

# Using your audit and risk committee effectively – a chair's perspective

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# Perspective

Today's comments based on:

- A governance perspective
- Experience as a Board Chair and Audit Committee member and chair
- Experience in a variety of organisations: listed and private companies, an SOE, a CCTO and a Trust with wide consumer beneficiaries.

## Caveats

- No direct experience in local government audit and risk operation apart from reporting as a CCTO
- Not an accounting professional but experience in dealing with financial reporting from a management and governance perspective

# Participants

Do you have:

- An active audit or audit and risk committee?
- Are these just financial based or does it cover risk and other compliance?
- Are the committees all made up of elected members or do they have independent members?
- Do any organisations have the equivalent of an audit committee internally?
- Do you think these are operating effectively at present?

# Effective Audit Committees

A lot of guidance material available locally and internationally

- Office of the Auditor General
- Institute of Directors
- Large accounting firms
- Professional accounting bodies
- Regulatory bodies
- Stock exchanges
- Etc

Deloitte have a very good self-assessment checklist available online to enable a stocktake of best practice.

# Effective Audit Committees - OAG

## OAG Guidelines

- Independence
- Clarity of Purpose
- Competence
- Open and Effective Relationships
- Making it real and keeping the principles in balance

# Effective Audit Committees - IODNZ

## IODNZ Features of an effective audit committee

- Membership
- Meeting frequency
- Composition of meetings
- Relationship with external auditors
- Role of Internal audit
- Internal or management audit committees
- Lines of Communication
- Access to directors and employees
- Liability Insurance

# Effective Audit Committees - ICAEW

## ICAEW – 9 Traits of effective Audit Committees

Identified by audit chairs and members from FTSE100 and FTSE businesses

- Intellectual curiosity and professional scepticism
- Courageous in making tough decisions
- Balanced, ethical approach to whistleblowing
- Oversight of key risks (not just financial)
- Excellent relationship builders
- Ability to build and develop a strong team
- Able to challenge the external auditors
- Good listening skills
- Own the agenda

## Governance Perspective – What is Important

- No surprises – communicate bad news or issues quickly
- Openness, honesty and frankness
- Good process and quality material
- Mutual trust – between management, governance and external auditors
- Preparedness to fight for what's right – be prepared to challenge not only management but also the external auditor if required
- Be forward looking, do not just report and review what's happened e.g. what are the emerging risks

**You will be judged with the wisdom of hindsight**



## Putting it Together - Process

- Clear Charter or Terms of Reference to define membership, responsibilities and scope
- Annual Work Programme – meeting schedule and key topics for each meeting
- Longer term work programmes e.g. internal audit programme
- Meeting papers
- Reporting to the Board / Council
- Annual review of operation and effectiveness

## Putting it together - culture

- Establish relationship and communication lines between Audit Committee Chair, Management Lead and External Audit Lead
- Chair responsible for setting tone and managing these relationships – encourage openness and frankness
- Parties work together to get the best outcomes for the organisation and its owners/beneficiaries
- Always provide an opportunity for Audit Committee to meet with External Auditor without management present
- Decide on external assistance or advice required for internal audit and risk management functions – encourage proactiveness to look for issues before they arise

## Putting it together - review

- Is the committee effective and covering the scope of its charter or TOR?
- Is sufficient attention paid to non-financial risks?
- Are we pro-active. What has changed in the outside world that might impact our organisation?
- Do we feel we are getting all the information we need from management or too much information?
- Have we got the right mix of skills on the committee, if not how do we address this?
- What are we not doing?

# Is your audit committee or audit oversight effective?

Having reviewed the material presented:

- Is your audit and risk committee or oversight working as effectively as it could?
- If not, what could be done to improve effectiveness?
- Other questions/comments?