

Caribbean Association of Audit Committee Members Inc.

The Audit Committee: Roles, Responsibilities and Prerequisites July 2009

Agenda

- Introduction
- Roles and Responsibilities
 - Corporate Reporting
 - Other Functions

Introduction

Why are we here?

What has not changed...

- Corporate scandals
- Business failures
- Attempts to address vulnerabilities through legal and regulatory reforms

Why are we here?

What is new...

- Increased complexity of industry and/or transaction specific accounting issues (off balance sheet treatment, SPVs, etc.)
- Trends in performance related pay, including the use of stock options
- Remuneration trends support focus on short-term profits; 'ends justify means' mentality
- Scandals and failures linked to, or facilitated by, auditor ignorance and/or complicity
- Heightened level of scrutiny and influence by shareholders

A whole new world...

- Increased use of litigation to recover losses
- Need to restore public confidence
- Shift in oversight responsibilities for external audit from management to audit committee
 - Role more clearly defined – selection, compensation, assessing independence, reviewing audit scope and results, etc.
 - Open, trusting relationship essential
 - Frequent, focussed communications critical
 - Framework generally outlined in audit committee charter

More grey than black and white...

Legal and regulatory reforms have defined high-level objectives (the 'what')

- Separate development of detailed regulations in each of the major financial markets (the 'how')
- Slow progress in Caribbean region
- Significant areas of common principles ('best practices')
- Refinement based on experience ('what works best')

Workshop objectives

To assist....

- Audit committee members to understand role and better discharge responsibility with regard to the oversight of external function
- External audit practitioners in understanding, and meeting and surpassing audit committee expectations

Caveat

Workshop seeks to inform participants about the ‘best practices’ that have emerged from latest wave of legal and regulatory reforms in major financial markets...

- Not intended to provide ‘one-size fit all’ solution
- Tailoring is necessary, but principles must be observed

Scope of audit committee oversight

Specific responsibilities for:

- Selection, re-appointment and replacement
- Remuneration
- Reviewing and assessing the adequacy of the scope of audit work
- Evaluating independence
- Reviewing significant audit findings and recommendations
- Reviewing management representations
- Understanding the use of other auditors and/or specialists
- Performance evaluation

Selection, re-appointment and replacement

Factors to consider:

- Firm's reputation
- Knowledge and experience in specific industry
- Engagement team's overall business acumen, and knowledge and experience in specific industry
- Lead partner's overall business acumen, and knowledge and experience in specific industry, personal credentials
- Lead partner's ability and willingness to consult internally on issues; leverage other firm resources

Selection, re-appointment and replacement

- Relationship between audit committee and lead partner/team; dynamics of periodic meetings and other contacts
 - Clear, candid and effective communication of issues
 - Co-operation with management, while maintaining objectivity
- Ability to meet deadlines and provide timely response to issues
- Quality control procedures
- Findings from performance and independent reviews
- Independence and related safeguards
- Relationships with international networks

Remuneration

Professional services are not a commodity, and must not be treated as such!

- Reasonableness of fees must consider:
 - Level of effort
 - Whether rates are competitive with market
 - If staffing mix is appropriate to audit plan and scope

Audit scope

- The external auditor is responsible for determining the scope of audit work that will enable that firm to express an opinion on the entity's financial statements
- Audit committee assessment of scope provides an understanding of expectations from the external audit process
- Considerations:
 - Objectives of audit
 - Statutory requirements
 - Other legal and regulatory obligations

Audit scope

- Knowledge of business and industry
 - External factors (economy and industry-wide issues)
 - Internal factors (mergers, re-structuring, changes in financial arrangements, business strategy)
- Reliance on internal control and internal audit
- Risk identification, response, and justification of approach
- How firm proposes to meet the entity's financial reporting requirements (timing of services)
- Audit coverage and use of third party services

Independence

- External auditors must act with objectivity
- Must exist in fact and in appearance
- Ethical standards set by profession; additional requirements imposed by legal and regulatory guidelines
- Main focus on the impact of providing non-audit services on independence (e.g., fee issues)
- Also consider nature of services:
 - Functioning in role of management
 - Audit their own work
 - Serve in advocacy capacity

Independence

- Other factors:
 - Fee arrangements
 - Self interest
 - Familiarity
 - Intimidation

Significant audit findings and recommendations

- Communications plan critical element of service plan
- Timeliness
- Appropriate to circumstance (oral vs. written)
- Concise, factual, business focussed
 - Use of executive summary
 - Ranking of findings by impact or risk
 - Separate reporting of:
 - Matters reported, but in process of being, or have been, resolved
 - Other minor weaknesses

Reviewing management representations

- Assertions that information critical to the audit process has been completely and accurately provided by management
- New disclosure requirements covering:
 - Accounting records
 - Accounting policies
 - Related parties
 - Employee benefits
 - Contractual agreements/arrangements
 - Laws and regulations

Reviewing management representations

- Going concern
- Fraud
- Misstatements detected during the audit
- Taxation
- Subsequent events

Evaluation

- Promises vs. performance
- Firm qualities
- Team member qualities
- Team technical skills and knowledge transfer
- Audit approach and deliverables
- Service levels
- Fees

Role and responsibility of the audit committee

Use of other auditors and/or specialists

- Roles and responsibilities
- Level of effort vis-à-vis total budget
- Independence
- Skills and experience
- Quality considerations

Other Functions

- General function is to assist the board in discharging its oversight responsibilities.
- Primary function is to oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information
- Expanded function may include oversight of:
 - The effectiveness of the bank's internal control and risk management system
 - The effectiveness of the internal audit function
 - The process for monitoring compliance with laws, regulations, and internal standards

Audit Committee Charter

- Purpose and Objectives
- Authority
- Organisation (Membership, meetings, etc.)
- Roles and responsibilities
 - Risk management and internal control
 - Financial reporting
 - Internal audit
 - External audit
 - Reporting requirements
 - Evaluating performance
 - Other responsibilities, as appropriate

Questions?