

EUROSAI-ECIIA COOPERATION

EUROSAI SURVEY ON AUDIT COMMITTEES IN THE PUBLIC SECTOR (2016) – SUMMARY OF SURVEY RESULTS

Respondents: SAIs of Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, European CoA, Finland, Germany, Ireland, Kazakhstan, Latvia, Lithuania, Malta, Moldova, Netherlands, Poland, Portugal, Romania, Serbia, Spain, Turkey

i.e. 22 out of 50 EUROSAI Members

Existence of audit committees

There is no overall tendency to have audit committees in the public sector in Europe, except for

- some countries, firmly established and for all public sector entities (Ireland, Netherlands) or for a considerable number of entities (Belgium federal and regional entities, European Union institutions, Malta, Poland ministries, Romania ministries);
- some types of entities, in particular public enterprises (Austria, Belgium, Estonia, Germany, Portugal, Serbia, Spain, Turkey) or State-owned undertakings (Lithuania). As for audit committees in public enterprises the main or only reason is often they have to comply with national corporate law and/or corporate governance rules (Austria, Germany, Portugal).

In some countries there are only one or a few public sector entities having an audit committee (Latvia). In Denmark there is only one public sector audit committee, regulated in the Danish Constitution, the Public Accounts Committee.

In some countries there is new legislation to set up audit committees for some public sector entities (Bulgaria).

In most countries where audit committees were not or have not been established, the reasons are there was/is no legal framework or obligation (Bulgaria, Czech Republic, Kazakhstan, Lithuania, Moldova, Romania), government or management do not perceive added value of audit committees (Belgium, Estonia, Latvia, Lithuania, Serbia), independent experts cannot sufficiently be involved (Latvia, Serbia, Turkey) or audit committees are not compatible with the governance or internal control system of the administration or enterprise (Germany, Portugal).

Regulation of audit committees

Audit committees are regulated by hard and/or soft law:

- corporate law and corporate governance rules (Austria, Portugal, Turkey),
- public enterprises law (Belgium, Germany, Serbia),
- public sector governance law, mainly laws on internal control and audit (Belgium, Bulgaria, Estonia, Latvia national AC, Malta national AC, Poland, Romania, Spain),
- public sector governance rules (Ireland, Netherlands ministries AC, Poland, Serbia),
- organic laws of public sector entities (Netherlands parastatals AC),
- the Constitution and complementary law (Denmark),
- the Financial Regulation (European Union institutions AC).

In some countries there is no regulation at all (Latvia other AC, Lithuania).

Respondents of a limited number of jurisdictions have confirmed there are audit committee charters (Belgium, EU institutions, Ireland, Malta, Portugal, Romania). According to this information these charters sometimes have to be approved by the government or the governing body (Belgium federal AC, EU institutions, Portugal).

Composition of audit committees

The number of audit committee members varies from 2 to 10 persons (2-3 in Spain, 2-5 in Estonia, 3 in Serbia 3, 3-5 in Bulgaria, 3-6 in Portugal, 3-7 in Poland, 5 in Latvia and Malta national AC, 5-7 in Romania, 6 in Denmark 6, 6-8 in Ireland ministries AC, 7 in Belgium, 7-10 in Netherlands ministries AC); the European Commission Audit Progress Committee has 9 members. In Denmark the AC members are appointed by Parliament; they may be Members of Parliament and in many cases they are. Audit committee members usually have a term of 3 to 6 years (3 in Bulgaria and Romania, 4 in Denmark, 6 in Belgium), sometimes once renewable (Belgium, Romania).

The audit committee should collectively have sufficient expertise concerning relevant fields/matters (e.g. public sector activities, budget cycle, ICT, public management, public law, internal control, strategic management and risk management) (Belgium, Ireland, Poland). Usually at least one or two member(s) must have specialized or expert knowledge, e.g. in the area of finance, accounting and reporting, auditing (Austria, Belgium, Estonia, Ireland, Malta, Netherlands, Poland, Serbia), in some countries all members (Bulgaria, Latvia, Romania).

In several countries the chairperson (Austria), a minority of members (EU Commission, Netherlands ministries AC), a majority of members (Belgium regional AC, Bulgaria, Spain) or all members (Belgium federal AC, Estonia, Latvia national AC, Portugal, Romania, Serbia) of the audit committee must be independent from the entity (external members); in Ireland some AC have internal members, some external; in Malta, Poland and the Netherlands AC are composed of a mixture of internal and external members. In some countries audit committee members elect the chairperson among them (Belgium, Denmark).

Roles and responsibilities and reporting of audit committees

The roles and responsibilities of typical audit committees include overseeing or reviewing:

- accounting and financial reporting (Austria, Bulgaria, Denmark, Estonia, Ireland, Netherlands, Portugal, Serbia, Spain, Turkey);
- internal control systems (Austria, Belgium federal AC, Bulgaria, Estonia, EU Commission, Ireland, Malta, Netherlands, Poland, Portugal, Turkey);
- risk management (Austria, Belgium federal AC, Bulgaria, Estonia, Ireland, Netherlands, Poland, Serbia, Turkey);
- internal auditing process (Austria, Belgium, Bulgaria, Estonia, EU Commission, Ireland, Latvia, Malta national AC, Netherlands, Poland, Portugal, Romania, Serbia, Spain, Turkey);
- external auditing process (Austria, Denmark, Estonia, Ireland, Netherlands, Portugal, Spain, Turkey);

In some countries audit committees oversee additional topics, e.g. budget preparation (Estonia), compliance (Denmark, Estonia, Poland, Portugal), operational management (Netherlands, Spain), ethics (Ireland, Romania), whistle-blowing (Ireland), selection of auditors (Austria, Portugal, Serbia, Spain, Turkey).

In Denmark internal auditing was previously used in ministries, but today public sector auditing is carried out by the SAI in cooperation with the Accounts Committee.

The surveyed audit committees report to:

- Parliament (Denmark);
- Ministers: competent Ministers or Council of Ministers (Belgium federal AC), Prime Minister (Malta national AC), competent Ministers and Minister of Finance (Poland), Ministry of Finance (Latvia national AC, Romania); Minister of Finance in case of senior manager neglecting recommendations (Bulgaria);
- Board: supervisory board (Austria), body or person that elected AC (Estonia), governing body (EU institutions), permanent secretary or board of directors (Malta other AC), board of directors (Portugal, Turkey), supervisory board (Serbia);
- Manager: senior manager (Bulgaria), accounting officer of ministry or CEO (Ireland), secretary general (Netherlands ministries AC), head of entity (Romania);
- all stakeholders (Netherlands parastatals AC, Spain).

Audit committee relationships with internal audit and SAI

As regards audit committee relationships with internal audit, the situation is similar in most jurisdictions. Basically they have to safeguard the (independent) status of internal audit entities and to oversee the planning, progress and results of internal audit activities. In most jurisdictions the audit committee is consulted on the internal audit work program. In some countries the (initial) annual internal audit plan must be approved by the audit committee (Belgium, Bulgaria, Ireland, Malta, Netherlands, Romania), or the audit committee sets priorities for strategic and annual internal audit plans (Poland).

If there is a relationship between audit committees and SAIs, it ranges from SAIs auditing audit committees, over informal contacts or formal cooperation between both, to an audit committee commissioning and reviewing the SAI:

- audit committee subject of SAI audits, as part of the audited organization (Austria, Belgium federal AC, Estonia, Poland, Spain, Turkey);
- informal contacts: during SAI audit work (Austria, Portugal, Spain), on implementation of certain legislation (Belgium federal AC), SAI participation as observer or invitee in audit committee meetings (Belgium French-speaking AC, Ireland ministries AC, Netherlands ministries), on follow-up of recommendations (EU institutions, Malta);
- formal cooperation agreement on audits (Belgium Flemish AC), SAI membership of audit committee (Latvia national AC, up to 2017);
- audit committee commissioning SAI audits and reviewing SAI reports (Denmark).

Assessment of benefits and effectiveness of audit committees

Only in a limited number of responding jurisdictions the benefits and/or effectiveness of audit committees have been assessed by other entities or persons. In some countries there is, or may exist in the near future, some kind of audit committee self-assessment. The Flemish AC in Belgium and the ministries ACs in the Netherlands must do regular (annual) self-evaluations. In Poland the AC regulating Minister of Finance issued an AC self-evaluation questionnaire. In Ireland the SAI has recommended the government department that issues AC guidance to develop a self-assessment tool.

In Belgium the federal AC has been beneficial for the independence and quality and the reorganization of internal audit activities and the implementation of internal control systems.

In Estonia a study pointed out that in some cases ACs have been beneficial, in particular when the supervisory board understands why they need an AC in addition to internal audit and cooperates and communicates with them. In cases where AC were considered disadvantageous and/or ineffective, this has to do with a lack of vision and understanding of roles and activities, of competence and of independence.

For the EU institutions ACs have been considered beneficial because they provide a forum for discussion of the findings of internal audit, and for identifying issues deserving attention by the governing body.

In Ireland the SAI has recommended to embed in updated AC government guidance requirements regarding the selection of AC members, identification of conflicts of interest, performance assessment and measuring AC effectiveness; these areas offer the greatest potential for improvement.

In the Netherlands AC have been considered having added value because of the views on internal control and on the follow-up of audit findings by a countervailing power inside the organization.

In Poland AC have identified gaps in the internal control and risk management system, provided recommendations in this respect to the ministers and monitored on a regular basis the improvement of the systems. In the field of internal audit AC pay special attention to the efficiency and quality of internal audit units' operation and to standardization of internal audit methodology and reporting within all internal audit units of a government branch.

In Portugal AC have contributed to the increase of governance quality, promoting the independence of the internal audit function and involving top management in its decisions.