

A Little Education Isn't a Dangerous Thing

By Liz Ormsby

Effective orientation helps members of public-sector audit committees meet the increasing challenges of their role.

As never before, citizens expect municipal governments to provide high-quality services within an approved budget in a transparent, accountable, and ethical way. Municipal audit committees carry out specific responsibilities assigned to them by the city council — typically oversight of financial reporting, risk management, internal controls, ethics, and audit activities. Effective orientation helps members of public-sector audit committees meet the increasing challenges of their critical role in organizational oversight. In this article, the City of Calgary shares hints and tips on providing an effective orientation, based on recent experiences.

EXPECTATIONS

The Institute of Internal Auditors' professional guidance publication, *The Role of Auditing in Public Sector Governance*, notes that:

Government auditing is a cornerstone of good public-sector governance. An effective public-sector audit activity strengthens governance by materially increasing citizens' ability to hold their government accountable. The audit committee can greatly strengthen the independence, integrity, and effectiveness of government audit activities by providing independent oversight of the internal and

external audit work plans and results, assessing audit resource needs, and mediating the auditors' relationship with the organization. Audit committees also ensure that audit results are aired and any recommended improvements or corrective actions are addressed or resolved.

Citizen expectations of audit committees have never been higher. As the global economic downturn continues, municipalities around the world are facing the challenge of delivering more services with less funding. Meanwhile, media interest in municipal governance is also increasing, and coverage of hot-button municipal issues — such as the filing for bankruptcy protection by the City of Detroit, Michigan — has further heightened public awareness. Citizens expect audit committees to take a leading role in ensuring the accountability and transparency of their local municipality. Audit committee members must have the skill and knowledge to work together to meet these high expectations.

Leading practice organizations across all sectors recognize the benefits of skilled and experienced audit committee members who can independently review key aspects of an entity's operations, including governance arrangements, risk management frameworks, internal control and compliance frame-

works, and financial statement responsibilities. Financial literacy is a requirement for audit committees in many private-sector organizations. The New York Stock Exchange, for example, requires all audit committee members to be “financially literate” as interpreted by the business judgment of the company’s board, or to become financially literate within a reasonable period after being appointed to the committee. In addition, at least one member must have “accounting or related financial management expertise,” again as interpreted by the board.

ASSISTING COMMITTEE MEMBERS

Municipal audit committees face challenges in gathering together relevant skills, knowledge, and expertise to form a truly effective committee. Typically, municipal audit committees are primarily made up of elected officials. The election process does not guarantee that elected officials have financial literacy, nor a background in governance, risk, and control. For example, the City of Calgary, Alberta, requires that prospective elected officials be older than 18 years old, eligible to vote in the election (i.e., they hold Canadian citizenship), and reside in the city for the six months prior to nomination day. No specific skills or experience are required. Consequently, the risk in any given election cycle is that the pool of elected officials from which audit committee members are drawn does not include any expertise in risk, governance and control, or financial literacy. Some municipalities, including the City of Calgary, have addressed this issue by including elector members

(financially literate citizens) on the audit committee, although this does not address the need to assist elected audit committee members in fulfilling their critical role.

An effective orientation can greatly assist audit committee members in understanding their role, identifying key responsibilities, and highlighting further areas of learning. Municipal audit committees rely on established structure and process (procedure bylaws, council policies, and procedures) and generally have no mandate or resources for developing or delivering new documentation, training, or learning materials. As a result, providing an orientation is a key way in which municipal auditors (internal and external) and members of the municipal administration can assist an audit committee in its role.

The more effective the orientation, the more successfully the audit committee can provide the necessary fiscal oversight. This, in turn, benefits the city and helps it meet citizen expectations of public accountability. The challenge for auditors and administrators is to provide an orientation for audit committee members in a way that enhances their skills and experience, and becomes a springboard for lifelong learning on the key aspects of audit committee responsibilities: financial oversight, risk management, internal control, and governance arrangements.

As part of the council-approved 2012 audit plan, the City of Calgary’s auditor’s office developed an Audit Committee Manual to provide audit committee members ready access to leading practice information, enabling

them to fulfill their roles and responsibilities as delegated by the city council. The city auditor’s office designed the project as a collaborative effort involving staff from administration (the chief financial officer’s department), the city’s external auditor, and from the audit committee’s administrative support. A project team delivered the orientation, and a member of the audit committee was designated as a point of contact to provide the “client” perspective on the project.

STRENGTH THROUGH TEAMWORK

Creating a project team to deliver the orientation led to a number of benefits, not just for the orientation, but for the City of Calgary as a whole.

First, developing material as an integrated team (external auditors, internal auditors, and administration) meant we could document the “whole picture” from the audit committee’s viewpoint and provide an end-to-end view of processes such as compiling a committee agenda. Audit committee members could read through the process as it pertained to their role, without having to piece together numerous individual tasks.

Working together in this way also helped the three groups share information with each other; each part of a process undertaken by one group was communicated to and understood by the other groups. Involving staff members from different backgrounds ensured access to a diverse and comprehensive range of leading practice material and led to healthy discussion and debate, creat-

ing a robust end product rather than a singular viewpoint. Team members from different groups formed strong personal connections that have continued beyond the project.

Finally, presenting material as an integrated team demonstrated to the audit committee and council the strong linkages between administration and both audit teams. This visual sign of integration enhanced the perception of collaborative working — the opposite of the “us and them” mentality that is sometimes found between auditors and clients.

CLARITY THROUGH FORMATTING

To be effective as an orientation, the format of information was critically important. In an age of unparalleled information sharing through electronic media, leading practice guidance for audit committees is freely available. However, much of the material available is not specific to the public sector, and is sometimes too technical in content — a challenge for those committee members with limited financial literacy. There was a risk that the volume of information presented in the orientation could have been overwhelming and lacking in relevance.

The project team decided to deliver the orientation in three parts: preparation and distribution of a hard copy manual, compilation of an electronic library of supporting material, and a presentation of key information to all members of council and the audit committee. This division of material allowed audit committee members to focus on the critical material included in their

hardcopy manual while still providing the opportunity to access comprehensive supporting information.

We were careful to keep the essential, printed material entirely specific to the city’s audit committee and at a manageable volume. Committee members did not have to guess how each section of orientation material related to their role, or wonder whether leading practice relating to private-sector companies was applicable. Each chapter was drafted with the sole purpose of demonstrating to audit committee members how to meet the responsibilities set out in the committee’s terms of reference.

Compiling an electronic library made a much wider range of material available, ready for reference by members as follow-up reading, but without overwhelming them with peripheral detail. An electronic library had the benefits of easy retrieval of documentation through a structured filing system and straightforward document updates through a “check in and check out” system. An index included in the hard copy manual directed readers to items of possible interest within each topic.

Presenting key information in person to members of the audit committee and council reinforced the most critical elements of the orientation material and allowed opportunities for questions and discussion. The project team was encouraged by the volume and depth of discussion the presentation triggered, with thoughtful questions raised about roles, and responsibilities, and leading practices.

Different delivery of material (written, electronic, spoken) also meant a diversity of learning styles, allowing us to reach as much of the audience as possible. Like any cross section of the public, members of audit committee and council had different preferences regarding electronic or hardcopy material, and different ways of assimilating new information. A three-pronged approach to delivery ensured that each member could access information in the way that suited them most efficiently.

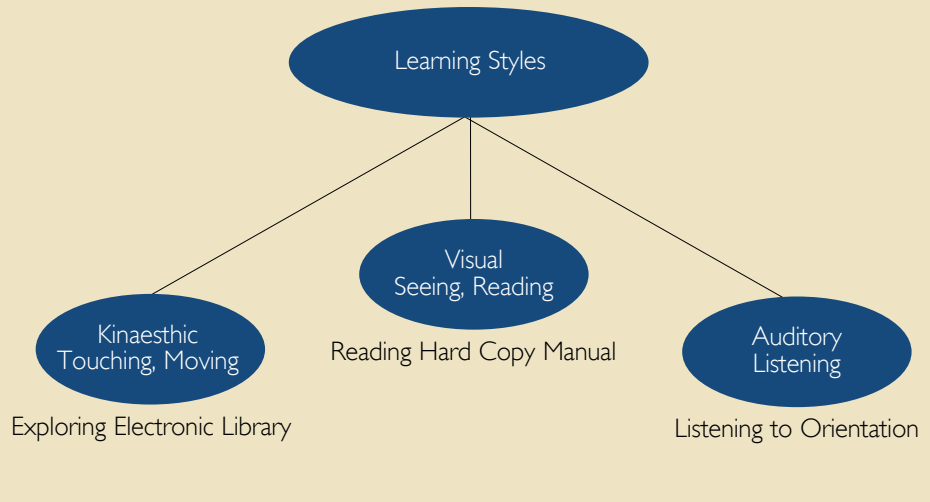
COMPREHENSION THROUGH CONTENT

The council recently updated and approved the audit committee’s terms of reference, which had been used as the foundation for the orientation material. Part of the binder was created to support each section of the terms of reference. Each section was structured to include a short introduction and overview of the topic, and a further series of detailed paragraphs supported each statement of responsibility set out in the terms of reference. (See Exhibit 2.)

This structure ensured that:

- Orientation material was based on actual roles and responsibilities (that is, those already written and approved) rather than on perceptions.
- The material addressed all roles and responsibilities mandated through the approved terms of reference.
- Audit committee members could easily find the relevant information on any given role or responsibility.

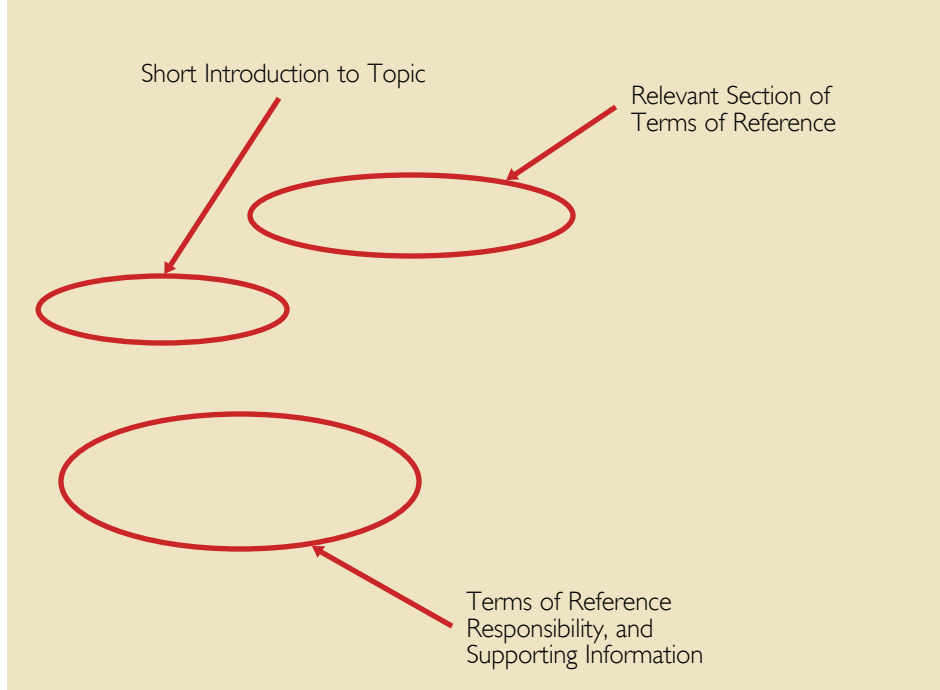
Exhibit 1: Multi-Tiered Learning Approach



Each section was drafted to ensure that detailed information focused on specifics, not generalities. For each statement of responsibility, we determined the *who, what, where, when*, and, crucially, *how*. Each section showed audit committee members the practicalities of how each role or responsibility

in the terms of reference should be delivered. The project team was aware that new members of the audit committee and council (as members of the general public who have been elected) might not have prior knowledge of city administration or of standard governance practices. The language avoided

Exhibit 2: Terms of Reference Structure



use of acronyms, abbreviations, or “city-speak,” and clearly articulated each element of city procedure. The project team member most closely aligned to a topic was responsible for drafting that section (for example, the section on external audit was initially written by the project team representative from the city’s external auditor), but the completed draft document was then edited by one person to obtain clarity and consistency of editorial “voice.”

In addressing each statement of the audit committee roles and responsibilities, as set out in the terms of reference, the project team identified a number of gaps in current city practice. The team highlighted these omissions and discrepancies within the orientation material to guide the audit committee in its quest for continuous improvement. In two instances, the terms of reference themselves contained minor contradictions that, once highlighted, could be resolved and edited. In a number of other areas, the project team was unable to determine the specifics of how the audit committee could deliver its roles and responsibilities as set out in the terms of reference. With these gaps in current practice highlighted, the audit committee has since been able to direct discussion and administrative resources to addressing them, determine corrective processes, and implement workable solutions.

ONGOING LEARNING THROUGH DELIVERY AND MAINTENANCE

The project team spent time planning the presentation and maintenance of the material to increase the likelihood

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that the orientation will become an effective ongoing tool for members of the audit committee and council.

Because members of council are appointed to the audit committee annually, all council members, not just those currently serving on the audit committee, were included in the orientation in order to fully brief future appointees as well. The current elector (citizen) members, serving two-year terms, also took part in the orientation. The distribution of hard-copy binders and presentation of key material was planned as a separate event outside of the normal schedule of council and committee meetings. This allowed sufficient time to present material; hold open, collaborative discussions on key parts of audit committee’s responsibilities; and address questions.

The project team designated a permanent owner of the binder and electronic supporting material, and recorded binder locations to facilitate future updates. Updates to material will be formally linked to the annual revision of the audit committee’s terms of reference. Electronic supporting material is held in a referenced, structured library to facilitate easy access and controlled updating.

LIFELONG LEARNING THROUGH ORIENTATION

Developing and delivering targeted orientation material has enhanced audit committee members’ understanding of their specific roles and responsibilities. The project team was delighted by the productive

discussions arising from the orientation on how to further develop and enhance governance, risk management, and internal control at the City of Calgary. The city experience multiple benefits by including council members in the audit committee orientation — in addition to increasing awareness across the council about how delegated activities are being completed, it highlighted the importance of audit activities, governance, risk management, and controls in the operation of an effective municipality.

CONCLUSIONS

The experience has initiated related work to further the education of council members on subjects that will help them become more effective leaders. The orientation has also provided a tool for the audit committee to use in continuing to refine its terms of reference and to enhance processes to support city governance and public accountability. The strong connections forged by this project continue to exist among members of the project team from internal audit, external audit, and city administration. In these ways, the orientation has formed a basis for life-long learning not just for members of council and the audit committee, but also for the city as a whole. These sustaining relationships are another of the project’s true successes. |

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