



Audit Committees in the European Public Sector

Paper from ECIIA Public Sector Committee

Enhancing governance through internal audit

Background

ECIIA Public Sector* set up in 2018

Objective is to promote good governance in the European Public Sector

First paper prepared by the Committee with representatives from various countries:



* It includes government entities, ministries, public agencies, local government, municipalities and other public entities

Background

Development and repositioning of Audit Committees in the Financial Services Sector after the crisis.



Impact on other sectors:

- ✓ Request for more information
- ✓ Need for greater accountability
- ✓ Focus on governance, risk management, controls, ethics and culture

General principle

- Board* or equivalent is ultimately responsible for governance
- The establishment of an Audit Committee is a key support for the Board
- The Audit Committee provides systematic oversight of the different assurance providers
- The Audit Committee has a clear mandate (AC Charter)



* Highest level governing body

An Audit Committee is...

- An Audit Committee can be defined as a sub-committee in the governing body that will make arrangements for internal audit and facilitate the completion of external audit
- An independent body answerable directly to the Board and responsible for verifying the organisation's governance, risk management and internal controls practices.
- A Governance body charged with oversight of the organisation's audit and control functions (IIA Global)
- A Committee of the Board of Directors focus on financial reporting, risk management (business and financial), compliance with significant legal, ethical and regulatory requirements (Intosai)

Existence of Audit Committees today



Effective Audit Committees

Audit Committees need to:

- Have a clear mandate, purpose and role (Terms of Reference/Charter)
- Be understood in the organisation (Public Terms of Reference/Charter)
- Be independent
- Have an effective Chair and appropriate assistance
- Have access to organisation's Board, Management and staff

- Have the right skills-business knowledge
- Understand the organisation objectives, risks
- Be trained
- Assess the members and the Committee regularly



Audit Committees Benefits for the organisation

Significant contribution to effective governance:

- Promote strong ethical culture, good governance and financial management
- Promote confidence in the reporting, controls, risk management

- Give independent and objective overall assurance to the Board
- Assist the Board in its responsibilities
- Coordinate the work of the different assurance providers, including external auditors

Audit Committees Benefits for internal audit

Support and challenge internal audit function:

- Educate the Board and other Committees about internal audit added value and basics about risk management and internal controls

- Ensure internal audit independence
- Monitor the quality and effectiveness of the internal audit work
- Monitor Management response to internal audit and external audit recommendations

Audit Committees creation obstacles

The main obstacles are:

- Insufficient interest of the Board
- Misunderstanding of the role and benefits of Audit Committees
- Lack of mandation or legal obligation
- Costs
- Difficulty to find the « right » Audit Committee members
- Lack of internal audit function
- Weakness of the second line of defense
- Internal audit department with one person and no second line of defense

Conclusions

The ECIA recommends that all Nations positively consider the establishment of Audit Committees within their public sector



"GENTLEMEN - LADIES - I PROPOSE WE TAKE A SHORT BREAK,
DURING WHICH WE'LL HOLD OUR MEETING"