



Association of Local Government Auditors

Audit Committees: How to start them, improve them, and use them to improve internal controls and accountability



Presentation to AGA - Silicon Valley

March 19, 2009

Ann-Marie Hogan, CIA, CGAP

City Auditor, Berkeley, CA

ahogan@ci.berkeley.ca.us

(510) 981-6750



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OBJECTIVES

1. Update on audit committee best practices
2. Explain independence and its importance
3. Discuss how to advocate for improvement or establishment of an audit committee or an audit function



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WHY ESTABLISH AN AUDIT COMMITTEE?

- Improve oversight of financial and budgetary controls
- Demonstrate leadership in ethics and accountability
- Assure financial and performance audit independence from superintendent (management)



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WHO SUPPORTS INDEPENDENT AUDIT COMMITTEES?

- Treadway Commission Report of 1987
- Securities and Exchange Commission
- Government Finance Officers' Association
- Sarbanes-Oxley Act of 2002
- American Institute of Certified Public Accountants Standards and Generally Accepted Government Auditing Standards
- Institute of Internal Auditors



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AUDIT COMMITTEE OVERSIGHT RESPONSIBILITIES

- Commercial firm providing annual financial statement audit:
 - Selection of firm
 - Open communication among parties
 - Quality, timely financial and compliance reporting
 - Annual audit process; response to management letter
 - Reporting to Board on internal controls and budgetary and financial matters



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AUDIT COMMITTEE COMPOSITION

- Defined in charter or legislation
- Five to seven members; staggered terms
- Common structures:
 - Legislative body
 - Committee of legislative body
 - Citizen based
 - Mix of government and citizen representatives
 - Organization based



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AUDIT COMMITTEE SKILLS

- Collective expertise in:
 - Accounting, auditing, and financial reporting
 - Management and business practices
 - Risk management
- Certifications often required:
 - Certified Public Accountant
 - Certified Internal Auditor
 - Certified Management Accountant



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AUDIT COMMITTEE OVERSIGHT RESPONSIBILITIES (continued)

- If there is an independent performance auditor (Board auditor) on staff:
 - Staffing and oversight
 - Recommending or selecting Board auditor
 - Recommending salary and budget for staff auditors
 - Advising on annual audit plan
 - Evaluating Board auditor's performance





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WHY ESTABLISH AN INDEPENDENT AUDITOR?

- Enhance accountability
- Earn and increase taxpayer confidence and respect for government
- Provide an independent and objective perspective



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KEY ELEMENTS OF EFFECTIVE AUDIT FUNCTIONS

- Organizational independence
- Formal mandate
- Unrestricted access
- Sufficient funding
- Competent leadership
- Competent staff
- Stakeholder support
- Professional auditing standards



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INDEPENDENCE . . .

- Required by *Government Auditing Standards*
- Separates audit function from management, who may:
 - Be protective of their programs
 - Interfere with investigations
 - Prevent full disclosure of issues
- Can be achieved by Board or Audit Committee appointment or voter election



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Toolkits for Audit Committees

**The AICPA Audit Committee Toolkit: Government Organizations,
AICPA, 2004**

[The AICPA Audit Committee Toolkit](#)

- **Audit Committee Guide for Public Sector Entities, McGladrey & Pullen, LLP, March 2002**

[Audit Committee Guide for Public Sector Entities](#)

- **The Role of Audit Committees in the Public Sector, The CPA Journal, August 2005**

[Role of Audit Committees in the Public Sector](#)



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AGA Report on Audit Committees

Characteristics of Effective Audit Committees in Federal, State and Local Governments Report No. 17 November 2008

http://www.agacgfm.org/research/downloads/CPAG_No17.pdf



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THANK YOU

FOR ADDITIONAL INFORMATION, CONTACT:

ASSOCIATION OF LOCAL GOVERNMENT AUDITORS (ALGA)
MEMBER SERVICES

449 LEWIS HARGETT CIRCLE, SUITE 290
LEXINGTON, KY 40503

memberservices@governmentauditors.org

or

Ann-Marie Hogan, City Auditor, City of Berkeley, ALGA Advocacy

ahogan@ci.berkeley.ca.us

or visit the ALGA website at:

<http://www.governmentauditors.org>

