



# AUDIT COMMITTEES IN GOVERNMENT DEPARTMENTS

## A RESEARCH PAPER

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# Audit Committees in Government Departments

## Introduction

There is a significant difference between audit committees in Irish government departments and the private sector in terms of holding management to account. This difference revolves around the reporting and accountability relationships of audit committees in these sectors in that a committee in a department is advisory to its Secretary General<sup>1</sup> (SG) whilst one in the private sector is in a position to hold the Chief Executive Officer (CEO) to account. This paper explores this difference by considering the role of audit committees in government departments in terms of their relationship with and the benefit they provide to the Secretaries General (SGs) by outlining summary findings from research<sup>2</sup> in this area. Audit committees have been established in government departments over the past number of few years and especially since the 2003 Mullarkey Report<sup>3</sup> which recommended their introduction for all departments with some departments having introduced them some years before this report.

## Reporting and Accountability

In general, the common purpose of an audit committee in both sectors is to review an organisation's corporate governance regime including its internal control environment and risk management; and monitor the work of internal audit. The concept of an audit committee originated in the private sector amongst public limited and large private companies where it is a subcommittee of the board with powers assigned to it by the board. As a result of this structure an audit committee reports directly to the board and can hold the CEO accountable on behalf of the board for matters within the remit of the committee. This is a similar situation in Irish state bodies that have a board structure where an audit committee operates as a subcommittee of the board with powers delegated to it. This suggests that an audit committee may be influential in these circumstances as it may have the power to bring about change in a company/state body.

This reporting structure cannot be followed in a government department as it does not have a board to appoint an audit committee nor to hold the SG accountable to it.

The audit committee is established by the SG, it reports to and is advisory to him/her and cannot hold a SG to account as it does not have the power to do so. A SG is accountable to his/her Minister and the Public Accounts Committee of Dáil Éireann<sup>4</sup>. This relationship between audit committees and SGs is replicated in UK government departments which have had boards since 2005 and these are appointed by and are advisory to the UK Permanent Secretaries (equivalent to SGs). The audit committees, which are sub-committees of the boards, are a support to the Permanent Secretaries and do not hold them to account<sup>5</sup>.

The differing reporting relationships between audit committees in the private sector and government departments are outlined as follows:



The following sections outline findings<sup>6</sup> in relation to the relationship that audit committees have with and benefit they provide to Secretaries General. The findings are grouped under three themes – (1) the involvement of the SGs with their committees, (2) the membership and (3) the benefit of the committees to the SGs.

**The Involvement of the Secretaries General with their Audit Committees**

Audit committees in government departments are involved generally with reviews of internal controls, supporting and monitoring internal audit, risk management and, in

some cases, value for money. The SGs approve the charters/terms of reference of their committees and any changes to them. The SGs have a role in the approval of the work plan of the internal audit units in their departments with differing practices among them as to whether they or their committees actually approve the plan but all of them have an input into its content. The SGs demonstrate a high level of interest in the work of their audit committees. The SGs engage with the work of their committees by meeting their chairs, at least once a year, to review the preceding year and to plan for the subsequent year and also there is an arrangement whereby either can arrange to meet or telephone if an issue of concern arises during the year. In general the SGs do not meet with the members of their committees on a regular basis, if at all, and several SGs felt that this helped support the independence of their committees.

The SGs keep up to date on the work of the committees during the year by receiving briefings from the senior officials who they appoint as internal members to the committees and the heads of internal audit, who are in attendance at their meetings, and also by receiving the committees' papers, minutes and reports. The SGs take an active interest in their committees and keep up to date on their work and this is a positive reflection of the benefit they are getting from them. The next section considers the membership of audit committees.

### **The Membership of Audit Committees**

The SGs attach significant importance to the recruitment of the chair and members for their audit committees. The SGs are personally active in the process of sourcing members and all approve the appointment of new members. The SGs appoint internal members from within their own departments and external members are invited from other government departments, the wider public sector and the private sector. The SGs see the role of the chair of their committees as being critical to the success of the committees and look for characteristics such as authority, integrity, externality, independent-minded, searching and a familiarisation with the public sector. This later issue is a major one for the SGs when considering the experience of the chairs and also the external members and is discussed later.

The SGs appoint internal members from among senior officials of their own departments. They see this as bringing a contribution to the committees in terms of the perspective and experience of officials who are familiar with the workings of the

departments. Also the SGs see the internal members as a way of providing them with feedback on the work of the committees. The sourcing of internal members is not an issue for them as they nominate officials from their departments but there are differing practices in relation to whether these members are appointed by virtue of their position, grade or individual qualities. The internal members tend to be senior management in terms of grade such as a principal officer or assistant secretary.

All of the SGs appoint external members, including an external chair, to their committees so as to introduce an external perspective, external expertise and credibility to support the standing of the committees within and outside their departments and strengthen the position of the internal audit unit. The SGs see the interest and enthusiasm of the members as important. The importance to the SGs in appointing external members is demonstrated by having them as the majority on nine out of the thirteen audit committees examined with an equal balance between the internal and external members on three committees and on one committee the internal members were in the majority. This weighting supports the importance that is given to the influence of the external members on the committees. The most common total number of members (internal and external) is five on six committees, followed by six members on three committees, four members on three committees and eight on one committee.

In relation to sourcing external members the SGs look to other departments, the wider public sector and the private sector. The names tend to come from those they know themselves or they seek recommendations from their colleagues or the chair of their committees. Many SGs appoint serving or retired public service officials to their committees. Some SGs have put in place reciprocal arrangements between their departments or other public sector organisations to appoint officials as external members on their respective committees. This arrangement allows for the appointment of external members with an understanding of the public sector and it also develops the experience of the SGs' own officials by serving on other public sector committees.

The SGs can experience difficulties in finding external members because they are relying mainly on whom they know or are recommended to them and this can result in a small pool from which they can draw when looking for members. Typically the SGs source these members by word of mouth. The SGs recognise the difficulties they have in selecting members, in particular from the private sector, especially

where they may have limited contacts with that sector due to the nature of the business of the department. A suggestion made by some SGs to deal with this issue is the establishment of a list system/data base, perhaps maintained by the Department of Finance, which could be a useful resource in trying to source members.

There are particular problems in identifying potential members from the private sector with the ideal understanding of the public sector due to a lack of knowledge about suitable potential members with the SGs have differing views on whether they wish to appoint members from this sector. Some SGs are of the view that they want to have members from the private sector on their committees as they bring valuable perspectives to the committee whilst others have a concern as to whether they have a sufficient appreciation, understanding or experience of the public sector to make an effective contribution to the committees. Most of the SGs who would appoint external members from the private sector want these members to bring their experience and perspective from that sector but to have an understanding and acceptance of the context within which the SGs work as their accountability framework is necessarily different from the private sector. This is of particular importance when a SG is considering the appointment of the chair as they want him/her to understand, appreciate and may even have experienced some of the issues that confront a SG. Some of the SGs feel the matter of private sector members having an understanding of the public sector is not an issue and can be gained whilst serving on the committees.

Whilst it is the prerogative of the SGs to appoint the members to their committees they take the effort to appoint members who have the credibility and experience, and in the case of the external members the independence, to contribute to the work of their committees and this indicates the importance to the SGs of their committees and their independence.

### **The Benefit to the Secretaries General of their Audit Committees**

The strong consensus among the SGs is that they find their audit committees provide a valued benefit to them in terms of the assurance they provide, the independence of the committee, their support and oversight of internal audit, the provision of an early warning of issues, acting as a resource to them and the impact on the managers in their departments.

The SGs see their committees as providing assurance to them through the work they and internal audit carries out in reviewing the department's systems and procedures. The independence of the audit committee arises from it being a function outside the normal reporting structure of the department which is chaired by an individual who is not an official of the department and this structure coupled with the background of the members brings credibility and supports the independence of the committee.

The SGs consider their audit committees as having a major role in supporting and overseeing their internal audit units. These units by their nature have a high degree of independence within a government department in that they report to the SGs on their work but are not subject to direct supervision by them. The SGs' rely on their audit committees to support their internal audits in terms of giving advice and guidance and also to oversee the units through their involvement with the development and delivery of the annual audit plan, the quality of their work and the implementation of the internal audit reports received by the audit committees. The SGs see their committees as a mechanism to provide an early warning to them of issues emerging or existing in their departments so action may be taken on them. Also the committees have an impact by assisting the relevant departments with the oversight of the expenditure of monies from the European Commission.

The audit committees, and in particular their chairs, are a resource to the SGs as they can provide advice and assistance to them. As outlined earlier the SGs attach a great deal of importance to the selection of the members for their committees. The SGs support their committees to take an active and visible role in their departments by inviting officials to attend committee meetings as required. This occurs in the majority of departments and the purpose of this attendance by officials can be either to provide briefings on their areas of responsibility to the committee members or to account for their implementation of recommendations arising from internal audit reports affecting their areas. Arising from this the SGs regard the committees as making an impact through their influence on governance, programmes and processes within their departments.

The SGs judge the effectiveness of their audit committees by the manner in which their committees implement their work programme and that of the internal audit unit, how they support and oversee the internal audit unit, the maintenance of a dialogue with the external auditors from the Office of the Comptroller and Auditor General and

again the impact they have on the departments' managers. None of the SGs would like to disband their committees.

## **Conclusion**

There is a significant difference in the reporting and accountability relationships between audit committees in the private sector and government departments and this paper considers the impact of this by exploring the relationship that the committees have with and the benefit they provide to the Secretaries General as the committees are established by them, they are advisory to and do not hold them to account.

Whilst the SGs acknowledge that their committees are there to advise rather than hold them to account they support the work and independence of their committees to ensure they have an impact in their departments and regard their committees as providing a benefit to them which they value. The SGs allow and encourage their committees to act independently, drive themselves and carry out their remit. The SGs are very involved with their committees in terms of being interested in their work and appointing members who will underpin the independence and contribute to the committees. The membership of audit committees in government departments consists of individuals who bring their knowledge, skills and background to focus on the governance of the departments and these members can have a significant influence because their appointment has been personally approved by the SGs. Audit committees in government departments are providing a valued benefit to the SGs as they are bringing a greater focus on issues such as audit, controls and risk management and, whilst audit committees in departments are advisory to the SGs, they can make an impact by being an independent structure within the departments with their members focusing on these issues on behalf of the SGs.

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<sup>1</sup> There are fifteen government departments in Ireland and a Secretary General is the civil service head of a department with responsibility, under his/her Minister, for a wide range of functions including managing the department and implementing government policy. The role is similar to that of a Permanent Secretary in the United Kingdom.

<sup>2</sup> The paper is based on research undertaken by the author for a doctoral thesis submitted to Queen's University Belfast in November 2010. As part of the research for the thesis, thirteen Secretaries General were interviewed during 2009 in relation to their views and experiences of the audit committees in their departments.

<sup>3</sup> Department of Finance (2003) *Report of the Working Group on the Accountability of Secretaries General and Accounting Officers* Dublin: Department of Finance [www.finance.gov.ie](http://www.finance.gov.ie). The Report is dated July 2002 and was published by the Minister for Finance on 9 January 2003

<sup>4</sup> The lower house of the Irish Parliament

<sup>5</sup> HM Treasury (2007) *Audit Committee Handbook*, London; HM Treasury (2005) *Corporate Governance in Central Government Departments: Code of Good Practice* London [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

<sup>6</sup> The findings outlined in this paper are attributed as appropriate to either all or the majority of the SGs. In some instances, there were some differing views and in the interests of brevity these have not been discussed in depth in this paper.



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