

Benefits of Audit Committees and Audit Committee Charters for Government Entities

The implementation of audit committees by government entities both enhances financial transparency and improves the controls in place to assure that governments serve as good stewards of the assets entrusted to them by their citizens.

—Max Duplant, Chief Financial Officer, City of Irving, TX and current member of AICPA's Government Performance and Accountability Committee (GPAC)

A government is publicly accountable for the services it provides taxpayers, and for the way it uses human and financial resources to provide those services. Government fiscal accountability is demonstrated through strong internal controls, budgetary and other legal compliance, accurate and timely financial reporting, sound business practices and a culture of strong moral and ethical behavior.

What an Audit Committee Can do for Government Entities

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. Furthermore, a government audit committee can devote more time to fiscal accountability matters, resulting in greater benefits. For example, government audit committees can:

- **Improve financial practices and reporting.** An audit committee can periodically meet with the government's chief executive and financial officers to review, monitor and direct activities and results related to the maintenance of internal controls and preparation of financial reports.
- **Influence appropriate action against fraud.** A government audit committee should take an active role in the prevention, deterrence, and detection of fraud and encourage the government organization to establish an effective ethics and compliance program. The government audit committee should constantly challenge management and auditors to ensure that the organization has appropriate fraud identification programs and controls in place, and that investigations are undertaken if fraud is detected.
- **Enhance the internal audit function.** When an internal audit team reports directly to the audit committee, it can be the "eyes and ears" of the audit committee about how well the government is doing to meet its financial and compliance responsibilities, and effect change in practices and internal controls, when necessary.
- **Enhance the external audit function.** An audit committee can meet with government officials and auditors to monitor the external auditor's services and activities to ensure that independence is maintained between the external



Establishing an audit committee helps to reduce risks to citizens and elected officials and ensures proper oversight of a government entity's financial reporting process. When the audit committee properly oversees the maintenance of financial reporting, the goal of transparency is also achieved. The audit committee concept has been successfully implemented for many years in the private sector. It is a best practice that should be applied to the government sector.

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auditor and those involved in managing the government's affairs. In addition, an audit committee can meet with the external auditors to get independent observations about management's efforts to maintain strong internal controls, appropriate financial reporting and sound business practices.

What an Audit Committee Charter Can do for Audit Committees

Government organizations interested in establishing an audit committee that will help a governing body and its officials improve fiscal accountability should start by developing an audit committee charter. The audit committee charter outlines the roles and responsibilities of committee members and determines the level of financial experience that each member should have. Because government organizations have their own laws and regulations to consider, the audit committee charter should be based on each government's charter requirements.

Government organization's that already have an audit committee may want to review and update their audit committee charter and consider conducting a self-evaluation of their effectiveness.

For More Information:

AICPA's Audit Committee Effectiveness Center

Briefs and articles:

The American Reinvestment and Recovery Act of 2009: A Primer for Audit Committees

Internal Controls: Just the Start of a Fraud, Waste and Abuse Prevention Program for Government Entities

Eight Habits of Highly Effective Audit Committees

Books and whitepapers:

The AICPA Audit Committee Toolkit: Government Organizations

Management Override of Internal Controls: The Achilles' Heel of Fraud Prevention—The Audit Committee and Oversight of Financial Reporting

Members in Government Guide to Understanding Internal Control and Internal Control Services

Events:

AICPA National Audit Committee Forum: July 29-30, 2010—Washington, D.C.

This new conference covers everything an audit committee oversees, such as financial reporting, the external audit plan, risk management, and more.