



BACKGROUND

December 5, 2006

PROVINCE OF BRITISH COLUMBIA AUDIT COMMITTEES: DOING THE RIGHT THINGS

Introduction

Audit committees play a key role within the financial statement audit process. In recent years the role of the audit committee has been strengthened in response to high profile cases in the private and public sectors. In Canada, the federal government has introduced a wide range of reforms around accountability, risk management and internal control, including the establishment of departmental audit committees. These reforms reflect some of the regulatory responses around the world, such as the U.S Sarbanes-Oxley Act, which have implications for audit committees of publicly traded companies, including those in Canada.

Guidance on audit committee practices provided to government organizations in British Columbia is contained within the Board Resourcing and Development Office publication “Best Practice Guidelines: Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations”. When the guidelines were issued they were not made mandatory, nor are they enforced elsewhere in government policy or legislation.

The new Auditor General Act, passed in 2003, states that the Auditor General may provide the Public Accounts Committee with “an assessment of the financial statement audit process” of the Province. The summary financial statements of the Province comprise the financial statements of a large number of government organizations that have been subject to their own independent audit process (the government reporting entity).

This was the first assessment conducted under Section 10(8) of the Auditor General Act. This section of the Act provides for an assessment of the audit process for government’s annual financial statements. It also provides valuable information in determining which government organizations should be audited by the Auditor General and those to be audited by private sector auditors.

The Scope of Our Assessment

Our assessment of the financial statement audit process focused on relevant audit committee practices within a number of government organizations. We selected most organizations where the Auditor General is the direct auditor and some of those where the Auditor General relies on the work of other

auditors. Together with one additional organization which the Auditor General audits, this provided a total of 40 entities and a good cross-section of government – Crown corporations, the SUCH sector (school districts, universities, colleges and health authorities), and others. After initial work, we excluded 7 entities that had either no audit committees appointed yet or were otherwise inappropriate for assessment against our criteria.

A total of 40 criteria were used to assess audit committee practices in six key areas:

- oversight of the external audit process;
- mandate and process;
- membership;
- financial systems and information;
- oversight of the internal audit function; and
- other: whistle-blower policies.

This was an assessment of defined audit committee practices in place. It was not an audit of the effectiveness of individual audit committees or their members.

What We Found

Oversight of the external audit process

While some minor issues were identified, overall we found audit committees discharged their duties well in relation to their oversight of the external audit process. As a result we made no specific recommendations in this area.

Other key responsibilities assessed

Our assessment of audit committee practices in the other five areas of mandate, membership, financial systems and information, internal audit, and whistle-blower policies found mixed results. While there were many examples of good practice, there were also several opportunities for improvement. The findings highlighted a high degree of inconsistency in some areas of audit committee responsibility. These included frequency of meetings, audit committee membership, independence, review of financial and reporting systems, internal audit, and whistle-blower policies.

Our Recommendations

The Best Practice Guidelines for government organizations in British Columbia included, at the time of our review, most of the minimum standards for audit committees required by Canadian security regulators. However this is an area where generally accepted best practice, such as whistle-blower policies or the review of internal controls, is continually evolving. In addition, the guidelines are not mandatory.

We recommend that:

1. *Consistent with their intended evolutionary nature, the Board Resourcing and Development Office governance guidelines for government organizations be revised to fully incorporate*

current best practice for audit committees: and

- 2. Compliance with these guidelines be required of all government organizations in the government reporting entity, including the SUCH sector.*