

Governance & Disclosure Practices

Learning Series for Voluntary Organisations, Vol.-II, Issue - VI, 2013-14

Audit Committee



A joint initiative of Credibility Alliance & Oxfam India

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Audit Committee

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* The Advisory support members have contributed to the document, however, the entire content is not necessarily the opinion of the advisory group.



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Audit Committee

Overview of Audit Committee (AC)

- 1.1.1** Audit Committee is a Sub Committee of the Board which helps the Board in its oversight function and also ensures the independence, effectiveness and objectivity of the various audit processes viz. the Statutory Audit, Internal Audit and Internal Control functions of an organisation. Generally AC is a Committee in permanent nature.
- 1.1.2** In large NPOs, for audit purposes, an independent Audit Committee is formed for having oversight over various financial control processes and the integrity of the financial statements. The AC helps the Board in fulfilling its fiduciary and legislative duties. An Audit Committee as the name suggests, has well defined powers for audit and control purposes. It can play a very effective role in providing assurance to the various audit processes and financial statements. AC also helps the Board in the risk management pertaining to various legal and financial matters. AC also ensures the legal and contractual compliances.

Scope & Overall Mandate of AC

- 1.2.1** The AC is a very important Standing Committee of permanent nature. It acts on behalf of the Board and in some sense carries out the role and functions of the Board pertaining to the audit and internal control of the NPO. Unlike the Board, the AC does not possess any legislative powers. It is the body which helps in the audit and control of various financial processes. However, it is always advisable to provide inherent power to the AC in its various supervisory and recommending roles. In other words, the Board should only in exceptional circumstance (as per

stated policy) should be allowed to overrule or ignore the recommendations of AC.

- 1.2.2** The AC also acts as the advisor to the Chairperson and the Board for audit or other financial control. Sometimes the AC is empowered to appoint internal auditors and review various financial statements and audit reports.
- 1.2.3** The AC is, normally, constituted in slightly larger size NPOs. In large NPOs the audit function is divested from the Finance Committee in order to keep the audit function totally independent of the people involved in the management of the organisation, in some way or the other.
- 1.2.4** The framework and scope of the AC should be specified in the Finance Policy. It is the right of the Board to approve and adopt the Finance Policy and the AC has to function within that framework or to review it and make recommendations to the Board for change.
- 1.2.5** The AC enhances the credibility and accountability of various processes such as Statutory Audit, Internal Audit and Internal Control functions of an organisation. Therefore, the nature, scope and the methodology of functioning of AC should be carefully formulated.

Characteristics, Size and Scope of a Good Audit Committee

- 1.3.1** An AC should normally consists of honorary and independent members. It is suggested that the members should not be paid for the services they render, however, their cost should be taken care of.
- 1.3.2** The members of the Audit Committee should not have any direct or indirect financial relationship with the organisation. The members should not also have any conflict of interest in the functioning of the organisation.
- 1.3.3** The functioning of the AC should be formalised and should not remain adhoc in nature. In other words, the frequency of meeting should generally be based on a predetermined calendar of activities. Further, the agenda of meeting should be collectively determined by the Committee members.
- 1.3.4** The Statutory Auditor should interact and relate with the AC. The internal audit function should be constantly reviewed by the AC both from a systemic angle and also from the angle of the findings of the internal auditor.

- 1.3.5** The AC should have a mechanism for orientation of the Committee members. Further there should be continuous capacity building and updating of the Committee members regarding the various functions and perspectives of the AC.
- 1.3.6** The Committee should be independent in inviting experts and consultants in specialised areas of legal and financial significance.
- 1.3.7** An Audit Committee may consists of 3 to 5 members. Normally such a Committee is kept independent of the CEO and the management. The CEO may be invited to the AC whenever needed, but should not be a member of such Committee. It is advisable to have a term of office for all members of the AC so that there is rotation and induction of fresh blood.
- 1.3.8** The rationale is to create a body which provides space to the auditor to interact and report about the management. The absence of the CEO and the management also ensures that there is no conflict of interest inside the Committee. An NPO may invite eminent experts from outside, if the required expertise is not available within the Board.

Role and Function of AC

- 1.4.1** Some of the important role and function of the AC are discussed hereunder :
- ◆ To do the oversight monitoring and review of all kind of financial/legal reporting and disclosures of the organisation.
 - ◆ To advise the Board on the appointment, reappointment, removal of the statutory auditor. The organisation should act only on the basis of a written recommendation of the AC. It helps in ensuring that the appointment or removal of the statutory auditor is independent and the Board is not taking any arbitrary decision in this regard.
 - ◆ The AC should also monitor and ensure the qualification, independence and competence of the statutory auditor.
 - ◆ To be the advisor and anchor of the audit processes and financial control systems of the NPO.
 - ◆ To monitor the internal control over various financial reportings and MIS. In other words, AC ensures the integrity and effectiveness of various control mechanisms in place.
 - ◆ The AC should review the various statutory and contractual financial statements before they are placed before the Board for approval. The AC in this regard should look into :

- ◆ Major policy matter or policy changes, if any.
- ◆ Compliances with statutes and contracts, particularly in project contract the budget lines and other conditions.
- ◆ Any significant observation, note or qualification by the internal or external auditor.
- ◆ Any conflict of interest pertaining to Board Members, Senior Staffs etc.
- ◆ To monitor & ensure the qualification, independence and competence of the internal auditor, it should also review the internal audit systems and its adequacy.
- ◆ To assist the Board in performing its fiscal responsibility as a trustee. The Board is responsible for the safeguard of assets and resources.
- ◆ To assess and appraise the Board about the financial risk through review of various audit and internal control processes.
- ◆ To review all quarterly, half-yearly and other special purpose reports including MIS statements and donor reports.
- ◆ To review the impact of various changes in law and accounting pronouncements on the financial statements.
- ◆ To review and determine the non-audit services to be provided by the statutory auditors or externally appointed internal auditors. For instance engaging the auditor for tax compliances etc.
- ◆ To review various engagements with the statutory auditor and point out any significant issue which may affect the independence of the auditor.
- ◆ To review the fees and compensation of the statutory and internal auditor.
- ◆ Periodically, interact with the Internal and Statutory Auditors directly, without the involvement of the CEO and the management.

Meetings & Suggested Calendar of Minimum Activity

- 1.5.1** The meetings of AC are normally conducted on a pre-determined frequency. in case of very large organisations, the AC members should meet once in a quarter. Because the role of the AC is more legislative in nature. The AC member should meet more regularly in NPOs where continuous internal audit or concurrent audit processes are in place. The required frequency of meetings will depend on the nature and size of the organisation. The meetings are convened on the directions of the Chairperson of the AC.

1.5.2 The minutes of the AC should be maintained along with attendance register just like the Board minutes. The agenda, notice and resolutions should also be prepared on similar terms.

1.5.3 A suggested list of activities and the frequency thereof is provided as under :

Activity	Frequency
To review the audited and other financial statements before being submitted to the Board and general body.	Annually
To have discussion with management and statutory auditor on key issues in financial statements	Annually
To review the various legal returns and statements to be filed before authorities	Annually/ As required
Recommend appointment/reappointment/removal of Statutory Auditor	Annually/ As required
To review and approve other services rendered by the statutory auditor, if any	Annually/ As required
To review the fees, scope of work, audit plan of the Statutory Auditor	Annually/ As required
To review the performance of statutory auditor and rotation of auditor	Annually/ As required
To make dispute resolution, if any, between statutory auditor and Management	As required
In consultation with Statutory Auditor and the internal auditor review the adequacy of internal control and other financial control and reporting processes	Quarterly/ Half yearly
To review all related party transactions	Quarterly/Half yearly
To review the legal compliances and associated risks	Annually
Recommend appointment/reappointment/removal of Internal Auditor	Annually
To review the fees, scope of work, audit plan of the Internal Auditor	Annually
To review the performance of Internal Auditor	Annually
Discuss with management on internal control and findings of Internal Auditor	Quarterly
To review MIS statements & other management reports	Quarterly
To review major project reportings & contract compliances	Quarterly/Half Yearly
To assess the performance & effectiveness of Audit Committee and the independence of its functions	Annually

About Credibility Alliance

Credibility Alliance (CA) is a consortium of Voluntary Organizations committed towards enhancing Accountability and Transparency in the Voluntary Sector through good Governance. Registered in May 2004 as an independent, not-for-profit Organization, CA emerged as an initiative from within the Sector after an extensive consultative process over a period of two years involving thousands of VOs all over India. As an Organization, CA aspires to build trust among all stakeholders through improving Governance within the Voluntary Sector. As an initiative whose hallmark has been the participatory approach, CA has developed suitable Norms through wide-ranging consultation with and participation of diverse Organizations within the Sector by developing a large membership base.

With the mission 'to build credibility of the Voluntary Sector through creation and promotion of Norms of Good Governance and Public Disclosure', CA's core programme areas comprise of: Accreditation, Capacity Building, Networking and Information Dissemination.

- I. **Accreditation:** Accreditation of Voluntary Organizations refers to the certification of upholding of the quality of an organization, which adheres to the minimum norms or desirable norms set by Credibility Alliance. The main purpose of the Accreditation exercise is to develop a cost effective mechanism of periodic evaluation of VOs in the country.

'Minimum Norms' are the Norms that all VOs should follow. It is mandatory for all the Accredited Members of CA to comply with the Minimum Norms or give an undertaking that they will do so within an year, whereas 'Desirable Norms' are the next level of Norms for good Governance and public disclosure. These are the practices that are at present not mandatory and some Organizations may require time to adopt such practices.

- II. **Capacity Building:** Credibility Alliance focuses on the Capacity Building process to maximize its potential and sustain its work by adopting the existing best practices. CA plans the Capacity Building initiatives for the Voluntary Organizations by identifying and outlining the gaps in the Sector, assessing the needs and finally instituting the programs to address those needs.
- III. **Networking:** Credibility Alliance facilitates interaction between experts in different areas and promotes the sharing of ideas and information between the Voluntary Organizations and the experts. CA helps VOs to seek issue-based information in the Sector that they are working in, which helps in building the professional capacities of VOs through training, thereby enabling them to increase institutional capacities.
- IV. **Information Dissemination:** Credibility Alliance sensitizes, spreads awareness, assists, educates and appraises on the recent developments, responsibilities and other critical issues pertaining to Voluntary Sector by disseminating vital information periodically to all VOs.



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