
The Independent Audit Committee

Roxanne L. Anderson and Claire L. Lake

Recent events in the Government of Canada have raised concerns regarding the adequacy of accountability of Government e.g. the sponsorship scandal. In the 2004 Budget these concerns were addressed by re-establishing the Office of the Comptroller General; and with the heralding of a new Government, the Accountability Act has brought more attention to the issue of accountability in Government.

With Government accountability under intense scrutiny, internal audit, financial management and the audit committee are firmly in the spotlight¹. By ratifying the Treasury Board's Internal Audit Policy², a Chief Audit Executive will be appointed for each department, at a senior executive level reporting to the Deputy Head, to lead and direct the internal audit function³, which raises the importance of internal audit within a department's financial management and control framework. According to the Institute of Internal Auditors⁴, the internal auditor's job is to identify potential problem areas and recommend ways of improving risk management and internal control. In the same light, additional attention has been given to financial management; the Deputy Head will now be designated as the Accounting Officer, accountable to the appropriate committee of parliament for organizing the resources of the department to deliver departmental programs, effective systems of control and signing the accounts⁵. The Independent Audit Committee is the balancing act; appointed by the Deputy Head of the department⁶, offering independent advice to the Deputy Head and providing the link to the department's stakeholders on the reliability and performance of financial management, controls and ultimately accountability of the department⁷.

"internal auditing is an independent, objective assurance and consulting activity designed

*to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*⁸

The Government is focused on improving accountability and views the Independent Audit Committee as an integral part of this movement; "audit committees provide Deputy Heads and the Comptroller General with added assurance, independent from line management on risk management, control and governance processes"⁸. The Treasury Board's Internal Audit Policy and its directive on departmental Audit Committees, effective 1st April 2006, describe that the Independent Audit Committee should include external members from outside public service, have extensive experience, offer independent oversight, ongoing objective assessments and professional advice for the Deputy Head and Senior Management team. Specifically, the Internal Audit Policy states "Ensure the real and perceived independence of internal audit from line management by introducing... independent audit committees that will include competent and experienced members from outside the federal public service"⁹. At the same time Independent Audit Committees must find the appropriate balance between overseeing and advising management. The Deputy Head will be looking to the Independent Audit Committee for advice on the operations of the department and the department's stakeholders will expect their requirements for reliable financial information and management to be represented by the committee. The Independent Audit Committee's work will involve multiple stakeholders with a variety of objectives and responsibilities beyond commenting on the complexities of financial reporting.



Roxanne L. Anderson, MBA, CA

Roxanne L. Anderson is a partner with the Federal Public Sector practice of PricewaterhouseCoopers LLP. Roxanne has led a wide range of multidisciplinary projects aimed at assisting the Canadian Federal Government with increasing financial management effectiveness.



Claire L. Lake, MBA, CA

Claire L. Lake is a manager with the Federal Public Sector practice of PricewaterhouseCoopers LLP. Claire's primary focus is on increasing financial management effectiveness within Government, at the central agency and departmental level.

At the same time, as highly respected, expert and experienced managers, an Independent Audit Committee member's time will be in strong demand. They will expect to be provided with pertinent information and briefings in a timely manner in order to do their job and will expect their voice to be heard. It will be critical to ensure their time is well spent, their activities are focused and that they have access to the right people at the right time.

Whether a department already has an audit committee or needs to establish one, it is facing the same challenges – how do we recruit the right people and how do they provide the right services in order to meet the objectives of increasing accountability and ensuring the regulatory and statutory mandates. It is critical to concentrate on three fundamentals of the Independent Audit Committee:

- a clear vision of what the audit committee should be doing
- an effective management structure to let them do its work
- engaging the right people for the job

PricewaterhouseCoopers in conjunction with the Institute of Internal Auditors Research Foundation has undertaken research to understand how audit committees can effectively and thoughtfully discharge their duties¹⁰. This research and our experience with establishing, reviewing and improving the effectiveness of audit committees shows that with careful planning and forethought the Independent Audit Committee can establish its planned activities for the year, focus on achieving the objectives of its stakeholders and consequently improve accountability of the department.

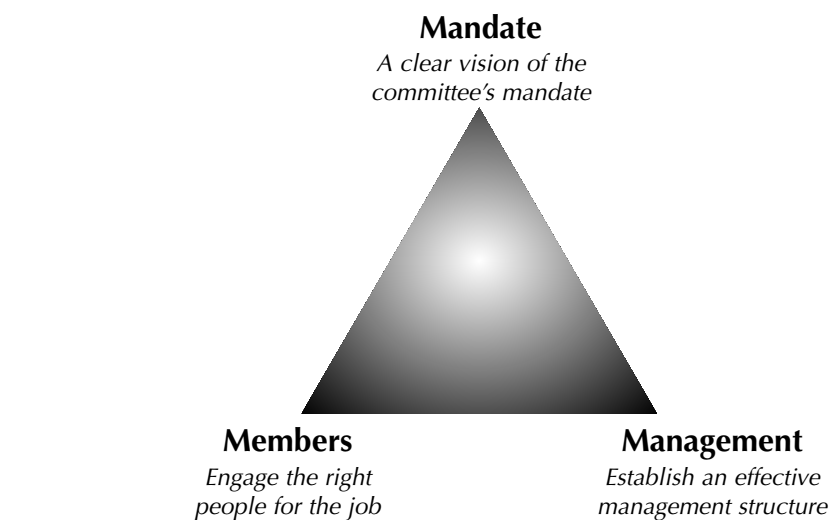
Establishing the Mandate

Some direction has been given by Government about the expectations for the Independent Audit Committee. The role and responsibilities of the Independent Audit Committee are described in the Treasury Board Secretariat’s directive on departmental Audit Committees and the Government’s action plan for the *Accountability Act*:

“We will continue to respond publicly to the Auditor General’s recommendations and ensure that independent departmental audit committees monitor the implementation of corrective action plans”¹¹

“The audit committee shall ensure that the deputy head has independent, objective advice, guidance and assurance on the adequacy of the department’s control and accountability processes. In order to give this support to the deputy head, the audit committee should exercise active oversight of core areas of departmental control and accountability in an integrated and systematic way.”¹²

But there is little guidance in terms of planning the activities the Independent Audit Committee should undertake and how it can prioritize where to spend its time. Without a clearly defined and articulated vision for the activities of the Independent Audit Committee – time could be misspent, advice could be given on less



important areas of concern and the value of the audit committees’ expertise and experience may not be harvested. Without direction, departmental time and energy could be spent on providing information and guidance that does not have the most impact. Ultimately this could result in the value of the committee being called into doubt and stakeholders not being able to place integrity on the advice they are given.

The best way to tackle this matter is to deal with it early and to give it full attention – planning, as every good manager knows, is half the battle. The Independent Audit Committee along with the Deputy Head should meet to discuss the vision for the Independent Audit Committee to establish a mandate describing its role, structure, processes and membership requirements, the activities it should be undertaking and the goals for the year. If an audit committee is already established it is important not to overlook this step, bringing your audit committee together to discuss the mandate, under the new light of the Accountability Act and the Treasury Board Secretariat new Internal Audit Policy and Directive on departmental Audit Committees, is equally as important in ensuring the department’s goals for the Independent Audit Committee align to those of the Government. It is important to understand that setting the mandate is not a one time only activity – it is important to revisit the mandate on an annual basis, to make changes to the mandate in line with new expectations or directions from Government and outline new goals for the Independent Audit Committee based on the committee’s maturing

knowledge and experience.

The mandate of the Independent Audit Committee is a living and breathing guide to plan the committees’ activities for the year and to review performance at the end of the year. It is a communication tool to report on its activities to the Deputy Head, to review and validate with stakeholders to ensure their objectives are being met and to display the department’s investment in improving accountability.

Establishing a strong, clearly articulated mandate is not misspent time and energy – understanding the goals of the committee in light of the demands of the department and of the skills and knowledge of the Independent Audit Committee will result in achievable activities being undertaken and the objectives of the department’s stakeholders being met.

Who’s in the Team?

The appointment of suitably qualified members to the Independent Audit Committee is a critical factor for a committee’s performance. External members can help the Independent Audit Committee address its new roles and responsibilities; internal members can educate new members regarding the department and the unique role of the Independent Audit Committee in the Government.

As the Independent Audit Committee will be responsible for providing oversight to the department’s control and accountability processes it will need to be able to challenge and take positions that may be contrary to those of management. Therefore, in this oversight role, independence

from management is essential, being able to express opinions in a free and unrestricted manner, unconstrained by any financial ties or position in the department. However, a mix of abilities is also desirable and therefore knowledge of the department, its operations and culture are important and the committee may need to be supplemented by internal members to provide this background. As the Government stated in the Federal Accountability Action Plan:

“The Government will bolster auditor independence by establishing audit committees with membership drawn largely from outside the public service”¹³

If your department already has an audit committee don't be surprised if the membership no longer fits the demands for expertise, experience and independence described by the Treasury Board Secretariat's new Internal Audit Policy or its directive on departmental Audit Committees. The increasing importance of accountability of Government has added criteria for independent advice outside of the public service. Current membership may not meet this challenge. Also, the need to provide advice on the financial management, control, processes and governance of the department requires a greater awareness of finance and of the department's operations

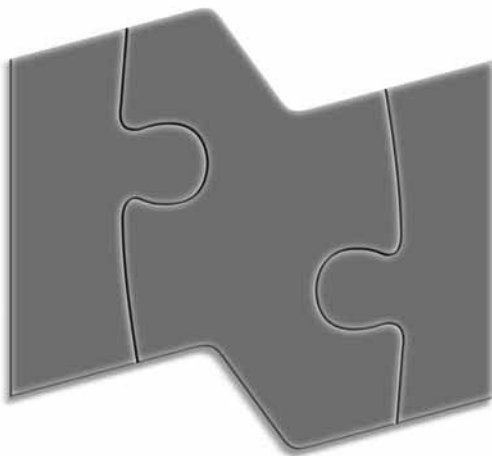
which current committee members might not meet.

Increasing committee members' knowledge of finance and public sector management can be tackled with education programs designed to fill the gap or with the development of champions within the audit committee who can guide less experienced members in understanding financial issues or operational processes. The best approach is to recognize the maturity of your committee members' skills and competencies and plan to develop these skills through training programs or bring in expert members to fulfill the gaps. Comprehensive orientation programs should be established to allow members systematic exposure to the different aspects of the department and public sector environment. The Independent Audit Committee could have access to experts who can address specific issues and articulate risks for the committee – but be mindful not to lead the committee or obstruct its investigations.

Independence is more problematic – current membership may be composed of internal management or even ex-management. Changing the balance is important to ensuring integrity and allowing the challenge/oversight function to occur. The Treasury Board Secretariat's directive on departmental Audit Committees advises that by 1st April 2009 all audit committees

must have a majority of external members¹⁴. Existing members who do not meet the independence hurdle may be valuable advisors to the committee – providing information on operations and organizational structure – but replacing and recruiting new members will be the only solution to meeting this challenge. The directive also states that “members of the audit committee should be free of any real or perceived conflict of interest”¹⁵. The solution in this scenario is transparency – both in communicating member independence but also the reason behind the decision for them to be a member of the Independent Audit Committee. The Deputy Head and the Senior Management team need a strong understanding of how they define independence, how they define relationships that impair independence and how it is perceived by the Canadian public; to ensure they meet expectations when appointing the committee so that it is above rebuke. The interpretation of independence should be communicated internally and externally to ensure that there is an awareness of the criteria to be met and that it is being met.

Understanding the composition of an Independent Audit Committee member is important when recruiting new members – developing a picture of the skills, capabilities, experience, financial acumen and independence establishes the evaluation criteria.



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But it is also important to examine the composition and lifecycle of the whole committee, in terms of their departmental, public sector and financial knowledge to ensure skills and competencies for the committee are met and built on an ongoing basis.

A nominating body should be put together of existing committee members and the Deputy Head to validate potential members from as wide a range of channels as possible. A diverse outlook among members is desirable, as a uniform point of view could lead to over-emphasis in one direction. There is a limited pool of external audit committee members and the best candidates are most likely known to your department today. In the best interests of transparency and stakeholder awareness, profiles of members of the Independent Audit Committee should be publicly available. The Deputy Head should appoint only those members who possess the necessary qualifications and experience and each member should be capable of making a valuable contribution to the audit committee.

Managing Activities

The demands an Independent Audit Committee could place on a department could be onerous; requests for vital detailed information regarding financial processes, operations and organizational structure, interviews with key members of staff, access to legal and financial opinions. If these requests are not met in a timely and efficient manner with information distributed in advance of meetings, attendance by staff at appropriate times, then committee members may feel they cannot offer pertinent insight and valuable advice. For a department, if committee meetings are not well organized or attended, time may be mis-spent or vital items may not be addressed as deeply as desired. For an Independent Audit Committee to successfully meet its challenges they will require access to departmental financial and operational information, access to key staff members for interviews and time with the Senior Management team to both learn and challenge. Management of the audit committee is vital to ensuring the true value of the committee can be realized.

Regularity of meetings influences the

objectives and scope of work able to be completed by the audit committee. Meetings should be sufficiently regular to review information on a timely basis to ensure that advice is given to the Deputy Head in advance of the time it is required. But meetings should not be so frequent that the committee members are unable to meet the demands of these meetings.

It is therefore important to establish the agendas for meetings. As discussed above, use the Independent Audit Committee's mandate to ensure that meeting agendas are pertinent to the overall objectives of the committee, so that time can be well spent and information is only gathered as necessary. It is also important to establish what information is required to be reviewed, why it is being reviewed and a timeframe for distribution of information. The agenda should be arranged to ensure sufficient time is given to vital issues and it should be issued early so that information can be gathered and distributed with sufficient time for members to read and consume and that attendance can be confirmed. In response, it is imperative that Independent Audit Committee members do their homework and review the information prior to the meeting so that they are ready to offer challenge and oversight.

Regular and meaningful dialogue with the Deputy Head and the Senior Management team is also critical to the role of the Independent Audit Committee. It is important to consider what information to push to the Independent Audit Committee and what information will be pulled by the committee— as there is a fine balance between being informative and being directional. The Deputy Head should consider what regular briefings they may want to provide in terms of financial reporting, risks and controls, operations and organization.

The Successful Independent Audit Committee

The Independent Audit Committee is a valuable member of the financial management trinity, alongside the Chief Financial Officer and the Chief Audit Executive, they will help provide the Deputy Head and the department with the advice and tools required to improve financial management and accountability. The new requirements for accountability present a unique oppor-

tunity for the Independent Audit Committee to add value to the department. Leveraging these benefits requires a disciplined and objective approach to engaging the right people for the job, an effective management structure and a clear vision of what they should be doing. We at PricewaterhouseCoopers have established a roadmap to review and establish the audit committee that is responsive and directed towards the demands it faces. The key steps and activities to undertake to meet the department's requirements are laid out in an inclusive and consultative approach to help give direction but also to help build strong leadership. ■

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