type: none"> <li>• What are the financial statement implications of the control failure? Are there regulatory or compliance implications? Will this weakness become public information? Are there reputational implications? Could the control failure have been the result of fraud?</li> </ul>	
<ul style="list-style-type: none"> <li>• If the root cause is systemic, such as turnover, were other controls affected? Are there other controls in the area that may mitigate the control that failed?</li> </ul>	

Sample Questions	Comments
<ul style="list-style-type: none"> <li>• What is management’s corrective actions plan and timing to correct the material weakness?</li> <li>• Is the timing reasonable? Have impediments (budget, conflicting priorities) been considered?</li> </ul>	
<p>2. Explore with the management team how much was known about the weakness(es) when the Government Entity Head and CFO prepared the financial statements and made certifications regarding those financial statements (if applicable).</p>	
<ul style="list-style-type: none"> <li>• Consider any implications to these financial statements considering the material weaknesses noted.</li> </ul>	
<p>3. In subsequent years, ask the management team for an update on the status of the current year’s weakness.</p>	
<h3 style="color: #4F81BD;">Those Charged with Governance</h3>	
<p>1. Discuss the material weakness with those charged with governance.</p>	
<ul style="list-style-type: none"> <li>• Are you comfortable with management’s assertions about the material weakness and the corrective action plan? Determine whether internal audit, management, or a third party conducted any recent testing in the area and understand the results of their testing.</li> </ul>	
<ul style="list-style-type: none"> <li>• Do you have concerns that fraud or an illegal act was involved in the material weakness?</li> </ul>	
<ul style="list-style-type: none"> <li>• Has management been responsive to findings and recommendations in the past? Has management been cooperative and open during the review of the material weakness?</li> </ul>	

Sample Questions	Comments
<h2 style="color: #4F81BD; margin: 0;">Independent Auditor</h2>	
<p>1. In the executive session, discuss the findings, implications, and recommendations with the independent external auditor and internal auditors.</p>	
<ul style="list-style-type: none"> <li>• Determine whether the independent external auditor's (or internal auditor's, if applicable) result is consistent with the result of management's assessment of internal controls.</li> </ul>	
<p>2. Collect information from the independent external auditor based on his or her knowledge of internal controls and experiences with other clients:</p>	
<ul style="list-style-type: none"> <li>• Has the weakness been discussed with the entity in the past? Does management have the proper tone at the top regarding internal controls?</li> </ul>	
<ul style="list-style-type: none"> <li>• Is this weakness a result of a unique situation at the entity?</li> </ul>	
<ul style="list-style-type: none"> <li>• Is this weakness a result of a unique situation in the related industry or government sector?</li> </ul>	
<p>3. After meeting with the management team, those charged with governance and the independent external auditor (or internal auditor, if applicable), address whether the weakness(es) could have resulted from an illegal act.</p>	
<ul style="list-style-type: none"> <li>• Consider the need to conduct a formal investigation in the area to determine if the weakness(es) resulted from an illegal act.</li> </ul>	
<ul style="list-style-type: none"> <li>• Consider the need to engage a forensic accountant or auditor to review the situation if any fraud or illegal activity is suspected.</li> </ul>	
<ul style="list-style-type: none"> <li>• If an illegal act is suspected, work expeditiously to determine if such an act occurred. If confirmed, notify those charged with governance or other relevant parties. of a unique situation in the related industry or government sector?</li> </ul>	

Sample Questions	Comments
4. Consult experts from outside the entity about the weakness(es) and the steps necessary to be taken to correct it or them.	
5. Work with management to develop a plan to correct the weakness(es):	
<ul style="list-style-type: none"> <li>• Identify metrics that can be reported to internal and external parties on the progress being made in correcting the weakness(es).</li> </ul>	
6. Provided the entity has corrected its internal control weakness successfully, consider whether to engage the independent external auditor to issue a separate report on the elimination of the weakness in internal control over financial reporting.	
7. In subsequent years, ask the independent external auditor for an update on the status of the current year's weakness.	
<b>Additional considerations</b>	
1. Review with management its plan to respond to audit findings, conclusions and recommendations.	
2. Review with management its plan to reassure key stakeholders about the findings, conclusions and corrective action plans.	
3. Review with management its strategy with reporters who might be interested in the government entity's plans to correct the weakness(es) noted (if applicable).	
4. Inquire of management if they have considered other potential implications of the findings identified. For example, consider whether the findings identified could have an impact on:	
<ul style="list-style-type: none"> <li>• Compliance with debt covenants</li> </ul>	
<ul style="list-style-type: none"> <li>• Grant requirements</li> </ul>	
<ul style="list-style-type: none"> <li>• Other parties/customers/beneficiaries.</li> </ul>	

# Conclusion

An overview of the basic information about internal control including its purpose and limitations, key terms, and responsibilities of the audit committee, especially as they relate to internal control over financial reporting have been defined. The concepts are not complex, but sometimes the application of the controls can be a challenge in a government entity, depending on its size, culture and prior exposure to the concepts.

The objective of reliable financial reporting may be paramount for the audit committee of a public sector entity, an effective system of internal controls also encompasses compliance, operational, and non-financial reporting objectives that are critical as well. Establishing an integrated process that includes all five components of the internal control framework and is the primary means of having reasonable assurance that these three important objectives are being met. Simply stated, a strong system of internal control, both in its design and operation, is good business.

Reactions to recent corporate and not-for-profit scandals have led the public and stakeholders to expect government entities to take a “no fraud tolerance” attitude. Good governance principles demand that a government entity’s governing body and oversight committees ensure overall high ethical behavior in the organisation, regardless of its status as public, private, government, or not-for-profit; its relative size; or its industry. The governing body’s role is critically important because major frauds have historically been perpetrated by senior management in collusion with other employees. Vigilant handling of fraud cases within a government entity sends a clear message to the public, stakeholders, and regulators about the governing body and management’s attitude toward fraud risks and the government entity’s fraud risk tolerance. Audit committees are required to play a pivotal role in the prevention and deterrence of fraud, and to take appropriate action in the discovery of fraud. Independent public accountants, hired by audit committees, and internal auditors will continue to play an important part in the process.

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# Government audit committees

Part 3 – There's more to consider: Internal audit function, independent auditors and risk management



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# Introduction

Audit committees are a critical component to enhancing an organisation's governance and oversight. Entities operating in the public sector have a heightened transparent level of scrutiny and accountability required. The governing entity, whether federal, state or local, is expected to provide governance and oversight to the government's financial reports and processes, internal controls and both internal and independent auditors. The most effective manner to address the public's need for transparency, accountability and effectiveness is through the government's audit committee.

A government's audit committee addresses the same issues as business and not-for-profit along with some unique caveats. These caveats include responsibilities that come with being a custodian of public funds. These include responsibilities specific to minimising fraud, waste, and abuse and identifying opportunities for performance improvements and the value of money.

This report is the third in a four-part series of best practices of government audit committees globally. It is intended to be used independently as well as collaboratively. Within this series the

1. **Understanding of the audit committee** will be explained in the level-setting [Part 1](#). Discussed will be how to develop and enhance your current audit committee charter as well as ensure the committee is appropriately maintained with the right people who are appropriately skilled and trained to understand and address the unique issues facing the entity. The roles and responsibilities may vary from committee to committee, however, there are very specific practices that are global.
2. **Management of risk** is a key activity of the audit committee. In [Part 2](#) we continue the development of the audit committee's responsibility by introducing an understanding, evaluation and management of internal controls and risk. A discussion cannot be held without including attention to fraud as well as the identification and mitigation of material weaknesses.
3. **Expansion of risk management and related resources** is essential for a successful audit committee as outlined in Part 3. Illustrating the relationship of internal controls to enterprise risk management and how resources play a key role within an organisation is the focus of this report.
4. **Tools for government** will conclude this series by expanding upon the resources explained, developed and presented in the prior reports and provide additional assistance for a hands-on approach to varying aspects required by the audit committee. This is a must have for any government audit committee.

# Additional considerations

The main objective of an audit committee is to oversee its entity's audit, financial reporting and internal controls to provide oversight of compliance with laws and regulations. The assessment of the system of internal controls, operations and non-financial objectives lends itself to establishing integrated processes. While the auditor should be required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of material misstatement (See Part 2 for more on internal controls), the audit committee should have sufficient knowledge to assist the entity's governing body to oversee the audit, internal controls, deficiencies and associated risks.

The checklists in this report provide guidance for the audit committee in its review of both internal and external auditors. The audit committee should also review the entities' enterprise risk management (ERM) program for risk appetite and tolerance, limitations, mitigations, and evaluate internal and independent auditors, as well as external counsel, other advisors, and specialists. This document further explains the interrelationship between internal controls and ERM. As internal and independent auditors are a critical resource in evaluating both internal controls and risk management, the tools included in this document enable a government's audit committee to evaluate the effectiveness of its internal and independent auditors.

## Enterprise risk management

ERM is an attempt to manage risk in a comprehensive manner that is aligned with the strategic direction of the organisation and integrated with the everyday management of the government entity. Many government entities, governing bodies and audit committees view risk management from this strategic perspective and consider risk management oversight to be a critical element of governance.

### ERM and its relationship to internal control

The ERM framework is geared toward achieving an entity's objectives through its strategic plan, operations, reliable reporting and compliance with applicable laws and regulations. ERM is not a serial process, but a multi-directional iterative process, with the eight components (internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring) affecting each other. Likewise, the eight components will not function identically in every government entity. Application in small and medium-sized government entities is likely to be less formal and less structured.

The components are the criteria for the effectiveness of ERM. When each of the eight

components is determined to be present and functioning effectively, and risk has been brought within the government entity's risk appetite, the governing body has reasonable assurance that they understand the extent to which each of the objectives is being achieved by the government entity.

In September 2004, the Committee of Sponsoring Organisations (COSO) of the National Commission on Fraudulent Financial Reporting of the Treadway Commission published a document called *Enterprise Risk Management – Integrated Framework*, (ERM framework), which defined ERM as

... a process, effected by an entity's board of directors, management, and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The Internal Control framework mentioned in Part 2 remains in place as a tool for evaluating internal control by itself and is also encompassed within ERM. The relationship between internal control and ERM is possibly best captured by the phrase “you can have effective internal control without effective ERM, but you cannot have effective ERM without effective internal control.”

Internal control is an integral part of ERM, which is a broader conceptual tool, expanding and elaborating on internal control, focusing more fully on risk, especially as it relates to strategic considerations. The ERM framework expands on the internal control framework by including the objectives, environment, risk appetite and tolerance, a portfolio of risks, and risk assessments and responses.

The audit committee has multiple responsibilities to assist the entity's management and the governing body in its oversight, including (for full list, see Part 1 of the *AICPA's Government Audit Committees* report and the entity's audit committee charter):

- internal control including internal control over operations, compliance with laws and regulations, and financial reporting;
- internal and independent auditor's qualifications, independence and performance; and
- the organisation's risk management and overall governance process.

Intrinsic to the audit committee's responsibilities is the oversight of risk appetite and tolerance, limitations, and mitigation through evaluation of the internal and independent auditors, counsel, and other specialists.

## Risk appetite and tolerance and limitations

Risk appetite, set by management, with oversight by the audit committee and risk management governing body, is a broad-based conceptualisation of the amount of risk that a government entity is willing to take to achieve its objectives. Often expressed as the desired or acceptable balance among growth, risk and return, or as stakeholder value-added measures, a government entity's risk appetite serves as a guidepost for making strategic choices and resource allocation decisions that are consistent with its established risk appetite.

The risk appetite is supported by more specific risk tolerances that reflect the degree of acceptable variation in performance relative to the achievement of objectives. Risk tolerances are usually best measured in the same units as the objectives that they relate to, and are aligned with the overall risk appetite.

Effective ERM will provide reasonable assurance about the achievement of an entity's objectives to management and the governing body. However, achievement of objectives is affected by limitations inherent in any management process and the inherent uncertainty of all human endeavors.

The role and reality of human judgment in all aspects of management, including the selection of appropriate objectives, the inevitability of some degree of failure or error and the possibility of collusion or management override of the process are limiting factors that decrease the effectiveness of management-level decisions. Another important limitation that must be considered is the cost of various risk response alternatives in relation to their projected benefits.

## Mitigation of risks

The responsibility for evaluating the effectiveness of the government entity's risk management function requires the internal audit function to maintain its independence and objectivity with respect to this function. Accordingly, a best practice from a corporate governance perspective would suggest that reporting responsibility for the risk function be a management responsibility that is separate from internal audit. That said, because of internal audit's position in the government entity and its knowledge of risk assessment, the internal audit team often is responsible for facilitating the ERM process. In the role of facilitator, internal audit can aid in maintaining its independence by communicating its role regularly to stakeholders, including the audit committee. The audit committee should monitor this structure to ensure that roles and responsibilities are understood, and internal audit is maintaining its independence. We do note that if an organisation does not have an internal audit function, ERM can still be implemented as it is a very important function within the organisation.

# Evaluations of internal auditors

**Overview:** The audit committee, including the chief audit executive (CAE), has the responsibility to oversee and evaluate the internal audit function. This includes ensuring the internal audit function is independent and objective to perform its work effectively across the government entity to provide the audit committee with an assessment on the state of the government entity’s risk, control, governance, and monitoring activities.

In discharging this responsibility, the audit committee should answer a series of questions about the quality and performance of the internal audit function and should obtain input from others in the government entity including management and independent auditor. The sample questions included in this tool are only a starting point for evaluating the performance and effectiveness of the internal audit function. Audit committee members should ask follow-up questions as appropriate and required.

Evaluation of internal audit team	Yes	No	N/A	Comments
1. Has the internal audit charter been evaluated at least annually and presented to senior management and the audit committee for approval?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Has the CAE assessed whether the internal audit activity’s purpose, authority, responsibility, as defined by the internal audit charter, is adequate to enable the activity to meet its objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. a. Does the internal audit function maintain a quality assurance and improvement program?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
b. Has the internal audit function conducted the external quality assessment review (QAR) (either a full external assessment or a self-assessment with an independent external validation)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
c. Did the CAE discuss the form and frequency of external assessment and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest with the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
d. Has the CAE at least annually discussed the results of the quality assurance and improvement program with the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
e. Has the CAE disclosed any nonconformance with the standards?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Evaluation of internal audit team	Yes	No	N/A	Comments
4. Is the CAE reporting relationship appropriate to provide adequate independence to enable the internal audit activity to meet its responsibility? Government entity independence is effectively achieved when the CAE reports functionally to the audit committee and administratively to the government entity head.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Does the government entity's executive leadership support and value the work performed by the internal audit function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. If the internal audit function is outsourced:				
a. Are the areas outsourced appropriately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
b. Is sufficient monitoring in place to assure the quality of the outsourced function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Is the internal audit function independent and are the internal auditors objective when performing their work?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Is the internal audit function's size, budget, and structure adequate to meet its established objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Has the internal audit function discussed all scope limitations and access issues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Do the internal auditors feel comfortable raising issues that could reflect negatively on management? Are matters that warrant audit committee attention brought forth on a timely basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Are the technical knowledge, including information technology knowledge, and experience levels of the internal audit function staff sufficient to ensure that duties are performed appropriately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Is the internal audit function's work planned appropriately to address the risks of the government entity and focused on the right areas/topics of high risk, judgment, and sensitivity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13. Has the internal audit function solicited the input of senior management and the audit committee in its planning?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Evaluation of internal audit team	Yes	No	N/A	Comments
14. Does the internal audit function's work encompass a good balance between operational and financial areas?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Does the internal audit function appear to be using its time and resources effectively and efficiently in performing the annual internal audit plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Relating to the annual independent audit, was the internal audit function involved?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
a. If so, was the internal auditor function involvement effective?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
b. If so, were activities adequately coordinated with the independent auditor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Are reports accurate, objective, clear, concise, constructive, complete and timely; and supported by sufficient, reliable, relevant and useful information?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Did the internal audit function provide constructive observations, implications, and recommendations in areas needing improvement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19. Does management respond in an appropriate and timely fashion to significant recommendations and comments made by the internal audit function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20. Did the internal audit function address any feedback satisfactorily from the audit committee or senior management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
21. Does the internal audit function stay abreast of relevant updates and governmental regulations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
22. Does the internal audit function have adequate on-boarding and training programs to incorporate new staff members quickly?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
23. Does the internal audit function have continuing education programs and leadership training to grow and develop staff?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
24. Please share any additional thoughts that could further improve the internal audit function's effectiveness and efficiency.				

# Evaluations of independent auditors

**Overview:** As a best practice, the audit committee has the responsibility to hire, compensate, evaluate and terminate the independent auditor (auditor). In discharging this responsibility, the audit committee should answer a series of questions about the quality and performance of the auditor, and should obtain input from others in the government entity, including management and internal audit.

The sample questions included in this tool are only a starting point for evaluating the performance and effectiveness of the independent audit function. Audit committee members should ask follow-up questions as appropriate and required. For some governmental entities, the independent auditor may be from another government entity. If this is the case, while the audit committee and government entity management would not have the authority to hire and terminate the independent auditor, most of these questions would still be applicable in being able to provide feedback around the performance and effectiveness of the independent auditor.

## Questions for audit committee members

Evaluation of the independent auditor	Yes	No	N/A	Comments
<b>Quality of resources and services</b>				
1. Does the audit team have the knowledge and skills necessary to meet the government entity's audit requirements, including specialised skills and knowledge of the specific government sector or enterprise? (Consider the following questions in making this determination: (1) Does the auditor have experience with entities similar to yours? (2) Does the auditor have experience with performing the type of audit that your organisation needs (e.g., under government auditing standards, single audit requirements or a specific federal audit guide)? (3) Does it appear that the auditor is committed to quality (e.g., participation in the peer review process, participation in other quality control programs such as the AICPA's Governmental Audit Quality Center, etc.)? (4) Are the auditor and firm licensed and independent?)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Has the auditor adequately identified the appropriate risks considered in the planning of the audit, including tone at the top, fraud, governance matters and risk of management override of controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you satisfied with the auditor's planning, execution, and communication related to the audit, including the scope, nature, extent and timing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Evaluation of the independent auditor	Yes	No	N/A	Comments
4. Does the audit team leverage the work performed by internal audit, management, or government auditors for the audit or reporting of internal control when determining the work needed for the audit of the financial statements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Do the auditor's written reports to the committee cover all appropriate issues adequately, considering the accounting framework used and requirements of relevant auditing standards, as well as elements required by the auditor contained in the committee charter?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Has the auditor presented the committee with the audit organisation's latest peer review report? If findings are noted within the report(s), has the auditor communicated the resolution?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Has the auditor evidenced that it is committed to quality (e.g., participation in the peer review process, participation in other quality control programs, internal quality assurance programs that ensure an adequate representation of governmental audits, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Quality of communications</b>				
8. Does the auditor communicate issues openly, and in a complete and understandable way?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Does it appear that the auditor is free from undue influence by management, and that the auditor is comfortable raising issues that would reflect negatively on management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Does the auditor take advantage of an executive session appropriately, if permitted by law, by discussing any sensitive issues professionally, candidly and in a timely manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Does the auditor communicate, or ensure that management communicates, relevant developments in accounting principles and auditing standards that could affect the government entity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Does the auditor volunteer constructive observations, implications, and recommendations in areas needing improvement, particularly with respect to the government entity's internal controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Evaluation of the independent auditor	Yes	No	N/A	Comments
<b>Independence and objectivity</b>				
13. Considering all audit-related and non-audit services performed by the auditor, are you satisfied that the auditor remains independent and objective both in fact and appearance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14. Are you satisfied that the auditor reports all matters openly to the committee that might be thought to bear on the audit organisation's independence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Based on the nature of the auditor's answers to questions posed by the committee, do you feel confident that the auditor maintains appropriate objectivity and professional skepticism?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Final evaluation</b>				
16. Based on your assessment and the results of other consultations with management and internal auditors, if applicable, would you rehire the auditor to conduct future audits? If yes, what changes would you make, if any? If no, why not?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

## Questions for management and/or internal audit

In addition to the questions above, following are questions the audit committee may ask of government entity's personnel, such as the CAE, government entity head, CFO, controller or general counsel, to assist in evaluating the performance of the auditor.

Evaluation of the independent auditor	Yes	No	N/A	Comments
1. Does the internal auditor work with independent audit to ensure the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. a. Are you satisfied with the knowledge, skills, and abilities of the staff assigned to do the audit work?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
b. Are you satisfied with the performance of the engagement leadership assigned, including the partner(s), manager(s), director(s), and fieldwork leaders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Was the work with the auditor conducted in the spirit of professionalism and mutual respect?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. a. Are you aware of any other information that might impair the independence of the independent auditor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
b. Are you aware of any individuals on the audit team who might not be independent with respect to the government entity for whatever reason?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. a. If the choice were yours, would you hire the independent auditor to conduct future audits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
b. If yes, what changes would you make, if any? If no, why not?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

# Engaging independent counsel and other advisers/specialists

**Overview:** An audit committee may need the expertise from outsiders other than the independent auditor. This chapter addresses considerations to assist audit committee members in understanding the process of engaging independent counsel and other advisers if needed.

When selecting independent counsel or other advisers (expert or adviser) for an engagement within the government entity, the audit committee should not only consider the education, training, and experience of the specialists and staff assistants actually performing the work, but it should determine that the service provider:

- maintains integrity and objectivity;
- is free of conflicts of interest with respect to the members of the audit committee and the government entity;
- has the expertise and resources necessary to do the work it is under consideration to do; and
- has a reputation for reliability, among other considerations.

Inherent in the selection process is the audit committee's ethical responsibilities to avoid situations involving the appearance or actual conflict of interest or loss of objectivity (for example, the audit committee should avoid the appearance of "opinion shopping" or obtaining a predetermined outcome).

Although the nature of every engagement will be different, the initial steps the audit committee (or its designee) should undertake when engaging external resources, while not all-inclusive, include the following:<sup>1</sup>

- Determine that the expert or adviser has the competence and experience to perform the requested service. Check references with other clients of the service provider.

- Determine whether the expert or adviser has a conflict of interest with respect to the government entity. Such a conflict might arise if the expert or adviser has a relationship with the independent auditor, or the subject of the engagement, or if he or she provides service to a competitor. Depending on the nature of the service to be offered, a conflict could arise if the expert or adviser has a relationship with a member of the governing body, or a member of the entity's management. Be aware of other potential conflicts of interest that may distract, or undermine, the work to be done.
- Determine if the expert or adviser has sufficient resources to perform the work in the time frame specified by the audit committee.
- Evaluate the scope of work to be performed and other issues, including the proposed plan for payment of fees and expenses.
- Obtain expert or adviser consent to issue a written report of the results of the effort and, during the engagement retention process, obtain a sample or intended format of the report contents. This is particularly helpful if an audit adviser is hired by the audit committee and the audit adviser reviews the work of the incumbent auditor to address an issue. In this situation, the audit adviser is usually requested to sign a document that prevents the adviser from reporting issues discovered regarding the independent auditor's position or documentation of the issue.

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<sup>4</sup> In a government environment, these considerations are typically part of the formal procurement process.

- Make sure all parties, including management and the expert or adviser, understand that the audit committee is the owner of the service relationship. Make sure that management understands that the expert or adviser is working on behalf of the audit committee and the audit committee expects management to be fully cooperative and forthcoming with respect to any information that may be requested.
- Determine the criteria that will be used to measure the expert's or adviser's work and document those criteria in an agreement with the service provider.
- Execute an engagement letter specifying the scope of services to be performed and the terms of the engagement.
- Ensure that the external counsel or adviser clearly understands the reporting relationship(s) and to whom he or she will report and share the findings of the engagement.

As with any relationship, communication and expectations management are important and should be clearly established prior to the start of an engagement.

## Conclusion

All organisations from small governments to large, face a myriad of risks and opportunities in a rapidly changing world. Whether small or large, local or global, a more explicit, enterprise approach to risk management can help an organisation maximise its opportunities while avoiding unnecessary pitfalls or surprises. Audit committee roles and responsibilities depend on the governing body and management structure of a government entity and the country, state or municipality in which it operates. The content presented within this report provides best practices identified for government entities.

Based upon the public awareness and environments surrounding the government sector, best practices begin with the development of the charter and not only a defining of but

understanding of and appropriate training of the members' roles and responsibilities. The audit committee's responsibilities include understanding internal controls, fraud and audit findings, ERM, and their roles as they relate to internal and independent auditors, and external counsel, other advisers and specialists.

This series has highlighted the vast array of responsibilities that a government's audit committee should oversee utilising best practices. The fourth and final installment in this series, *Tools for Government*, will feature additional hands-on tools that can be used by the audit committee. These will aid the entity in reviewing their enterprise risk management (ERM) program, address crisis and feature a summary of tools used in this series.

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# Government audit committees

Part 4 – Tools for government



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# Introduction

As previously introduced, audit committees are a critical component to enhancing an organization's governance and oversight. Entities operating in the public sector have a heightened transparent level of scrutiny and accountability required. The governing entity, whether federal, state or local, is expected to provide governance and oversight to the government's financial reports and processes, internal controls, and both internal and independent auditors. The most effective manner to address the public's need for transparency, accountability and effectiveness is through the government's audit committee.

This four-part series has highlighted the vast array of responsibilities and best practices recommended for a government's audit committee. Part 4 of this series is intended to provide additional tools available that can be used to review the organization's enterprise risk management (ERM) program, a new tool that has been developed to assist the audit committee's responsiveness during such events as the COVID-19 pandemic and concludes with a summary of all tools described throughout this four-part series. Additional resources are available on [cgma.org](http://cgma.org), [cima.com](http://cima.com) and [aicpa.org](http://aicpa.org).

This report is the fourth in a four-part series of best practices of government audit committees globally. It is intended to be used independently as well as collaboratively. Within the series:

1. **Understanding of the audit committee** is explained in the level-setting [Part 1](#). Discussed is how to develop and enhance your current audit committee charter as well as ensure the committee is appropriately maintained with the right people who are appropriately skilled and trained to understand and address the unique issues facing the entity. The roles and responsibilities may vary from committee to committee, however, there are best practices that are global.
2. **Management of risk** is a key activity of the audit committee. In [Part 2](#) we continue the development of the audit committee's responsibility by introducing an understanding, evaluation and management of internal controls and risk. A discussion cannot be held without including attention to fraud as well as the identification and mitigation of material weaknesses.
3. **Expansion of risk management and related resources** is essential for a successful audit committee as outlined in [Part 3](#). Illustrating the relationship of internal controls to enterprise risk management and how resources play a key role within an organization is the focus of this report.
4. **Tools for government** concludes by expanding upon the resources explained, developed and presented in the prior reports and provide additional assistance for a hands-on approach to varying roles and responsibilities required by the audit committee. This is a must-have for any government audit committee.

# Tools for government

All organizations, from small governments to large, face myriad risks and opportunities in a rapidly changing world. Audit committee roles and responsibilities depend on the governing body and management structure of a government entity and the country, state or municipality in which it operates.

The content presented within this report provides best practices identified for government entities. This report will expand upon hands-on tools and resources available for the audit committee to review the organization's ERM program, a COVID-19/crisis essential considerations checklist, and a guide for audit committees on financial reporting and management during COVID-19.

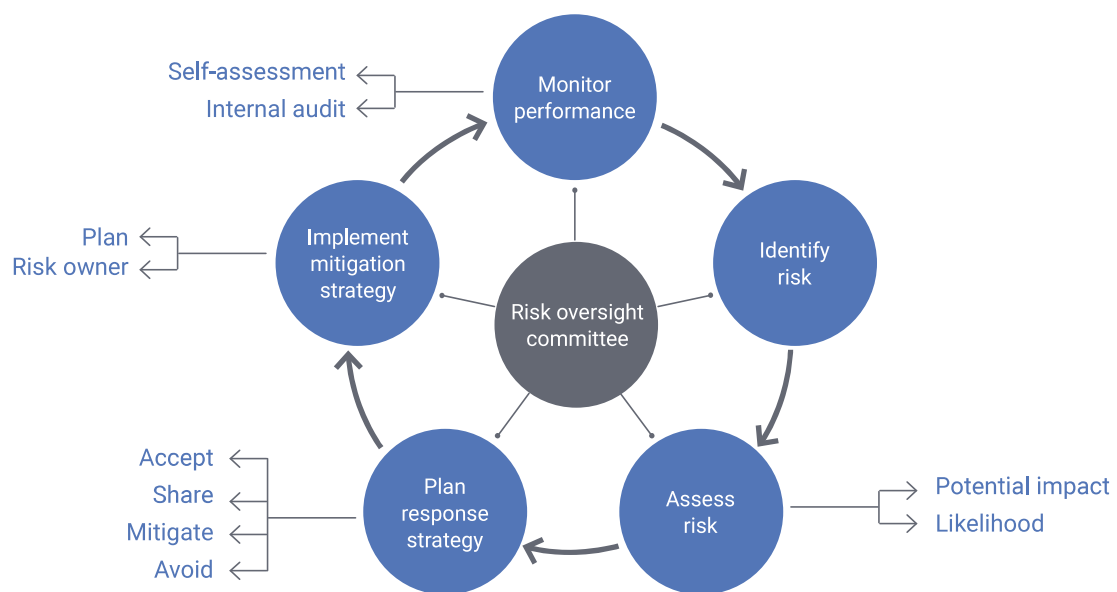
# Enterprise Risk Management Toolkit

Organizations of all types face a seemingly ever-increasing array of risks that may significantly affect their strategic success. Many are working to enhance their understanding and management of emerging risks by embracing an enterprise-wide risk oversight process. A more explicit, enterprise approach to risk management can help an organization maximize its opportunities while avoiding unnecessary pitfalls or surprises. There is no regulatory mandate for implementation of enterprise risk management. However, if and

when implemented, management should have responsibility for identifying and reviewing risks on a systematic basis and the government audit committee should assume oversight of the process.

ERM is a structured enterprise-wide view of risks affecting an organization. An ERM process is shown in figure 1.

Figure 1: ERM process



# Strategic ERM Oversight Tool

ERM is a technique to manage risk in a comprehensive manner that is aligned with the strategic direction of the organization and integrated with the everyday management of the government entity. Many government entities, governing bodies, and audit committees view risk management from this strategic perspective and consider risk management oversight to be a critical element of governance.

## Roles and responsibilities

Everyone in the organization has some role to play in enterprise risk management.

**Governing body:** Authority for key decisions involving strategic direction, broad-based resource allocation and setting high-level objectives is reserved for the governing body. Ensuring that objectives are met, determining that resources are utilized effectively, and ascertaining that risks are managed appropriately in the execution of strategy are key functions of the governing body and its committees.

The role of the governing body in providing oversight of enterprise risk management in an organization includes these five responsibilities:

1. Influencing and concurring with the government entity's risk philosophy and risk appetite
2. Determining that overall strategy and strategic decisions are in alignment with the government entity's risk appetite and philosophy
3. Ascertaining the extent to which management has established effective enterprise risk management in the government entity
4. Reviewing the government entity's portfolio view of risk and considering it in relation to the entity's risk appetite
5. Being apprised of the most significant risks and ascertaining whether management is responding appropriately

**Internal Audit:** The role of internal audit in a government entity is largely defined by *Generally Accepted Government Auditing Standards*. The role of internal audit in enterprise risk management could be considered twofold. In addition to identifying and evaluating risk exposures, internal audit activities should include monitoring and evaluating the effectiveness of the organization's risk management system. In this role, internal auditors may support management by providing assurance on the following:

- Enterprise risk management processes, both design and function
- Effectiveness and efficiency of risk responses and related control activities
- Completeness and accuracy of enterprise risk management reporting

The responsibility for evaluating the effectiveness of the government entity's risk management function requires the internal audit function to maintain its independence and objectivity. Accordingly, a best practice from a corporate governance perspective would suggest that management reporting responsibility for the risk function be separate from internal audit. However, because of internal audit's position in the government entity and its knowledge of risk assessment, the internal audit team often is responsible for facilitating the ERM process. In the role of facilitator, internal audit can aid in maintaining its independence by communicating its role regularly to stakeholders, including the audit committee. The audit committee should monitor this structure to ensure that roles and responsibilities are understood, and internal audit is maintaining its independence. We do note that if an organization does not have an internal audit function, ERM can still be implemented.

**The Instructions for using this tool:** Within each section is a series of questions that the audit committee should answer to verify that the components of enterprise risk management are present and functioning properly.

These questions should be discussed in an open forum with executive management and program directors, as well as members of the financial management, risk management, and internal audit teams, to ensure that the enterprise risk management function is operating as management represents. Performance audits performed by federal inspectors general, state auditors, local government auditors, and internal auditors contribute to understanding some of the risks associated with the particular government entity.

Evaluation of the risk management process is not a one-time event, but is, rather, a continuous activity for the audit committee, which should always look for potential deficiencies, and should probe the responsible parties continually regarding risks and opportunities.

Strategic ERM oversight tool	Yes	No	Not sure	Comments
<b>Internal environment</b>				
1. Is the assignment of risk oversight mandated clearly? Ultimately, the governing body is responsible for overseeing risk management, but oversight of the risk management process is often delegated to an oversight committee such as the audit committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is the government entity's philosophy for managing risk articulated in a comprehensive code of conduct or in other policies that address acceptable practices and expected behavior?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is the risk appetite for the government entity articulated formally in qualitative or quantitative terms?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Is the risk appetite consistent with the stated risk management philosophy and aligned with entity mission and strategy? Is it included in the strategic plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are the audit committee's responsibilities for strategic oversight of risk assessment and risk management defined in its charter or by-laws?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Strategic ERM oversight tool	Yes	No	Not sure	Comments
<b>Objective setting</b>				
1. Has the governing body established high-level objectives that are consistent with the strategic direction and risk appetite for the government entity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Has management identified critical success factors, relevant performance measures, milestones, and risk tolerances for the achievement of the government entity's strategic objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Has management identified breakpoints or risk tolerances that will trigger broad discussion of the potential need for intervention or modification of strategy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Has management established operations, reporting, and compliance objectives that are aligned with the overall strategic objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Is a relevant and timely progress reporting mechanism in place to monitor implementation of the strategy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Event identification</b>				
1. Has management employed a systematic approach in the identification of potential events that will affect the government entity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is the categorization of events across the government entity, vertically through operating units, by type (including internal, external, and strategic) or by objective appropriate to the entity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Has management included high impact, low likelihood events in its portfolio of events for assessment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Strategic ERM oversight tool	Yes	No	Not sure	Comments
<b>Risk assessment</b>				
1. Has management conducted a systematic assessment of the likelihood, impact, velocity and persistence of all events with the potential for significant impact on the government entity? The risk events should be assessed individually and not be aggregated into categories for assessment and reporting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Has management considered sufficiently the interdependency of potentially related events in its event identification and risk assessment process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Risk response</b>				
1. Has management adopted an appropriate and cost-effective array of risk responses, such as mitigation strategies, at the activity level of the government entity to reduce inherent risks to levels in line with established risk tolerances?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Has management taken a portfolio view to assure that the selected risk responses have reduced the entity's overall residual risk to a level within the identified risk appetite for the government entity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control activities</b>				
1. Has management implemented adequate control activities throughout the government entity to assure that its risk responses are carried out properly and in a timely manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Information and communication</b>				
1. Do the government entity's management information systems capture and provide reliable, timely, and relevant information sufficient to support effective enterprise risk management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Strategic ERM oversight tool	Yes	No	Not sure	Comments
2. Have adequate communication vehicles been implemented to assure that relevant risk-related information is communicated by front-line employees upward in the government entity and across programs or processes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is the portfolio of risks identified in the ERM process included in the strategic planning process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Monitoring</b>				
1. Are sufficient ongoing monitoring activities built into the government entity's operating activities and performed on a real-time basis to allow for appropriate reaction to dynamically changing risk conditions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Has evaluation of the ERM process, either in its entirety or specific aspects, been given adequate consideration in the scope of internal audit work, if applicable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Have all deficiencies in risk management processes identified by internal audit, or as a result of ongoing monitoring activities, been communicated to the appropriate levels of management, the governing body, or both?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Do the governing body's agendas promote integration of risk issues with other agenda items such as strategy, organization, and finance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Have all deficiencies and recommendations for improvement in risk management processes been addressed? Have appropriate corrective actions been taken?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. When new policies, programs, and other activities are implemented to enhance the government entity but also subject it to inherent risk, are results monitored to determine whether those new activities create more risk than anticipated?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

The featured ERM heat map tool that follows is from the collection of tools and resources provided by the [Chartered Global Management Accountant's \(CGMA\) Risk Management Tool](#).

# Heat Map Tool — communicating risks

Organizations use a variety of methods to identify entity-wide risks (e.g., surveys, workshops, risk factors disclosed in financial reports, etc.). When the entity-wide risks are identified, then each risk is assessed for potential impact and likelihood of occurrence. A risk heat map is used in the risk assessment process and is a great way for facilitating communication. The audit committee’s responsibilities include understanding the organization’s ERM. As a best practice, the audit committee should regularly review the organization’s heat map and review mitigation alternatives.

In the risk assessment process, visualization of risks using a heat map presents a big picture, holistic view to share while making decisions about the likelihood and impact of entity-wide risks within an organization. A heat map is a two-dimensional representation of data in which values are represented by colors and can be designed from being simple (qualitative only: 3x3) to very complex (both qualitative and quantitative: 5x5). It is important to carefully design the heat map so that the terms used to describe “Potential impact” and “Likelihood” are what is used in the respective organization.

Organizations may want to start out by using a qualitative only (3x3) heat map to do the risk assessment shown in figure 2. The horizontal axis shows the likelihood of a given risk materializing and becoming an issue. The vertical axis shows the potential impact that the risk will have on the objective or goal not being achieved should it materialize. The colors are risk areas (e.g., green-colored boxes are in the low area; yellow boxes are in the medium area; red boxes in the high area). The risks are plotted on the heat map based upon the “Potential Impact” and “Likelihood” of occurring (Risk = Impact × Probability/Likelihood of occurring).

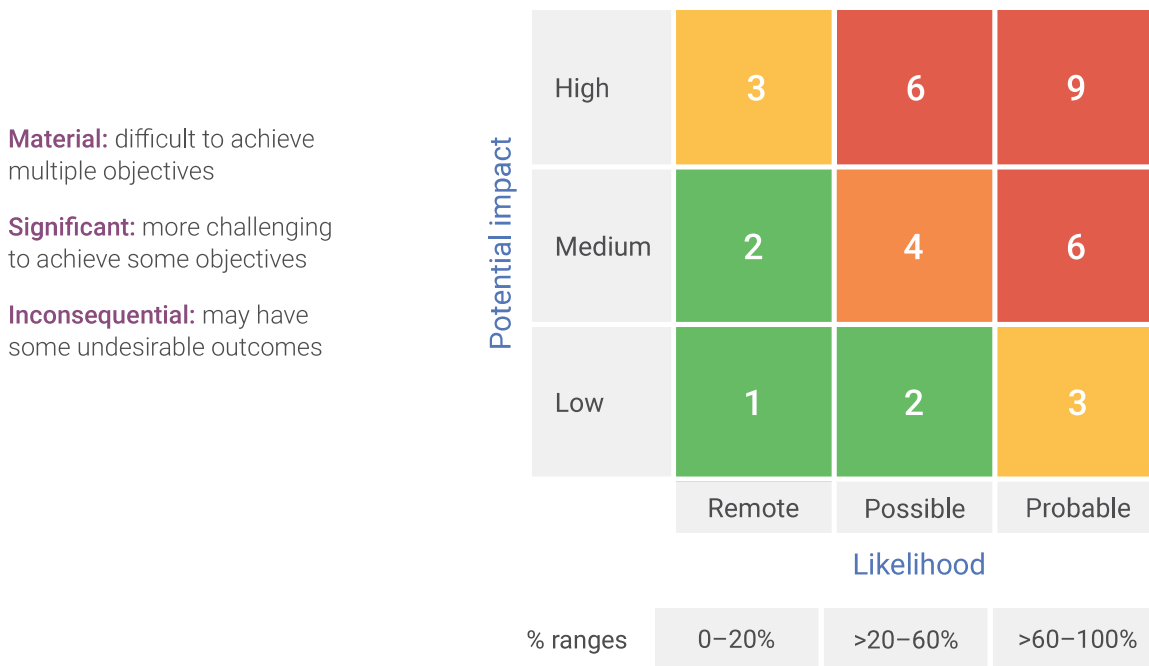
**Figure 2: Enterprise Risk Assessment Scale (Qualitative only: 3x3)**

Potential impact	High	3	6	9
	Medium	2	4	6
	Low	1	2	3
		Remote	Possible	Probable
		Likelihood		

As organizations gain experience doing risk assessments, they may want to build on their qualitative heat map by adding definitions to “Potential Impact” and “Likelihood” that quantify

the terms. For “Potential Impact,” definitions for what is meant by high, medium and low and for “Likelihood,” percentages could be added for remote, possible and probable, as shown in figure 3.

**Figure 3: Enterprise Risk Assessment Scale (3x3)**



**Material:** difficult to achieve multiple objectives

**Significant:** more challenging to achieve some objectives

**Inconsequential:** may have some undesirable outcomes

The percentages, metrics and definitions would come from the respective organization’s policies and what is used in the organization. It is important to get approved terminology for the percentages, metrics, definitions, and terms so that everyone in the organization understands what they are and how they are used in the risk assessment process. This common language is an added benefit in the communication process of assessing risks.

**What benefits do risk heat maps provide?**

- A visual, big picture, holistic view to share while making strategic decisions
- Improved management of risks and governance of the risk management process
- Increased focus on the risk appetite and risk tolerance of the organization
- More precision in the risk assessment process

- Identification of gaps in the risk management and control process
- Greater integration of risk management across the enterprise and embedding of risk management in operations.

**Questions to consider when implementing a risk heat map:**

- How much risk are we willing to accept?
- What constitutes a material risk to our organization?
- What is the range of acceptable variance from our key performance and operating metrics?
- How will we define our terms to evaluate the likelihood of risk events and the impact that they might have on our organization, so that we can map our potential risk events to our heat map?

# Audit committee COVID-19/crisis preparedness checklist of essential considerations

The novel coronavirus (COVID-19) pandemic has changed the way we do business and conduct our organizational strategies. As with any unexpected disaster (health, economic, etc.), these changes may potentially continue for years. All aspects of the business and finance process are experiencing previously unthought-of challenges.

Government audit committees face drastic challenges. Not only must they suddenly conduct virtual meetings, but they also must handle emerging risks. These risks are related to assessments, entity on-site operations (including culture), the impact of new legislation, financial and reporting disclosures, technology and cybersecurity.

**Purpose of this tool:** This audit committee COVID-19 checklist provides questions and considerations regarding the committee’s responsibilities of oversight, risk management and governance process. This tool was developed as a result of the pandemic but can be adapted to any crisis event. These questions are not intended to be all-inclusive but to provide guidance as the audit committee’s entity relies upon them for guidance in several key areas. These questions should be discussed in an open forum through the committee’s interaction with senior management, external auditors, internal auditors and other key members of the financial management team. These questions are written in such a manner that a “no” response indicates a weakness that should be addressed.

Audit committee COVID-19/crisis checklist	Yes	No	Not sure	Comments
<b>A. Risk management</b>				
1. Does management have a process in place to proactively assess risk of significant changes, such as entering a new market, disruptive innovations economic/geopolitical shifts, fraud, and management override of internal controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
If not, is the entity creating such during this global event?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Have specific areas of focus been identified and are risk assessments being executed as a result of the COVID-19 pandemic [or other unexpected crisis event]?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Does management have a plan to address existing risk assessments and updating the identification, impact and mitigation details related to COVID-19 [or other unexpected crisis event]?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Audit committee COVID-19/crisis checklist	Yes	No	Not sure	Comments
4. Has the entity considered significant risks to the achievement of objectives, financing and the availability of funding for key programs, information systems security and disaster recovery?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Has management considered sufficiently the interdependency of potentially related events in its event identification and risk assessment process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Is the audit committee engaging with the internal audit department to ensure completeness regarding risk identification and response?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>B Entity operations, including culture</b>				
1. Are the entity's revised strategies, objectives and operational plan in alignment with the changing environment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does the entity include in their contingency plan actions for most of their workforce to work remotely? If not, is the entity developing and planning to formalize such a plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are the entity's communication needs being addressed, including the consideration of privacy and security?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Does the governing body and management have an effective level of communication in place to enable the fulfillment of their roles with most employees working remotely?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Has the governing body reviewed and considered management's authority over significant decisions and limitations of authorities and responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Does the entity identify related issues and trends expected as the health care event subsides and the financial recovery becomes paramount?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Has the entity developed business continuity plans based on various potential recovery scenarios?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Audit committee COVID-19/crisis checklist	Yes	No	Not sure	Comments
<b>C. Impacts of new legislation</b>				
1. Has the entity assessed its financial and business response to new financial relief programs resulting from the crisis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does the entity properly understand the impacts of accepting crisis relief funding and are they aware of the necessary execution?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are specific requirements of the crisis relief funding identified and addressed in the strategic plan? (Economic disaster loan, loan forbearance, access to retirement accounts, sick leave and FMLA affects)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>D. Financial reporting and disclosures</b>				
1. Does the governing body continue to set the expectations for the performance, integrity, and ethical values of senior management during the COVID-19 event?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is there appropriate oversight responsibility for management’s design, implementation and conduct of internal control as they relate to COVID-19 [or other unexpected crisis event] being executed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is the entity reviewing and considering the current environment and the impacts on investor disclosures: projections of growth and expansion; loan covenants, profits; timetables, etc.?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Is the entity reviewing and considering the impact of the loans/grants and their terms and conditions from the COVID-19 [or other unexpected crisis event] stimulus package(s) on the reporting and disclosures?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Is the audit committee receiving, reviewing and considering the information management it is using (KPIs, data analysis, metrics) to assess the impact of COVID-19 [or other unexpected crisis event] and how it is communicating this information to appropriate stakeholders and determining reporting factors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Audit committee COVID-19/crisis checklist	Yes	No	Not sure	Comments
6. Do open communication channels exist to allow relevant information to flow to the board from internal and external sources, including stakeholders, auditors, regulators, and employees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>E. Technology and cybersecurity</b>				
1. Has the governing body established appropriate oversight structures and processes (e.g., board and committees) that reflect the working-from-home structure for most employees now in place?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Has virtual auditing been coordinated with the external auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Does the audit committee understand the nature and scope of monitoring activities including ongoing assessment and/or separate evaluations to enable an effective determination of whether the components of internal control continue to function with the increased reliance on technology?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Has the entity identified areas of exceptional privacy and data concern and ensured safeguards are in place as well as contingencies and alternative actions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Is there an effective process established and publicized periodically to political officials, employees and others to allow open communication of suspected instances of wrongdoing by the entity or employees?  Is the whistleblower hotline being checked continually and not forgotten?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

The COVID-19 considerations the audit committee and other governing bodies conducted are a paramount activity directly related to the entities' strategy, objectives, financial health and ability to expedite recovery. For additional coronavirus resources, please refer to the [AICPA Coronavirus Resource Center](#).

# Guide for audit committee on financial reporting and management during COVID-19

The National Audit Office (NAO) recently published a guide to help government audit committees advise their organizations on financial management and reporting during, and in the period immediately after, the COVID-19 outbreak. The NAO is the UK's independent public spending watchdog and scrutinizes public spending for Parliament. The NAO and its staff are independent of government and the civil service.

The following questions, reproduced from the [NAO Guide](#) for audit and risk committees on financial reporting and management during COVID-19, can be used by audit committee members working in:

- Annual Reports;
- Financial Reporting;
- Control Environment; and
- Regularity of expenditure.

The NAO guide aims to help audit committee members discharge their responsibilities and to examine the impacts on their organizations of the COVID-19 outbreak. The multi-section guide provides questions to help audit committee members understand and challenge activities. Each section can be used on its own, although it is recommended that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

Guide for audit committee on financial reporting and management during COVID-19	Yes	No	Not sure	Comments
<b>A. Annual reports – questions audit committees could ask</b>				
1. Has COVID-19 caused new risks to achieve the organization's stated objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Does the annual report reflect the impact of COVID-19 on the organization's performance against objectives in the year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Does the annual report clearly consider whether COVID-19 influenced the organization's ability to meet objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Does the annual report consider the organization's performance in general, including where this deteriorated or was below expectations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does the annual report consider whether expenditure in response to COVID-19 was in line with authorized use of the public money?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Where this was not the case, has this been clearly disclosed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Guide for audit committee on financial reporting and management during COVID-19	Yes	No	Not sure	Comments
3. Does the annual report detail how the control environment has changed due to COVID-19 and the risks associated with these changes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• How does the annual report discuss new risks in relation to COVID-19 and the associated responses to these?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Does the annual report discuss how the organization's risk appetite has changed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Where relevant, has any streamlining to the annual report due to COVID-19 been agreed with the relevant select committee or department?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

## B. Financial reporting: Valuations – questions audit committees could ask

1. What information has been used in determining the value of assets and liabilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• In the absence of timely information, how has management estimated valuations? Is this reasonable? How have changes in valuations for reasons due to COVID-19 been considered? Is there any other information that should be considered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Have experts been used to support management in valuations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Where experts' work was completed before the reporting date, how has management gained comfort that the valuation remains appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Have the experts provided any caveats on their advice? If so, how have these been considered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. What are the key assumptions used to determine valuations and how has the relative probability of various outcome scenarios been assessed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Have the key assumptions been disclosed clearly?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

## C. Financial reporting: Property valuations – questions audit committees could ask

1. What data have management used for property valuations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Is this reasonable? Are there other data that could be used?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Do these data consider how the market changed in late March 2020?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Guide for audit committee on financial reporting and management during COVID-19	Yes	No	Not sure	Comments
2. How have experts been used to support management in valuing property?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Where experts' work was completed before the reporting date, how has management gained comfort that the valuation remains appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• If experts were not used for property valuations, should they have been given the current uncertainty?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Have the valuers been able to complete their work?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• If they have managed to complete their work, has a material uncertainty paragraph been included in their report?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• How has this clause been considered by management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Where a full revaluation is not required in-year how has management valued property in the current market?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Has management considered whether the indices used remain appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Have assets been physically verified?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• If not, how have impairment reviews been carried out? Are there any other impacts of not physically verifying property?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Is the disclosure of estimation uncertainty clear and understandable for users?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Have all relevant sources of estimation uncertainty been disclosed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>D. Financial reporting: Pension valuations – questions audit committees could ask</b>				
1. Has management held discussions with pension plan actuaries regarding changes to their assumptions due to COVID-19?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• What adjustments have been made to assumptions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Do the actuarial assumptions represent the information available at the reporting date?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Guide for audit committee on financial reporting and management during COVID-19	Yes	No	Not sure	Comments
<p>2. What is the availability of information to be used in determining valuation?</p> <ul style="list-style-type: none"> <li>• Where valuation information which does not date from the year-end has been used, how has management ensured this is accurate as at the reporting date?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>3. Have pension plan actuaries provided any caveats in their reporting?</p> <ul style="list-style-type: none"> <li>• If so, how has management taken account of these?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>E. Financial reporting: Inventory valuations – questions audit committees could ask</b>				
<p>1. How has management gained comfort over the quantity and condition of the stock held at the reporting date?</p> <ul style="list-style-type: none"> <li>• If stock counts have not been possible, what alternative procedures have management completed?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>2. How has COVID-19 affected inventory usage?</p> <ul style="list-style-type: none"> <li>• When do you expect this to go back to normal?</li> <li>• How has this impacted valuation forecasts?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>3. How has management valued inventory held in the context of COVID-19?</p> <ul style="list-style-type: none"> <li>• Is this reasonable? What other methods could have been considered?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>4. Has management had to use new suppliers/hold inventory of new goods?</p> <ul style="list-style-type: none"> <li>• How has management assured itself that the suppliers can supply or have supplied the goods at the quality or quantity required?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Guide for audit committee on financial reporting and management during COVID-19	Yes	No	Not sure	Comments
<b>F. Financial reporting: Completeness of liabilities – questions audit committees could ask</b>				
1. Are liabilities complete based on your knowledge of the business and the impact of COVID-19? <ul style="list-style-type: none"> <li>• Has management completed a robust review to identify onerous contracts?</li> <li>• Are there any other areas of COVID-19 impacts that are not yet considered?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is management using the best available and most up-to-date information to value? <ul style="list-style-type: none"> <li>• Where information is not available at the reporting date, has management completed adequate procedures to assess the impact of COVID-19?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Where there is estimation uncertainty is it disclosed transparently in the financial statements? <ul style="list-style-type: none"> <li>• Does this include sensitivity analysis?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>G. Financial reporting: Going concern – questions audit committees could ask</b>				
1. Is management's strategy or business plan from a period pre-COVID-19? <ul style="list-style-type: none"> <li>• Has this been updated? If not, is it clear why a plan from before the outbreak remains appropriate?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is management's forward plan robust in the context of COVID-19? <ul style="list-style-type: none"> <li>• Do forecasts represent the latest information available? Has management completed scenario-testing on its forecasts?</li> <li>• Is the forward plan in line with your understanding?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is management's going concern consideration complete? <ul style="list-style-type: none"> <li>• Has management considered different eventualities and the likelihood of each?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Guide for audit committee on financial reporting and management during COVID-19	Yes	No	Not sure	Comments
<p>4. Is there substantial doubt over the entity's ability to continue as a going concern?</p> <ul style="list-style-type: none"> <li>Do the disclosures in the financial statements reflect the impact of COVID-19 transparently?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>Do the disclosures in the financial statements reflect the impact of COVID-19 transparently?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<h3>H. Financial reporting: Events after the reporting period – questions audit committees could ask</h3>				
<p>1. Have management considered all relevant events after the reporting date that could impact on the organization?</p> <ul style="list-style-type: none"> <li>Are these events correctly assessed as adjusting or non-adjusting events?</li> <li>Do the financial statements make clear how COVID-19 has impacted the organization in general after the reporting period date?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>Are these events correctly assessed as adjusting or non-adjusting events?</li> <li>Do the financial statements make clear how COVID-19 has impacted the organization in general after the reporting period date?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>2. Do the financial statements appropriately recognize the events identified?</p> <ul style="list-style-type: none"> <li>Are the financial statements appropriately adjusted for relevant adjusting events?</li> <li>Have non-adjusting events been clearly and transparently disclosed?</li> <li>Is the value of non-adjusting events and potential impact for the organization clear?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>Are the financial statements appropriately adjusted for relevant adjusting events?</li> <li>Have non-adjusting events been clearly and transparently disclosed?</li> <li>Is the value of non-adjusting events and potential impact for the organization clear?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<h3>I. Control environment – questions audit committees could ask</h3>				
<p>1. Were any changes needed to the design and implementation of internal controls to respond to COVID-19?</p> <ul style="list-style-type: none"> <li>What has been the impact of these changes? How long are these changes expected to last? Are the changes sustainable? How significant are these changes?</li> <li>Has internal audit assessed the design, implementation and operational effectiveness of revised internal controls? Can the negative impact of any changes be reversed?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>What has been the impact of these changes? How long are these changes expected to last? Are the changes sustainable? How significant are these changes?</li> <li>Has internal audit assessed the design, implementation and operational effectiveness of revised internal controls? Can the negative impact of any changes be reversed?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>2. Where changes were made to controls, did the organization understand where there was increased risk because of this?</p> <ul style="list-style-type: none"> <li>Were other controls strengthened to compensate for this?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>Were other controls strengthened to compensate for this?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Guide for audit committee on financial reporting and management during COVID-19	Yes	No	Not sure	Comments
3. Has remote working affected the operational effectiveness of internal controls? <ul style="list-style-type: none"> <li>• Are any controls only able to be implemented in person, such as those over physical assets?</li> <li>• Have changes in personnel performing the controls affected effectiveness?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. How have IT services performed during the outbreak? <ul style="list-style-type: none"> <li>• How has this affected the effectiveness of controls?</li> <li>• How have cyber security controls been considered?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Where service organizations are used, have there been any changes to the design and implementation of their controls? <ul style="list-style-type: none"> <li>• Where relevant, what has been the impact of this?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>J. Regularity of expenditure – questions audit committees could ask</b>				
1. Have there been any significant changes to the organization's activities during the outbreak? <ul style="list-style-type: none"> <li>• If so, have the changes required new legislation or changes to delegated authorities?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Has the accounting officer assessed the reasonableness of increased expenditure or new activities? <ul style="list-style-type: none"> <li>• Are the increased expenditure or new activities disclosed transparently in the annual report?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is there any new expenditure that could be deemed novel and contentious? <ul style="list-style-type: none"> <li>• How has this been treated?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Has management breached any control totals? <ul style="list-style-type: none"> <li>• Have there been any other regularity breaches or contentious issues?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

**K. Fraud and error – questions audit committees could ask**

1. What exposure to fraud and error does the organization have in its responses to COVID-19?

Yes    No    Not sure

- Have controls been turned off or reduced?

Yes    No    Not sure

- Are there new expenditure or procurement streams, or delivery methods that introduce new risks?

Yes    No    Not sure

2. How is the organization managing fraud and error risks?

Yes    No    Not sure

- Are they logged, with a monetary estimate of the potential fraud and error exposure?

Yes    No    Not sure

- Have options to reduce fraud and error been evaluated? Has management assessed the organization’s risk appetite for losses through fraud and error? Are there any changes to this?

Yes    No    Not sure

3. What processes are in place to measure fraud and error and evaluate the effectiveness of activities to prevent or detect this?

Yes    No    Not sure

- How is management using this information to update risk assessments or inform controls?

Yes    No    Not sure

- Does management have real-time indicators to support informed decisions on risks?

Yes    No    Not sure

# Conclusion

Audit committee roles and responsibilities depend on the governing body and management structure of a government entity and the country, state or municipality in which it operates. Delegation of responsibilities and roles of the audit committee varies from entity to entity and continues to evolve.

The government audit committee's vast array of responsibilities includes understanding internal controls, fraud and audit findings, ERM, and their roles as they relate to internal and independent auditors, and external counsel, other advisors,

and specialists. Following best practices, the government audit committee's responsibilities work to minimize fraud, waste, and abuse, and identifies opportunities for performance improvements. The most effective manner to address the public's need for transparency, accountability and effectiveness is through the government's audit committee.

The audit committee tools that have been compiled throughout this four-part series have been identified as best practices for use in government entities.

# Appendix — Government Audit Committee Toolkit

Several tools were presented in this four-part series as a guide for the government's audit committee to use best practices. A summary of those tools is listed here as a quick reference toolkit for government audit committees.

## Audit Committee Charter Matrix Tool

[Part 1](#) of this series introduced the Audit Committee Charter Matrix Tool. Preparing an audit committee charter is a best practice for government entities as it creates a clear awareness of the committee's key responsibilities. Based upon the public awareness and environments surrounding the government sector, best practices begin with the development of the charter and not only a defining of but understanding of and appropriate training of the members' roles and responsibilities. This tool provides 20 best practices designed to assist audit committees in making the charter a living document. Use this tool as a guide for defining the steps to accomplish each of the 20 best practices identified in the matrix, determining the associated performance measurements, the frequency that each deliverable should be measured, and tracking completion dates for each objective.

## Internal control — checklist of essentials for the governing body

[Part 2](#) in this series introduced the Internal Control—Checklist of Essentials for the Governing Body tool. This checklist provides an understanding of key governing body-level responsibilities within each of the five interrelated components of an entity's system of internal controls. The audit committee's role within the framework focuses on internal controls over financial reporting and the processes in place to design, implement, and monitor the entity's broader system of internal controls. It is also responsible to aid the governing body in its oversight of internal controls, risk management and overall governance process. This can be achieved through the committee's interaction with senior management, independent auditors, external and internal auditors, and other key members of the financial management team. The questions in the checklist are written in such a manner that a "No" response indicates a weakness that should be addressed.

## Responding to the identification of a material weakness — a checklist for the audit committee

[Part 2](#) in this series also introduced a checklist tool for steps the audit committee can use in the event a material weakness on internal control is identified. When a financial audit is performed, if the auditors' report discloses deficiencies in internal control, auditors obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. The audit committee should be engaged in the review and approval of that response and any subsequent corrective action plan. This checklist tool provides guidance and questions which the audit committee can ask as part of its review. When faced with a negative report, those charged with governance should use this tool in the context of the deficiencies noted. As with all tools of this type, users must apply their insight and judgment to the situation to maximize benefits.

## Tool for evaluating the internal audit team

[Part 3](#) in this series introduced the relationship of internal controls to enterprise risk management. As a best practice, the audit committee should evaluate the internal audit team. In discharging this responsibility, the audit committee should answer a series of questions about the quality and performance of the internal audit function and should obtain input from others in the government entity including management and independent auditor. This tool is only a starting point for evaluating the performance and effectiveness of the internal audit function. Audit committee members should ask follow-up questions as appropriate and required.

## Tool for evaluating the independent auditor's team

[Part 3](#) in this series also introduced a tool for evaluating the independent auditor. As a best practice, the audit committee has the responsibility to hire, compensate, evaluate, and terminate the independent auditor (auditor). In discharging this responsibility, the audit committee should answer a series of questions about the quality and performance of the auditor, and should obtain input from others in the government entity, including management and internal audit. For some governmental entities, the independent auditor may be from another government entity. If this is the case, while the audit committee and government entity management would not have the authority to hire and terminate the independent auditor, most of these questions would still be applicable in being able to provide feedback around the performance and effectiveness of the independent auditor.

# Authors and acknowledgments

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