

Internal Audit Committee FAQ¹

What is an audit committee?

Members that provide oversight of auditing and internal control for the agency and help support independence of the internal audit function.

Why do agencies that have an internal audit function need an audit committee?

Oregon Administrative Rule (OAR) 125-700-0125 (5) states that “each agency having an internal audit function shall establish and maintain an audit committee.” The OAR also provides the framework for audit committees as:

- The role and function of the audit committee shall be stated in a formal, written charter that describes the authority, responsibilities, and structure of the audit committee. The charter must be approved and periodically reviewed by the audit committee and governing board (or agency head in the absence of a governing board).
- The primary purpose of the audit committee is to enhance the quality and independence of the audit function, thereby helping ensure the integrity of the internal audit process.
- If the agency has a governing board or commission, the audit committee must include one or more board or commission members. If there is no board or commission, agencies are encouraged to include qualified individuals from outside the agency on the audit committee, to enhance public accountability and transparency, and increase independence of the internal audit activity.

Audit committee members should have knowledge and understanding of the regulatory environment and industry the agency operates in. At least one member should have some experience as a public accountant, auditor, principal officer or comptroller. All audit committee members should understand the importance of internal controls as well as the roles and responsibilities of the audit committee.

What are the roles and responsibilities of the audit committee?

- Oversight of the Internal Audit Function
- Governance
 - Ethics (including tone at the top)
 - Risk Management
 - Internal Control and Compliance
 - Operational Effectiveness and Efficiency

What should the audit committee review?

- Audit Committee Charter
- Internal Audit Charter
- Annual Risk Assessment
- Audit Plan
- Audit Reports (both internal and external)
- Follow-up on prior audit recommendations
- Annual Report to DAS
- Performance Metrics
- External Quality Assurance Reviews (peer reviews)
- Internal Quality Assurance Programs

What are some of the best practices that the audit committee should consider?

- Chief Audit Executives (CAE) need to be integrated with the leadership team of the agency. This can be accomplished by having the CAE attend executive or leadership team meetings.
- The CAE feels comfortable calling confidential sessions of the audit committee chair and/or external audit committee members without the presence of management
- The CAE is encouraged and provide time on the audit plan to participate in the statewide audit community such as the Chief Audit Executive Council.

¹ For more information on audit committees please refer to the Audit Committee Handbook located on line at:

Definitions

Audit: An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization.

CAE Council: A collaborative statewide group that contributes to DAS' ability to coordinate internal audit activities within state government. The council strives to enhance the internal audit role and effect on governance, risk management and control activities within state government.

Chief Audit Executive: The top position within an agency that manages internal audit activities according to the internal audit charter and auditing standards. The CAE has responsibility for the overall quality assurance of audit activities, reports on audit activities to senior management and the board (if one exists), and follow-up on engagement results.

Consulting Services: Impartial examinations that are advisory and may include other services such as counseling, advising, facilitating, training and participating in standing or temporary management committees of project teams. The objective of counseling engagements is to add value in the development or modification of agency processes, policies, procedures and controls to minimize risk and achieve agency and program objectives.

Governance: The combination of processes and structures implemented by the board or senior management to inform, direct, managed, and monitor the activities of the organization toward the achievement of its objectives.

Internal Audit: An independent, objective assurance and consulting activity designed to add value and improve an agency's operations. It helps the agency accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes.

Internal Audit Function (Activity): A department, division, team of consultants, or other practitioners that provide independent, objective assurance (audit) and consulting services designed to add value and improve an agency's operations.

Risk: The possibility that an event will occur that will have an impact on the achievement of objectives.

Risk Assessment: The identification and analysis (typically in terms of impact and likelihood) of relevant risks to the achievement of an agency's objectives, forming a basis for determining how the risks should be managed.

Tone at the Top: The entity-wide attitude of integrity and control consciousness, as exhibited by the most senior executives of an agency.

For additional information contact:

Lisa Upshaw
Chief Audit Executive
Department of Administrative Services
Lisa.Upshaw@oregon.gov
971-719-3114