TURNING LIGHTS GREEN: A BEST PRACTICE GUIDE FOR AUDIT COMMITTEES

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

CONTENTS

INTRODUCTION

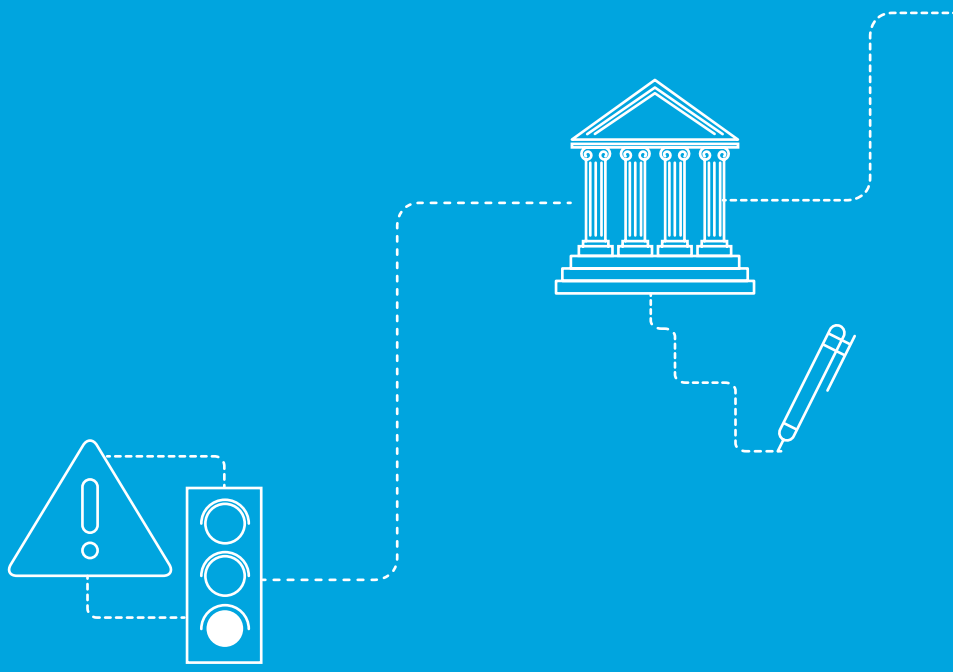
As pressures on charities continue to increase, the need for good governance cannot be overemphasised. Amid economic uncertainty and changing beneficiary needs, organisations must ensure their internal controls help them to manage risks and use funds efficiently and effectively.

Audit, finance and risk committees can help charities meet this challenge. As audit chair at the Royal Institution, I have seen first-hand the difference our enhanced scrutiny provides to effective risk management in trustee decisions. While at Centrepoint, I saw the audit committee scrutinise budgets and help the board understand the financial impact of decisions.

But committees must constantly look for good practice and tools to enhance their effectiveness. Given the pressure of time, it is critical they have frameworks that make the tasks of financial and risk scrutiny systematic and effective.

RSM has compiled a handbook that aims to help charities set up effective audit committees. This practical tool will serve as a helpful reference point, even for charities that have good governance. I wholeheartedly endorse it.

Sarika Patel
Trustee and Audit Committee Chair at the Royal Institution



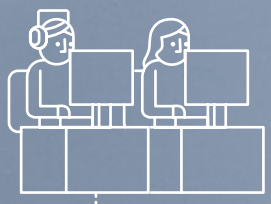
PART 1
SETTING UP AN EFFECTIVE COMMITTEE

Audit committees have a key role to play in demonstrating charities are well-led, well-run and use resources effectively. But they must be set up in the right way if they are to deliver these benefits.

This handbook will help charities reach confident decisions when establishing an audit committee. It aims to help members fulfil their core responsibilities by setting out practical tools to focus activity, forge strong internal and external relationships, and assess performance.

While the following templates can also serve as a useful starting point for finance or risk committees, they do not cover their full responsibilities. Both will need to access further guidance on their other responsibilities, including how to review risk registers, budgets, statutory accounts, management information and bank and investment manager relationships.

Similarly, the provision of templates will not ensure the success of an audit committee. Members must also have a wider awareness of the direction of travel of the charity.



THE BOARD MAKES SURE THAT ITS COMMITTEES HAVE SUITABLE TERMS OF REFERENCE AND MEMBERSHIP, AND THAT THE TERMS OF REFERENCE ARE REVIEWED REGULARLY.

Charity Governance Code

Terms of reference

Committees must operate within terms of reference that have been approved by the board. The terms of reference should be a living document that reflects the needs of the organisation. It must be reviewed each year and updated as external factors change.

Terms of reference should set out the committee's:

- overall purpose, responsibilities and authority, to give clarity on what it is advising the board;
- membership, including how it manages conflicts of interest and terms of appointment;
- frequency of meetings;
- member compensation (where relevant), including payment of disbursements;
- relationship with the board;
- relationship with external auditors and, if applicable, internal auditors;
- overview of the charity compliance function;
- authority to conduct special investigations;
- authority to engage with specialists and independent experts;
- method of self-assessment; and
- approach to reporting to the board.

The following template does not cover all aspects of the committee's responsibilities and it cannot be applied to every situation, but it will help guide initial conversations. Before adopting terms of reference, committees should gather input and advice from legal counsel as well as external and internal auditors.

References to internal auditors may not always be applicable as some charities do not have an internal audit function. Where this is the case, the audit committee should regularly review this position and document its decision.

OVERALL PURPOSE, RESPONSIBILITIES AND AUTHORITY

External relationships

- Oversee annual external and internal audit appointments and the scope of work undertaken.
- Meet external auditors and internal auditors at least once a year, without management present, and discuss their reports at committee meetings.
- Ensure management address issues highlighted by external and internal auditors in their management letters.

Internal reporting and decisions

- Meet with the chief financial officer/finance director at least once a year to review the charity's accounts.
- Make a recommendation to the board on whether the audited financial statements should be approved and submitted, including adopted accounting policies and trustees' report content.
- Review and discuss financial information and press releases and advise the board on the effectiveness of the internal control environment.

Compliance

- Carry out or authorise investigations into matters that fall within the committee's scope of responsibilities. This, for example, may include dealing with regulatory and whistleblowing matters.
- Review and discuss with management the policies and guidance for risk assessment and control.
- Carry out any action permitted by applicable laws, rules and regulations to complete work authorised by this terms of reference.

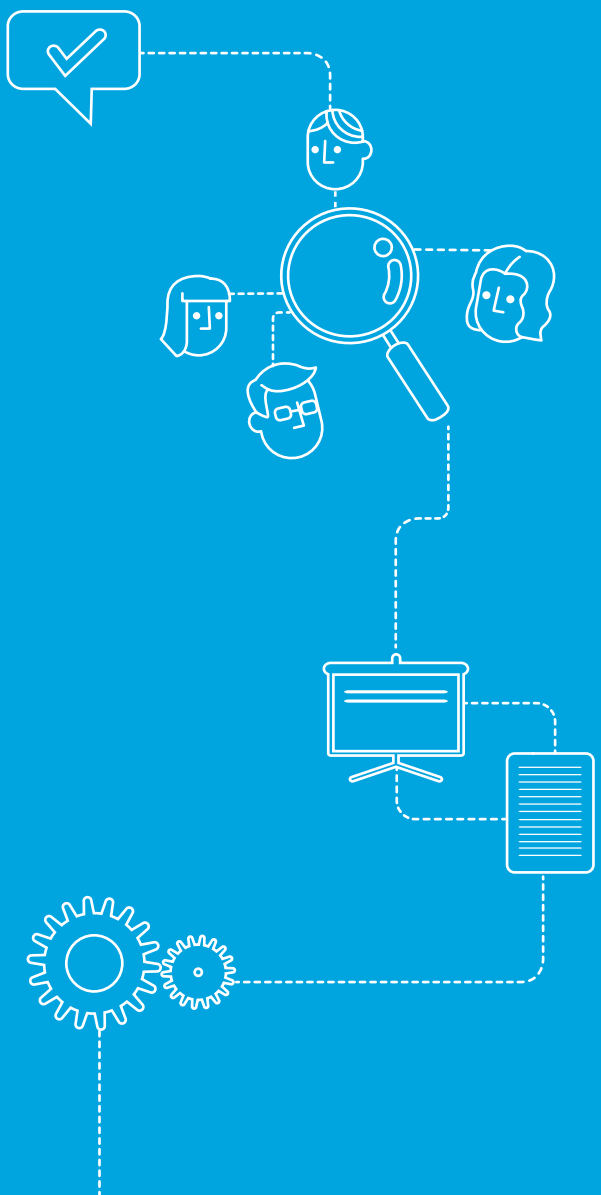
Frequency of meetings

The committee should meet as often as circumstances dictate, but no less than twice a year.

Meetings may be held in person or by video conference or telephone at the discretion of the committee chairperson. Decisions may also be made by email; this is often appropriate for time-critical matters.

WHERE THE CHARITY HAS AN AUDIT COMMITTEE, THE CHAIR IS SOMEONE WITH RECENT AND RELEVANT FINANCIAL EXPERIENCE.

Charity Governance Code



Membership and skills

The committee composition should reflect the needs and concerns of the organisation. It must comprise at least three members. A minimum of two members should also hold board positions. However, the duties of committee members are separate to their responsibilities as board members. A specified number of members will need to be present for the meeting to be quorate.

The board will nominate a committee chair. They must not also hold the chair position on the board as the committee must have independent oversight. However, the committee and board chairs should be in regular contact.

A vice chair may also be required to stand in when the chair cannot attend meetings.

Members should have the right skills to fulfil their responsibilities. They must be independent of management and satisfy relevant membership and independence requirements set by regulatory bodies.

The importance of financial management and financial reporting means it is usual practice for at least one committee member to have current and relevant financial and audit experience.

Members should understand the time commitment and what is expected of them in their committee role. This clarity can be used to periodically assess the effectiveness of each member as part of an appraisal or review.

Members must not have an interest in the organisation or engage in activities that would have a material adverse effect on their independence or their ability to act in the best interest of stakeholders. Members cannot vote on any matter that they have a direct or indirect material interest in. Minutes of meetings should note when a member abstains from a decision to demonstrate that conflicts are being managed. These processes should mirror those carried out by the board.

The board is responsible for making final determinations on member independence. If concerns arise, the facts and circumstances should be reported to the board. No action should be taken until the board or the nominated governance committee has determined the member's independence.

The committee has the right to co-opt additional members for set periods to provide specialist skills, knowledge and experience as well as to procure specialist advice, where required. Audit committee meetings will normally be attended by the chief executive officer and finance director. Other organisation officials may attend as needed to discuss particular matters.

Relationship with the board

The chairperson must report regularly to the board following meetings. This should cover matters related to the committee's functions and responsibilities, including:

- decisions taken by the committee or recommendations made to the board for board approval;
- the quality of the organisation's financial statements;
- compliance with legal or regulatory requirements;
- the external auditor's performance and independence; and
- the performance of the internal audit function.

The committee can report regularly to the board through meeting minutes, and an annual report. An example report is included in Appendix A.

Assistance from others

To aid discussions and decision making, the committee may request reports from the chief executive officer, trustees or the finance director.

The committee may retain (and determine the funding for) experts to advise or assist it, including outside counsel, accountants, financial analysts or others. This could include recruiting committee members as experts in a specific area for a fixed period to support a particular project.

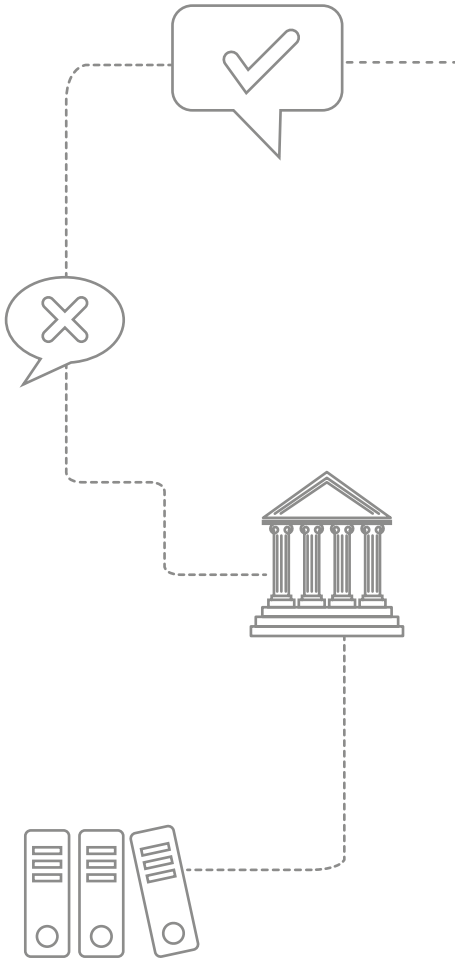
The charity must provide sufficient funding to cover these costs. This can be accounted for in budgets.

Financial statements

The committee must, in conjunction with the finance committee or board, review the charity's financial statements before they are released or filed with the regulator. It will review:

- key accounting policies and disclosures as well as any key judgements made in preparing the accounts;
- with the external auditor and management, their processes for assessment of material misstatements, identification of the notable risk areas and their response to those risks;
- the external auditor's audit of and report on the financial statements and compliance with laws and regulations;
- any additions or changes in auditing or accounting principles suggested by the external auditor, management or, where applicable, the internal auditor;
- where applicable, with the internal auditor, the reports on internal control and compliance, the management letter and the charity's responses;
- the external auditor's qualitative judgement about the appropriateness, and not just the acceptability, of accounting principles, use of estimates, basis for determining the amounts of estimates and financial disclosures;
- any significant difficulties or disputes with management encountered during the course of the audit; and
- any other matters related to the annual audit, including those matters that are required to be communicated to the audit committee under applicable law and generally accepted accounting practice.

PART 2
REMAINING FIT FOR PURPOSE: HOW TO ASSESS EFFECTIVENESS



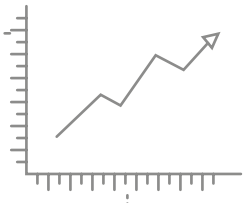
To remain fit for purpose, the committee must evaluate its performance. As a starting point, members should think about the following throughout the year.

- Have trustees received or been offered adequate training during the year so they can fulfil their audit committee roles? Could they be offered development opportunities in other areas?
- Do trustees have a constructive yet challenging relationship with management?
- How could meetings be improved?

However, the committee must also carry out an in-depth review of effectiveness each year. This must look at all areas of the committee's responsibilities. Example questions are included below. A more extensive list is included in Appendix B.

QUESTION		
Has the committee operated within the approved terms of reference?	Yes	No
Is the committee the right size and does it have the right mix of skills to fulfil its responsibilities?	Yes	No
Have conflicts of interest been appropriately declared and managed?	Yes	No
Has the committee held a meeting with the external and internal auditors (where applicable) without management present?	Yes	No
Has the committee received reports from external and internal auditors, where applicable?	Yes	No
Were the papers a manageable length?	Yes	No
Were management responses clear and sufficient?	Yes	No
Were members encouraged to openly express their views?	Yes	No
Was sufficient meeting time available for debate on key items and issues?	Yes	No
Were members satisfied that decisions were sound?	Yes	No
Has the committee reported its decisions in full to the board as part of its annual report?	Yes	No
Have members received appropriate training/explanations for all committee activity?	Yes	No

All committee members, regardless of their experience, will have training and development needs, from induction through to ongoing training and updates. This self-assessment can help drive and focus this training.



PART 3 MAXIMISING VALUE: A CLEAR AGENDA

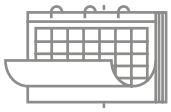
An agenda and other relevant papers should be shared with members in good time before each meeting. The chairperson should be involved in setting the agenda and commissioning papers. This helps focus discussions, supports decisions, maximises meeting time and ensures the committee meets its responsibilities.

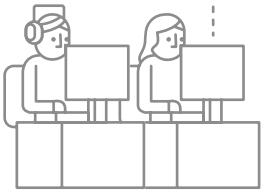
While some agenda items will be dictated by individual circumstances and recent events, there are some core elements that should be considered each quarter or each year. The order of the agenda should give prominence to significant matters. It should allow sufficient time to discuss each item.

The following provide an indication of appropriate timescales for key discussions.

QUARTERLY

1. Discuss with management and the board any changes to applicable laws and regulations or any issues that arise, such as correspondence or publications from the Charity Commission, OSCR, ICO, Ofsted or the Fundraising Regulator.
2. Discuss with senior management any significant changes to the budget or actual performance on the budget.
3. Discuss with management any changes to the charity's: internal controls; systems, including IT; accounting principles; major programmes; or business activities.
4. Consider updates from management on the implementation of external and internal audit recommendations.
5. Discuss and follow up on actions arising from previous meetings.
6. Report significant findings to the board.





ANNUALLY

Internal audit (where applicable)

1. Review, revise and approve the internal auditor's terms of reference, including signing a letter of engagement, if necessary.
2. Review and approve the scope of internal audit coverage and staffing, timing of audit work and reporting to the committee.
3. Discuss compliance with laws and regulations.
4. Discuss involvement in documenting, evaluating and testing internal controls.
5. Discuss findings from the completed internal audit work with management and the internal audit lead, including the recommendations arising that are high or medium risk.
6. Consider the performance of the internal auditors against the agreed performance indicators.

MANAGEMENT

1. Discuss with senior management the organisation's risk profile, risk management and how threats including fraud are managed.
2. Discuss with senior management the monitoring system in place to ensure all risks are identified and controls implemented to mitigate their impact and likelihood. This will likely include oversight of the risk register, either in whole or parts.
3. Discuss significant accounting estimates, unusual major accounting transactions, related-party transactions and off-balance-sheet activities, including any changes.
4. Discuss critical accounting estimates and accounting policies with management before the annual report is released.
5. Discuss management's response to internal audit report recommendations and the management letter from the external auditor, including any barriers to implementation.

EXTERNAL AUDIT

1. Review, revise and approve the external auditor's terms of reference, including signing a letter of engagement, if necessary.
2. Review and approve the scope of the external audit coverage and staffing, timing of audit work and reporting to the committee.
3. Discuss involvement in documenting, evaluating and testing internal controls.
4. Discuss the annual audit plan, covering:
   - the agreed timetable and plan through to approval of the audit report;
   - the process to ensure the independence of all client service team members, including considering any non-audit work; and
   - the key risks identified for the audit work.
5. Discuss the results of the annual audit, including any departures from the audit plan and why these occurred, and the contents of the management letter, covering:
   - critical accounting policies and estimates;
   - corrected and uncorrected misstatements;
   - responses to the key risks identified at planning;
   - any other audit, accounting or internal control findings identified throughout the audit; and
   - adherence to the overall timetable and team input.

COMMITTEE

1. Consider the committee's own effectiveness in its work.
2. Review the committee's terms of reference.
3. Produce an annual report of committee business.
4. Ensure standard items, such as declarations of interest, are considered and documented at each meeting.

PART 4
ASSESSING EXTERNAL AND INTERNAL AUDIT PERFORMANCE

The audit committee must forge strong connections with external and internal auditors if it is to effectively carry out its responsibilities. As part of this, committees must set KPIs to assess the quality of auditor relationships.

The following provide an indication of some relevant KPIs that might be set around auditor relationships.

Independence and objectivity

Did the audit team provide information about its policies and processes for maintaining independence?

Audit strategy

Was the audit work planned with management in a timely and appropriate way?

Did the audit team communicate the following to the audit committee and management before work began:

- the audit strategy;
- the terms of reference;
- the audit approach;
- audit materiality adopted for the audit;
- the timetable for the audit and for oral and written reports to be shared with the audit committee;
- the extent of any reliance to be placed by external auditors on the work of internal audit (if applicable);
- the approach to tracking and reporting on the implementation of recommendations from previous audits;
- the key areas that are of importance to the audit committee; and
- significant changes in financial reporting requirements.

The audit approach

Was the audit work carried out to the agreed strategy and dates?

Did the audit team include staff of sufficient seniority, experience and expertise? Was there appropriate continuity from previous visits?

Did the audit team appear knowledgeable about Charity Commission and OSCR requirements, the Charities SORP and any other laws, regulations and standards?

Did the audit team demonstrate appropriate understanding of the charity and sector?

Was the charity informed of any material events during the course of the audit?

Did the charity feel it received appropriate input from each member of the audit team?

Conclusion and reporting of the audit

Were written reports clear, concise and delivered on time?

Were the recommendations considered constructive in improving the charity's control environment? Were they also considered practical and effective?

Did the audit team attend audit committee meetings and adequately deal with queries?

If an audit report led to a qualified opinion or a significant deficiency in controls tested, were the issues of concern and the impact on the report discussed with management and the audit committee at a sufficiently early stage?

Has there been a good working relationship between the audit team, management and the audit committee?

Added value

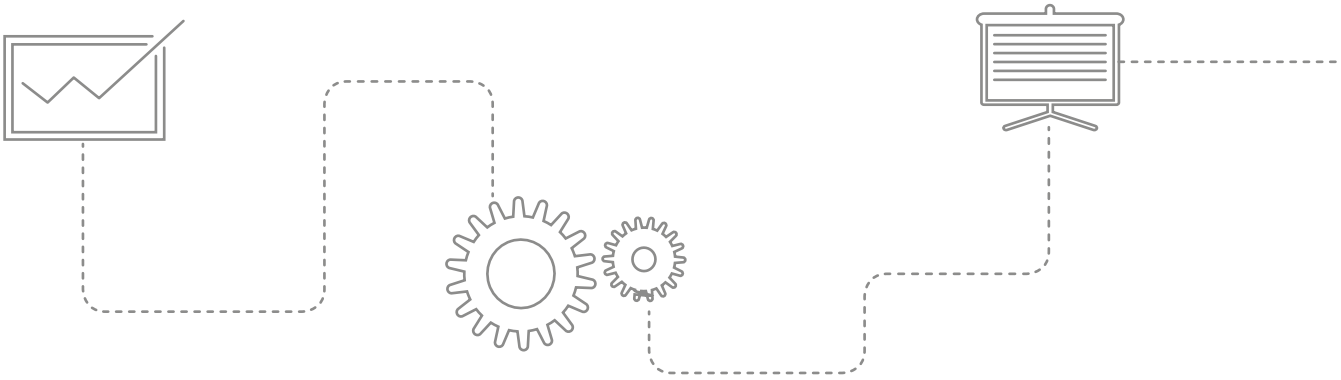
Has the audit team been sufficiently thorough and robust when dealing with management and staff?

Have staff provided positive feedback on the quality of the audit work? Were ad hoc queries adequately dealt with?

Does the audit committee feel it received added value as part of the audit service provided?

Has the audit provided comfort to the audit committee that the finance team and the charity's internal controls are sufficiently strong?

Is it recommended that the incumbent audit provider be re-appointed in the year ahead?



Relationships with the auditors are key to the audit committee. As discussed in earlier sections, the auditors, both external and internal, should be engaged with the audit committee members. Below states what relevant auditing standards say about this engagement.

Extract from International Auditing Standards regarding the external auditor's role for communication with the trustees

The auditor's responsibilities in relation to the Financial Statement Audit

14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:

(a) the auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management[1b] with the oversight of those charged with governance; and

(b) the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Planned scope and timing of the audit

15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit.

Significant findings from the audit

16. The auditor shall communicate with those charged with governance:

(a) the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;

(b) significant difficulties, if any, encountered during the audit;

(c) unless all of those charged with governance are involved in managing the entity:

(i) significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and

(ii) written representations the auditor is requesting; and

(d) other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

Extract from Performance Standards regarding the internal auditor's role for communication with the trustees:

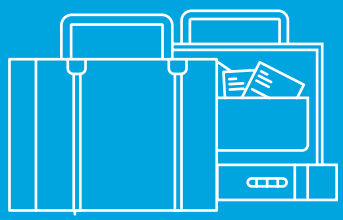
The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.

Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- the audit charter;
- independence of the internal audit activity;
- the audit plan and progress against the plan;
- resource requirements;
- results of audit activities;
- conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues; and
- management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.



APPENDIX A

An illustrative committee report

Audit committees may choose to report to the board by presenting meeting minutes or through a summary report of committee activity. Some will opt to do both. An example report is included below.

Report from the audit committee

The audit committee provides oversight of the organisation's financial reporting process on behalf of the board of trustees. Management is responsible for the financial statements and the financial reporting process, including the system of internal control. In fulfilling its oversight responsibilities, the committee discussed the financial statements in the annual report with management. This included discussion about: the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgements; and the clarity of disclosures in the financial statements.

The external auditors are responsible for expressing an opinion on the financial statements. The committee met with the external auditors to discuss: their judgement as to the quality, not just the acceptability, of the charity's accounting principles; the auditor's independence; the compatibility of non-audit services; and other matters outlined for discussion in International Standards on Auditing.

The audit committee discussed with the organisation's internal and external auditors the overall scope and plans for their respective audits. The committee meets with the internal and external auditors with and without management present, to discuss: the results of their examinations; their evaluations of the organisation's internal control, compliance with laws and regulations; and the overall quality of the organisation's financial reporting. The internal auditor has provided the board with an opinion on the adequacy and effectiveness of the charity's control processes. Recommendations arising from this work have been discussed.

Based on the above discussions, the audit committee has recommended to the board of trustees (and the board has approved) the audited financial statements as of and for the year ended [insert date] The committee and the board have also recommended, subject to stakeholder approval, the retention of [insert name] as the organisation's external auditors and [insert name] as the internal auditors.

[insert date]

This report should be approved by audit committee members. The decision should be recorded in meeting minutes.

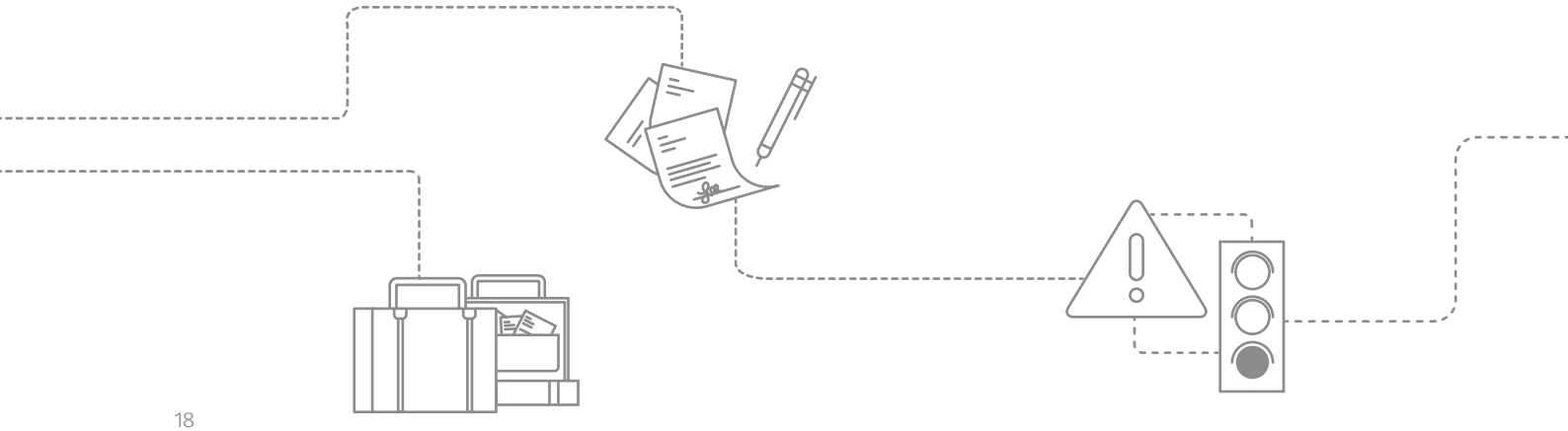
APPENDIX B

Assessing committee effectiveness checklist

UNDERSTANDING THE STRUCTURE, ROLES AND RESPONSIBILITIES OF THE COMMITTEE	EFFECTIVE	SUGGESTIONS FOR IMPROVEMENT
The committee operates within set terms of reference, which have been approved by the board.		
The committee reviews the terms of reference each year and suggests changes to the board.		
Members have the right experience and qualifications to fulfil their duties.		
The committee is the right size to meet the needs of the organisation.		
Members are independent of management.		
The committee evaluates its performance and recommends changes to the board.		
Meeting agendas are prepared and shared in advance.		
Meeting minutes are taken and shared with members.		
Members receive training on accounting, auditing and financial reporting developments, and business and industry issues.		
Members ask tough questions, listen to answers and challenge responses.		
The committee encourages a tone at the top that embeds ethical integrity, robust legal compliance and strong financial reporting and internal control.		
The committee is aware of leading governance practices and considers ways to improve.		

UNDERSTANDING BUSINESS OPERATIONS	EFFECTIVE	SUGGESTIONS FOR IMPROVEMENT
The committee understands the charity's structure, programmes and revenue drivers.		
The committee discusses its evaluation of financial reporting controls and disclosure processes with management and internal and external auditors.		
The committee evaluates whether management embeds the proper tone at the top and promotes high-quality financial reporting, attention to internal control issues, and legal and regulatory compliance.		
The committee reviews management's procedures for monitoring compliance with the organisation's code of ethics.		
The committee discusses with internal auditors their judgement on the adequacy of the charity's regulatory compliance programmes.		
The committee receives the internal and external auditors' assessments of fraud threats. It understands the risks that lead to fraudulent financial reporting.		
The committee is aware of regulator updates that may have a material impact on financial statements, compliance policies or profitability.		

UNDERSTANDING RISK MANAGEMENT	EFFECTIVE	SUGGESTIONS FOR IMPROVEMENT
The committee receives regular updates from management on operating risks. It advocates effective processes to identify and control threats.		
The committee has discussions to understand the organisation's technology strategy, information systems and measures to protect IT resources.		
The committee has discussions with senior management to understand emerging business risks.		



UNDERSTANDING FINANCIAL REPORTING	EFFECTIVE	SUGGESTIONS FOR IMPROVEMENT
The committee reviews financial statements with senior management.		
The committee discusses the transparency and clarity of the financial reporting and disclosures with the charity's internal and external auditors.		
The committee understands the business' purpose and reasons for major or unusual transactions.		
The committee evaluates the financial reporting and considers red flags that may indicate net asset mismanagement.		
Before the annual report is published, the committee discusses the selection, application and disclosure of the charity's critical accounting policies with management and internal and external auditors.		
The committee reviews the financial statement to ensure it demonstrates how risks are managed.		
The committee discusses uncorrected misstatements with management and auditors to determine why they were not updated. It evaluates the impact on the financial statements and stakeholders if misstatements were corrected.		

UNDERSTANDING INTERIM FINANCIAL REPORTING	EFFECTIVE	SUGGESTIONS FOR IMPROVEMENT
The committee receives material to review before interim reporting packages are released.		
The committee (or committee chairperson) discusses and reviews interim financial statements with management.		
Management briefs the committee on how it develops and summarises interim financial information, and how the interim financial close process differs from the annual financial close process.		
The committee reviews with management any significant year-end issues that may impact the financial integrity of interim accounting and reporting practices.		

UNDERSTANDING THE AUDIT PROCESS	EFFECTIVE	SUGGESTIONS FOR IMPROVEMENT
The committee understands internal and external audit processes.		
The committee reviews significant control deficiencies identified by internal or external auditors, and management's plan and timetable to address them.		
The committee reviews the internal audit terms of reference each year to ensure it is fit for purpose.		
The internal audit function reports to the committee.		
The committee reviews the quality, experience and objectivity of the internal auditors.		
The committee determines whether audit coverage is appropriate by discussing the scope of internal and external auditors, their results, any changes to their approach, the extent of control testing and the coordination of their activities.		
The committee reviews the external auditor's independence.		
The committee approves and signs the annual audit engagement letter, and approves the audit fee.		
The committee has a process to identify and approve non-audit services delivered by the external audit firm.		

DEVELOPMENT OF A COMMUNICATION PROCESS	EFFECTIVE	SUGGESTIONS FOR IMPROVEMENT
The committee reports to the board after each meeting.		
The committee meets with senior management, as circumstances dictate.		
Management provides the committee with a written report on the effectiveness of internal financial reporting controls.		
The committee meets with internal and external auditors, as circumstances dictate.		
The committee reviews management's response to audit recommendations and whether corrective action is timely and effective.		
The external auditor provides the committee with its assessment of the financial reporting personnel in the organisation, including the size of the team and their experience and capabilities.		

APPENDIX C
KEY LINES OF ENQUIRY FOR AN AUDIT COMMITTEE

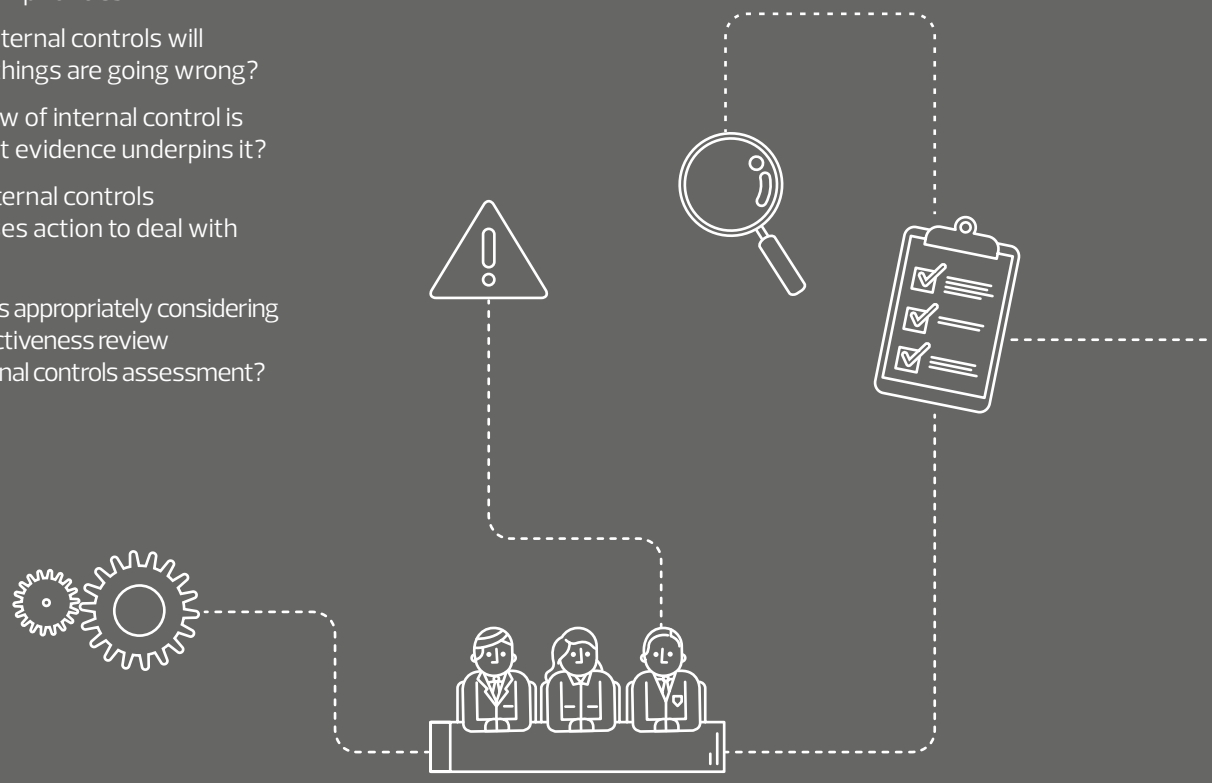
This list of questions is not intended to be exhaustive or restrictive nor should it be treated as a tick list that substitutes detailed consideration of the issues it raises. Rather it is intended to act as a prompt to help an audit committee ensure that its work is comprehensive.

On the strategic processes for risk, control and governance, how do we know:

- that the risk management culture is appropriate?
- that there is a comprehensive process for identifying and evaluating risk, and for deciding what levels of risk are tolerable?
- that the risk register is an appropriate reflection of the risks facing the organisation?
- that appropriate ownership of risk is in place?
- that management has an appropriate view of how effective internal control is?
- that risk management is carried out in a way that benefits the organisation or whether it is treated as a box ticking exercise?
- that the organisation as a whole is aware of the importance of risk management and of the organisation's risk priorities?
- that the system of internal controls will provide indicators if things are going wrong?
- that the annual review of internal control is meaningful, and what evidence underpins it?
- that the review of internal controls appropriately discloses action to deal with material problems?
- that the organisation is appropriately considering the results of the effectiveness review underpinning the internal controls assessment?

On risk management processes, how do we know:

- how senior management support and promote risk management?
- how well people are equipped and supported to manage risk?
- that there is a clear risk strategy and policies?
- that there are effective arrangements for managing risks with partners?
- that the organisation's processes incorporate effective risk management?
- if risks are handled well?
- if risk management contributes to achieving outcomes?



On the planned activity and results of both internal and external audit, how do we know:

- that the internal audit strategy is appropriate for the delivery of a positive, reasonable assurance on the whole of risk, control and governance?
- that the periodic audit plan will achieve the objectives of the internal audit strategy and, in particular, whether it is adequate to facilitate a positive, reasonable assurance?
- that internal audit has appropriate resources, including skills, to deliver its objectives?
- that internal audit recommendations that have been agreed by management are actually implemented?
- that any issues arising from line management not accepting internal audit recommendations are appropriately escalated for consideration?
- that the quality of internal audit work is adequate?
- that there is appropriate co-operation between the internal and external auditors?

On the accounting policies, the accounts, and the annual report of the organisation, how do we know:

- that the accounting policies in place comply with relevant requirements?
- there has been due process in preparing the accounts and annual report and whether that process is robust?
- that the accounts and annual report have been subjected to sufficient review by management and by the board and CEO?
- that when new or novel accounting issues arise, appropriate advice on accounting treatment is gained?
- that there is an appropriate anti-fraud policy in place and losses are suitably recorded?
- that suitable processes are in place to ensure accurate financial records are kept?
- that suitable processes are in place to ensure fraud is guarded against and the appropriate use of funds is achieved?
- that financial control, including the structure of delegations, enables the organisation to achieve its objectives with good value for money?
- if there are any issues that are likely to lead to qualification of the accounts?
- if the accounts have been qualified, that appropriate action is being taken to deal with the reason for qualification?
- that issues raised by the external auditors are given appropriate attention?

On the adequacy of management response to issues identified by audit activity, how do we know:

- that the implementation of recommendations is monitored and followed up?
- that there are suitable resolution procedures in place for cases when management reject audit recommendations that the auditors stand by as being important?

On assurances relating to the corporate governance requirements for the organisation, how do we know:

- that the range of assurances available is sufficient to facilitate the drafting of a meaningful assessment of internal control?
- that those producing assurances understand fully the scope of the assurance they are being asked to provide, and the purpose to which it will be put?
- what mechanisms are in place to ensure that assurances are reliable?

- that assurances are 'positively' stated (ie premised on sufficient relevant evidence to support them)?
- that the assurances draw appropriate attention to material weaknesses or losses that should be addressed?
- that the assessment of internal control realistically reflects the assurances on which it is premised?

On the work of the audit committee itself, how do we know:

- that we are being effective in achieving our terms of reference and adding value to the corporate governance and control systems of the organisation?
- that we have the appropriate skills mix?
- that we have an appropriate level of understanding of the purpose and work of the organisation?
- that we have sufficient time to give proper consideration to our business?
- that our individual members are avoiding any conflict of interest?
- what impact we are having on the organisation?

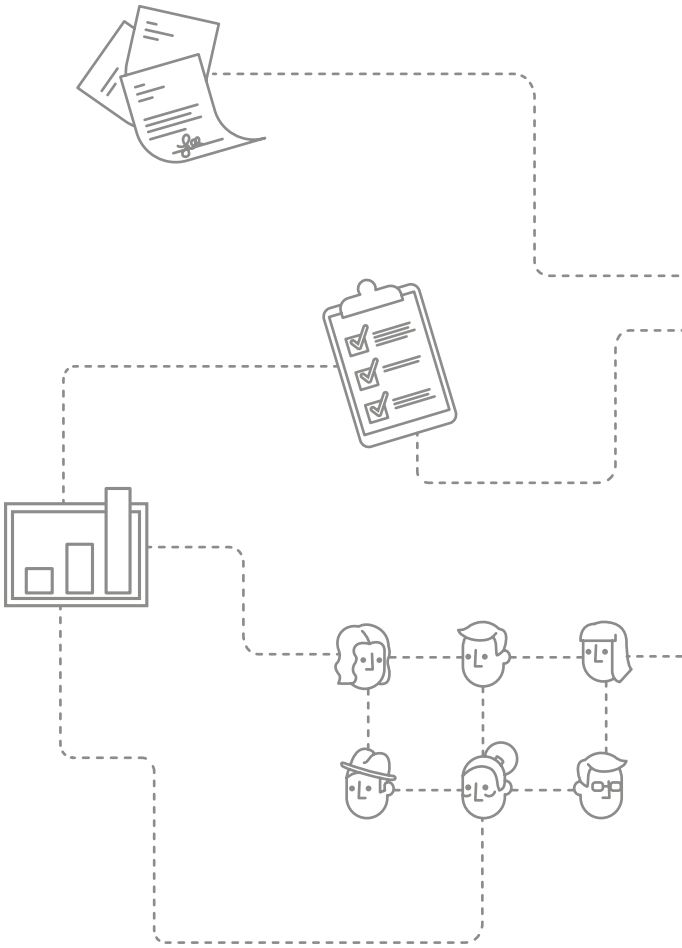
CONTRIBUTORS

Nick Sladden
Nick is head of charities at RSM and is responsible for a portfolio of sector clients, including a number of top 250 charities. He gained the ICAEW Diploma in Charity Accounting in 2008 and completed the Governing for Nonprofit Excellence Program at Harvard Business School in 2014. He is a trustee and volunteer for two national charities.

Hannah Catchpool
Hannah is head of charities for London and the East of England at RSM. She is responsible for a portfolio of sector clients, including a number of top 250 charities as well as educational institutions. She holds the ICAEW Diploma in Charity Accounting and is currently completing an MSc in Voluntary Sector Management at Cass Business School. She is a trustee for a leading children and young people charity in the East of England.

EXISTING RESOURCES AND GUIDANCE

References throughout this document to the 'Charity governance code' quote the most recent available version at the time of publication of Good Governance: A code for the Voluntary and Community Sector. A copy of that publication is available from **www.governancecode.org**



rsmuk.com