

Best Practices: Audit Committee Roles and Relationships

Office of the Independent Budget Analyst

January 23, 2007

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
<p>GAO: General Accounting Office</p>	<p>"...the audit organization and the individual auditor, whether government or public, must be free in both fact and appearance from personal, external, and organizational impairments to independence." Government Auditing Standards Exposure Draft," 2006, p. 25.</p>	<p>"In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence". GAO Government Auditing Standards Amendment No. 3, "Independence," January 2002, §3.11, pg 1.</p>	<p>"The audit organization should report regularly to the entity's independent audit committee and/or the appropriate government oversight body." "Government Auditing Standards Exposure Draft," 2006, p. 36.</p>	<p>"Auditors and audit organizations have a responsibility to maintain independence, so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. An auditor should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditor is not able to maintain independence and, thus, is not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work." GAO Government Auditing Standards Amendment No. 3, "Independence," January 2002, §3.12, pg 1.</p>	

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
<p style="text-align: center;">GAO</p>		<p>“The audit organization’s independence is enhanced when it reports regularly to the entity’s independent audit committee and/or the appropriate government oversight body.” GAO Government Auditing Standards Amendment No. 3 “Independence” January 2002, Organizational Impairment Considerations When Reporting Internally to Management, §3.30.8, pg 21.</p>		<p>“...a government internal audit organization can be presumed to be free from organizational impairments to independence when reporting internally to management if the head of the audit organization meets all of the following criteria: a. accountable to the head or deputy head of the government entity or to those charged with governance, b. reports the results of the audit organization's work to the head or deputy head of the government entity and to those charged with governance, c. located organizationally outside the staff or line of management function of the unit under audit, and d. has access to those charged with governance.” Government Auditing Standards Exposure Draft,” 2006, p. 35.</p>	

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
GAO				<p>"A government audit organization may also be free from organization impairments for external reporting if the audit organization's head meets any of the following criteria: a. is directly elected by voters of the jurisdiction being audited b. is elected or appointed by a legislative body subject to removal by a legislative body and reports the results of audits to and is accountable to a legislative body c. is appointed by someone other than a legislative body so long as the appointment is confirmed by a legislative body and reports the results of audits to and is accountable to a legislative body or d.is appointed by, accountable to, reports to, and can only be removed by a statutorily created governing body the majority of whose members are independently elected or appointed and come from outside the organization being audited." GAO Government Auditing Standards Amendment No 3 Independence.</p>	

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
GAO				<p>"When evaluating whether independence impairments exist either in fact or appearance with respect to the entities for which audit organizations perform audit or attestation services, audit organizations consider three general classes or impairments to independence - personal, external, and organizational." Government Auditing Standards Exposure Draft," 2006, p. 26.</p>	

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
<p align="center">IIA: Institute of Internal Auditors</p>	<p>"The audit committee's key responsibility - overseeing the process that produces reliable and credible financial statements while ensuring the company has effective internal controls - requires it to conduct activities that previously had been executed mostly by management. Today audit committees also are expected to retain and compensate the external auditors, grasp all of the key information included in a company's financial reporting, and oversee risk management and compliance with the laws and regulations affecting the company. This change is occurring in an environment that demands transparency." Audit Committee Effectiveness - What Works Best, 3rd Ed., 2005.</p>	<p>"The lines of authority for audit committees and management should in no way be murky. There should be a clear understanding and consensus regarding where management ends and the audit committee begins. To ensure this clarity, strong communications are essential both during and outside of committee meetings. Management should view the audit committee as an asset and seek its input prior to, rather than after making key decisions." The Audit Committee: Purpose, Process, Professionalism, pg 4.</p>	<p>"To achieve necessary independence, best practices suggest the CAE (chief audit executive) should report directly to the audit committee or its equivalent. For day to day administrative purposes, the CAE should report to the most senior executive (i.e., the chief executive officer (CEO)) of the organization." "Internal Audit Frequently Asked Questions" www.theiia.org</p>	<p>"Independence is essential to the effectiveness of internal auditing. This independence is obtained primarily through organizational status and objectivity: The organizational status of the internal auditing function and the support accorded to it by management are major determinants of its range and value. The head of the internal auditing function, therefore, should be responsible to an officer whose authority is sufficient to assure both a broad range of audit coverage and the adequate consideration of and effective action on the audit findings and recommendations. Objectivity is essential to the audit function. Therefore, an internal auditor should not develop and install procedures, prepare records, or engage in any other activity which he would normally review and appraise and which could reasonable be construed to compromise his independence." <i>Statement of Responsibilities of the Internal Auditor</i>, "Independence."</p>	<p>"Audit committees should own the relationship with external auditors - and if they do not and it is evident management still does, they need to take immediate steps to own it. Audit committees 'owning' the relationship have direct reporting by external auditors, ongoing communication, frequent meetings, and robust discussion about audit scope and audit results." Audit Committee Effectiveness - What Works Best, 3rd Ed., 2005.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
IIA			<p>"As the independent eyes and ears of the audit committee or equivalent, it is important that the internal audit activity is structurally independent, and free from coercion by management." "Internal Audit Frequently Asked Questions" www.theiia.org</p>	<p>"INDEPENDENCE: The audit charter should establish independence of the internal audit activity by the dual reporting relationship to management and the organization's most senior oversight group. Specifically, the CAE should report to executive management for assistance in establishing direction, support, and administrative interface; and typically to the audit committee for strategic direction, reinforcement, and accountability." "Internal Audit Frequently Asked Questions" www.theiia.org</p>	

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
<p style="text-align: center;">ALGA: Association of Local Government Auditors</p>	<p>“An audit committee shall be established to consult with the auditor regarding establishment of audit schedule, audit progress, audit follow-up, special needs; and shall work to assure maximum coordination between the work of the auditor and the needs of the chief executive officer the legislative body/board and external auditors. Audit committee members shall be appointed by the legislative body and all appointees shall be independent of the local government’s management and administrative service. The legislative body shall appoint at least one of its members to serve on the committee.” Guidelines and Model Legislation for Local Government Auditors, <i>Model Code/Ordinance Language to Implement Charter Provisions Establishing a Legislative/Appointed Local Government Auditor</i> , pg 6</p>	<p>“The following key elements are crucial in providing for an effective independent audit function...4. Establish an audit committee at the local level to be responsible for review of the auditor’s work concerning financial and performance audits. The committee should also work to assure maximum coordination between the work of the auditor and the audit needs of the chief executive officer, the legislative body and external auditors.” Guidelines and Model Legislation for Local Government Auditors, <i>Guidelines for Establishing Audit Functions</i> , pg 3.</p>	<p>“An audit committee shall be established to consult with the auditor regarding establishment of audit schedule, audit progress, audit follow-up, special needs; and shall work to assure maximum coordination between the work of the auditor and the needs of the chief executive officer the legislative body/board and external auditors.” Guidelines and Model Legislation for Local Government Auditors, Model Code/Ordinance Language to Implement Charter Provisions Establishing a Legislative/Appointed Local Government Auditor, pg 6.</p>	<p>“Provide for an ‘independent’ auditor either through election or appointment by the legislative body or chief executive officer. Appointment or removal of an appointed auditor by a chief executive officer should be subject to legislative approval.” Guidelines and Model Legislation for Local Government Auditors, <i>Guidelines for Establishing Audit Functions</i> , pg 2.</p>	<p>Audit Committee Oversight Responsibilities regarding commercial firm providing annual financial statement audit: selection of firm; open communication among parties; quality, timely financial and compliance reporting; annual audit process; response to management letter; report to Council on internal controls and budgetary and financial matters." November 2006.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
ALGA		<p>"Audit committee members shall be appointed by the legislative body and all appointees shall be independent of the local government's management and administrative service. The legislative body shall appoint at least one of its members to serve on the committee."</p> <p>Guidelines and Model Legislation for Local Government Auditors, <i>Model Code/Ordinance Language to Implement Charter Provisions Establishing a Legislative/Appointed Local Government Auditor</i> , pg 6</p>			

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
<p style="text-align: center;">AICPA: American Institute of Certified Public Accountants</p>	<p>"The creation of an effective audit committee function can help a government establish this accountability because it can focus specifically on issues related to fiscal accountability... For example, government audit committees can: Improve financial practices and reporting...; Enhance the internal audit function...; Enhance the external audit function..." The AICPA Audit Committee Toolkit: Government Organizations, "Benefits of a Government Audit Committee," 2005, p. 1.</p>	<p>"This tool uses the term governing body to describe those in government organizations that have the ultimate authority and responsibility for accountability of that government's public resources. At the federal, state, and local levels of government, the governing body may be a federal agency department head, legislative body, elected official(s), governing board, supervisory board, council, or any designee established by law or charter..." "Each member of the audit committee should be appointed by the governing body" The AICPA Audit Committee Toolkit: Government Organizations, "Audit Committee Charter Matrix for Government Organizations," 2005, p. 1 & 2.</p>	<p>"The auditor should determine that the audit committee is informed about all significant accounting policies and how they are applied in the governmental organization. To make sure, the audit committee should expect that the auditors will communicate the following: 1. All significant accounting policies, including those that applied for the first time during the year; 2. How those accounting policies are applied in the organization; 3. Methods the organization used to account for significant unusual transactions; 4. The effect of significant accounting policies in controversial or emerging areas for which there is lack of authoritative guidance or consensus." The AICPA Audit Committee Toolkit: Government Organizations, "Discussions to Expect From Independent Auditors," 2005, p. 2.</p>	<p>"To be independent, the auditor must be intellectually honest; to be <i>recognized</i> as independent, he must be free from any obligation to or interest in the client, its management, or its owners." Professional Standards, <i>Independence</i>, November 1972, AU §220.03.</p>	<p>"The audit committee (or its equivalent) may have the responsibility to hire, fire, and evaluate the independent auditor. If the audit committee (or its equivalent) has this responsibility, the audit committee should answer a series of questions about its relationship with the independent auditor and should ask key executives in the government organization for their comments as well." The AICPA Audit Committee Toolkit: Government Organizations, "Evaluating the Independent Auditor: Questions to Consider," 2005, p. 1.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
AICPA		<p>"For an audit committee to fulfill its purpose, the members should be able to operate independently from management." An AICPA Requirement for Audit Committees: An Analysis of the Issue" p.11, 1978.</p>	<p>"It is in the best interest of all concerned for the audit committee and the internal audit team to maintain a strong positive relationship. The audit committee should view the internal audit team as their eyes and ears about what is going on within the government organization. The audit committee should promote a relationship of healthy professional skepticism between the chief audit executive and the chief financial officer (CFO) or the government organization's equivalent of a CFO, though it is these two individuals who will likely spend the most time working with the audit committee. The audit committee chair and the leader of the internal audit team... should have frequent contact between meetings of the audit committee. In fact, the CAE should have a "solid-line" reporting relationship to the audit committee (with a "dotted-line" reporting relationship to a senior executive in the government organization for administrative purposes),..." The AICPA Audit Committee Toolkit Government Organizations, Evaluating the Internal Audit Team" 2005, p. 1.</p>		

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
GFOA	<p>"The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing and independent audit report or performing other independent audit, review, or attest services. Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee" Recommended Practice: Audit Committees (1997, 2002, and 2006) (CAAFR).</p>	<p>"An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns" Recommended Practice: Audit Committees (1997, 2002, and 2006) (CAAFR).</p>	<p>"All reports of internal auditors, as well as the annual internal audit work plan, should be made available to the government's audit committee or its equivalent." Recommended Practice "Establishment of an Internal Audit Function" (1997 and 2006) (CAAFR).</p>	<p>"It is recommended that internal auditors of state and local governments conduct their work in accordance with the professional standards relevant to internal auditing contained in the U.S. General Accounting Office's publication <i>Government Auditing Standards</i>, including those applicable to the independence of internal auditors." Recommended Practice "Establishment of an Internal Audit Function" (1997 and 2006) (CAAFR).</p>	<p>"The documentation that formally establishes the audit committee should expressly state that the independent auditors are to report directly to the audit committee, rather than to management." Elected Official's Guide to Audit Committees, 2006.</p>
	<p>"It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors" Recommended Practice: Audit Committees (1997, 2002, and 2006) (CAAFR).</p>	<p>"All members of the audit committee should be members of the governing body. To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee..." Recommended Practice: Audit Committees (1997, 2002, and 2006) (CAAFR).</p>	<p>"An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns." Recommended Practice: Audit Committees (1997, 2002, and 2006) (CAAFR).</p>	<p>"The auditor of a state or local government's financial statements must be independent, both in fact and appearance." Recommended Practice "Establishment of Audit Committees" (1997 and 2002).</p>	<p>"It is not possible in the public sector to mandate that the financial expert be a member of the audit committee. Therefore, governments should authorize the audit committee to obtain the service of an outside financial expert to assist in the conduct of its work." Elected Official's Guide to Audit Committees, 2006.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
GFOA	<p>“The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters” Recommended Practice: Audit Committees (1997, 2002, and 2006) (CAAFR).</p>		<p>"A properly constituted audit committee helps to enhance the financial statement auditor's real and perceived independence by providing a direct link between the auditor and the governing board." Recommended Practice "Establishment of Audit Committees" (1997 and 2002).</p>		

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
GFOA	<p>"It is the audit committee's responsibility to provide the independent review and oversight of 1) the financial reports processes 2) the government's internal controls and 3) the independent audit of the government's financial statements. Specific tasks of the committee include a) determining the appropriate scope of the independent audit b) determining the appropriate scope of non audit services to be performed by the independent auditor c) managing the audit procurement process d) selecting the independent auditors e) reviewing the financial statements. F) reviewing the independent auditor's reports and following up on corrective action g) reviewing the comprehensive framework of internal control h) assessing the performance of the independent auditors and I) providing an independent forum for internal auditors to report finding of management abuse or control override." GFOA An Elected Officials Guide to Audit Committees: October 2006.</p>		<p>"There are two commonly held and opposing views on the optimal relationship between management and the internal audit function. One school of thought views the relationship between the governing body and the audit committee with internal auditors reporting directly to top management . That is, the internal audit function is seen as a practical way for managers to meet their internal control and financial reporting-related responsibilities just as the audit committee is a practical way for the governing body to meet its responsibilities in regard to internal control and financial reporting. The opposing position is that the internal audit function should be completely independent of management at all levels. Supporters of this latter position, which is becoming increasingly popular, argue that internal auditors should report directly to the audit committee, or to an elected auditor to ensure independence." GFOA An Elected Officials Guide to Audit Committees: October 2006.</p>		

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
SEC	<p>"Accordingly, the final rules require that the audit committee pre-approve all permissible non-audit services and all audit, review or attest engagements required under securities laws" 17 CFR Parts 210, 240, 249 and 274, RIN 3235-AI73, Strengthening the Commission's Requirements Regarding Auditor Independence, "D. Audit Committee Administration of the Engagement," pg 31.</p>	<p>"(i) Each member of the audit committee must be a member of the board of directors of the listed [company], and must otherwise be independent ... (ii) Independence requirements for non-investment company issuers. In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed [company] that is not an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (A) Accept directly or indirectly any consulting, advisory, or other compensatory fee from the [company] or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise...; or (B) Be an affiliated person of the [company] or any subsidiary thereof." Sarbanes-Oxley §10A-3(b)(1).</p>	<p>"An effective audit committee may enhance the accountant's independence by, among other things, providing a forum apart from management where the accountants may discuss their concerns. It may facilitate communications among the board of directors, management, internal auditors and independent accountants." 17 CFR Parts 210, 240, 249 and 274, RIN 3235-AI73, Strengthening the Commission's Requirements Regarding Auditor Independence, "D. Audit Committee Administration of the Engagement," p 30.</p>	<p>"The Commission's principles of independence with respect to services provided by auditors are largely predicated on three basic principles, violations of which would impair the auditor's independence: (1) an auditor cannot function in the role of management, (2) an auditor cannot audit his or her own work, and (3) an auditor cannot serve in an advocacy role for his or her client." 17 CFR Parts 210, 240, 249 and 274, RIN 3235-AI73, Strengthening the Commission's Requirements Regarding Auditor Independence, "B. Scope of Services Provided by Auditors," p 9.</p>	<p>"An audit committee also may enhance auditor independence from management by appointing, compensating and overseeing the work of independent accountants" 17 CFR Parts 210, 240, 249 and 274, RIN 3235-AI73, Strengthening the Commission's Requirements Regarding Auditor Independence, "D. Audit Committee Administration of the Engagement," p 30.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
SEC					<p>"Specifically, our proposed rules would have required the audit committee to approve the engagement of the independent accountant to audit the issuer and its subsidiary's financial statements and have ongoing communications with the accountant." 17 CFR Parts 210, 240, 249 and 274, RIN 3235-AI73, Strengthening the Commission's Requirements Regarding Auditor Independence, "D. Audit Committee Administration of the Engagement," p 30.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
<p>Deloitte and Touche</p>	<p>"Today, typical audit committee responsibilities include: approving the overall audit scope; helping ensure that the audit is conducted in an efficient and costeffective (sic) manner; overseeing the organization's financial statements and internal controls; recommending to the governing body the approval of the organization's financial statements; recommending the appointment of the external auditor and the appropriate fee, directing special investigations for the governing body." Deloitte and Touche, Resource Guide: Public Sector Audit Committees, Section 2, Role of the Audit Committee, October 2005, p 3.</p>	<p>"General rules cannot be developed to determine whether individuals with governing authority are independent of management... Therefore, we recommend that the audit committee be made up of outside members appointed by the chief executive and confirmed by the governing body and/or independent governing body members themselves." Deloitte and Touche, Resource Guide: Public Sector Audit Committees, Section 2, <i>Role of the Audit Committee</i>, October 2005, p 4.</p>	<p>"Most audit committees regularly review the internal audit function as a part of their consideration of internal accounting control and operating efficiency... Many organizations have taken steps to ensure that the director of internal audit has access to the governing body through its audit committee on both a scheduled and as-needed basis and that management hierarchy does not hamper internal audit effectiveness. Ordinarily, much of this liaison is achieved by having the director of internal audit present at all regular audit committee meetings and by having a report on internal audit activities and scope presented at those meetings." Deloitte and Touche, Resource Guide: Public Sector Audit Committees, Section 8, <i>Audit Committee Relationships</i>, October 2005, p 25.</p>		<p>"Where an audit committee exists, it is the appropriate vehicle for auditor governing body communications. Audit committees may properly view the outside auditors as a fact-finding arm and as surrogates in making evaluations requiring accounting and auditing expertise." Deloitte and Touche, Resource Guide: Public Sector Audit Committees, Section 8, <i>Audit Committee Relationships</i>, October 2005, p 25.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
Deloitte and Touche		<p>“Public sector use of independent audit committees is not so straightforward. Often the structure of public sector entities and governments does not separate the governing authority and oversight responsibility from the day-to-day management of the entity. In a ‘strong mayor’ form of government, the mayor is the chief executive officer and is also a member of the governing body. In such cases, the mayor is not independent of management” Deloitte and Touche, Resource Guide: Public Sector Audit Committees, Section 2, <i>Role of the Audit Committee</i>, October 2005, p 4.</p>			
National Office of Audit and Accounting	<p>"It is the audit committee's function to carry out due diligence by evaluating information from the chief financial officer, program administrator, the internal auditor, and the external auditors and to form conclusions." Audit Committee Guide for Public Sector Entities: State and Local Governments and Nonprofit Organizations, McGladrey & Pullen LLP, pg 1.</p>	<p>“A majority of the members of the audit committee should be selected from outside management. At the same time, the audit committee should include at least one representative each from the executive and legislative branches of government” Audit Committee Guide for Public Sector Entities: State and Local Governments and Nonprofit Organizations, McGladrey & Pullen LLP, pg 5.</p>	<p>References GFOA's Recommended Practice: "All reports of internal auditors, as well as the annual internal audit work plan, should be made available to the government's audit committee or its equivalent." Recommended Practice “Establishment of an Internal Audit Function” (1997 and 2006) (CAAFR). Audit Committee Guide for Public Sector Entities: State and Local Governments and Nonprofit Organizations, McGladrey & Pullen LLP, pg 5.</p>	<p>“The auditor may be less candid if there is a strong relationship and loyalty to management. However, in many public sector entities, the auditor will have a significant relationship with management and the audit committee will need to work the auditor to develop more than just a reporting relationship with the Committee” Audit Committee Guide for Public Sector Entities: State and Local Governments and Nonprofit Organizations, McGladrey & Pullen LLP, pg 4.</p>	<p>"Typically, it is best if the auditor views the Committee as their primary employer so the Committee is confident the auditor is communicating openly about issues and concerns." Audit Committee Guide for Public Sector Entities: State and Local Governments and Nonprofit Organizations, McGladrey & Pullen LLP, pg 4.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
National Office of Audit and Accounting	The primary responsibilities of a Committee usually include oversight of the following: open communication between the Committee, financial and program management and the auditor; Internal accounting controls to safeguard assets, ensure compliance and avoid fraud; budgetary and finance; quality and timely financial and compliance reporting; selecting the auditor; the annual audit process; reporting to the governing board." Audit Committee Guide for Public Sector Entities: State and Local Governments and Nonprofit Organizations, McGladrey & Pullen LLP, pg 4.				"However, the intent is to have a formally established group of five to seven individuals with diverse backgrounds, who report to the governing board and who collectively possess the expertise to oversee the entity's external audit's)" Audit Committee Guide for Public Sector Entities: State and Local Governments and Nonprofit Organizations, McGladrey & Pullen LLP, pg 5.

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
Kroll	<p>(Off-set quote from GFOA) "'One important advantage of an audit committee is that it helps to facilitate communication between management, the auditors, and the governing board. An audit committee also limits the reliance governing bodies must place on the technical expertise of the independent auditor. An audit committee is useful, too, in helping to focus and document the government's process for managing the financial statement audit.'" p. 251</p>	<p>"Since 1997, the GFOA has recommended that '(e)very government should establish an audit committee or its equivalent.' " (Off-set quote from GFOA) "'The auditor of a state or local government's financial statements must be independent in both fact and in appearance. A properly constituted audit committee helps to enhance the financial statement auditor's real and perceived independence by providing a direct link between the auditor and governing board.'... In order to ensure objective oversight of the City's financial reporting process, the City should establish a three member audit committee, with two members from the public and one member of the City Council... The Mayor should appoint the two members of the Audit Committee from the public, and these appointments should be confirmed by the City Council." p. 251</p>	<p>"The Auditor General should report to an Audit Committee (defined below) no less than on a quarterly basis and periodically to the City Council... In order to protect against budget cuts that may unduly constrain the independent auditing process, the City's Audit Committee should approve the annual compensation of the Auditor General and the annual budget for the Auditor General's staff. The Auditor General should serve a term of 10 years, and could be removed from office for cause by the Audit Committee or upon an affirmative vote of three-quarters of the City Council." p. 250-251.</p>	<p>"Currently, the functions of accounting and financial reporting are combined with the function of internal auditing in the Office of the City Auditor and Comptroller; in substance, the auditor audits his own work. Such a structure lacks the requisite level of independence widely viewed as essential for a sound financial reporting system. To address the deficiencies that have been identified with respect to the independence and oversight of the internal and external financial reporting process, the Audit Committee is proposing the creation of an independent internal auditing function, and improved oversight of both the internal and external auditing process... The Auditor General should be nominated by the Mayor and appointed upon the consent of a majority of the City Council." p. 250.</p>	<p>"Consistent with the established practice for other entities gaining access to money from the investing public, the City's independent auditors should be retained by, report to, and take direction from, the Audit Committee. We would expect that the CFO and Auditor General, as supporting staff to the Audit Committee, would assist in this process. However, the final decision would be that of the Audit Committee." p. 252.</p>

Authority	Role of Audit Committee	Independence of Audit Committee	Role of Internal Auditor and Audit Committee	Independence of Internal Auditor	Role of Independent/External Auditor in Audit Committee
Kroll	<p>"The Audit Committee should meet quarterly, or more often if necessary, with the City's independent auditors, the City's Auditor General and the CFO. The Mayor, CFO, City Attorney and City Council should have the authority to make requests of the Audit Committee and Auditor General to perform internal audits of material matters they reasonably believe to be warranted." p. 252.</p>		<p>Appendix N Proposed Financial Reporting Reorganization: Shows solid line reporting relationships as follows: Internal Audit staff to Auditor General, Auditor General to the Audit Committee, Audit Committee to the City Council, CFO dotted line to Audit Committee</p>		<p>On the qualification standards regarding the "Selection and Retention of Auditors:" "The Audit Committee should be free to adopt policies that impose more stringent selection and retention standards." p. 253.</p>
			<p>The new Audit Committee should have responsibility for the establishment and monitoring of effective policies and procedures for dealing with whistleblower" complaints, including an internal hotline. In that regard, the Audit Committee should receive a report of each such complaint and, in consultation with the Auditor General, determine the appropriate course of action. This Auditor General shall report to the Audit Committee the results of any investigation and disposition of such complaints. Documents reflecting such an investigation should be preserved, in accordance with procedures established by the new Audit Committee." Appendix M-6.</p>		