

Conducting an Audit Committee Self-Evaluation: Guidelines and Questions

Purpose of This Tool. Audit committees should conduct a self-evaluation on an annual basis. This can be accomplished in a number of different evaluation formats and scenarios (through the use of outside evaluators, a 360-degree evaluation format, and other methods). The sample questions included in this tool are suggestions and intended to provide a starting point to evaluating the performance and effectiveness of the audit committee. Follow-up questions are encouraged, and the committee should plan for further action as appropriate.

An audit committee should conduct a comprehensive self-evaluation on an annual basis. The self-evaluation can take different forms, involve a number of participants, and use diverse techniques. Most important, however, the self-evaluation should adopt a straightforward approach that will aid the audit committee in assessing its strengths and weaknesses and lay a foundation for future improvement. Some guidelines in designing the format for self-evaluation would include the following areas of consideration.

1. *Introspection.* Be introspective. Evaluate the audit committee's performance by asking specific questions about the impact it has had on the organization, and most importantly, its financial reporting process, the annual audit, the relationship with the independent auditor, and members of management. Include the chair of the board in this evaluation session and ask for his or her input as well.
2. *Comprehensive.* Conduct 360-degree evaluations of all audit committee members and the committee chair. A 360-degree evaluation is one that obtains anonymous feedback from a large group of individuals representing various perspectives. In this setting, each committee member would conduct a self-evaluation and be evaluated by the other committee members, the board chair, chief audit executive, chief financial officer, and executive director, and if appropriate, other senior finance/accounting personnel. The board chair and the audit committee chair should consider the result of the evaluations. They should decide whether any members of the committee should be rotated off the committee and/or whether the chair of the committee should be rotated. The members' attendance record and level of participation should be considered during this process.
3. *Competency.* Use tools that are available, including the AICPA Competency Self-Assessment Tool (CAT) to evaluate performance. The CAT is available at www.cpa2biz.com/CPEConferences/CAT.htm.

Instructions for This Tool. The sample questions provided in this tool are only a starting point to evaluating the performance and effectiveness of the audit committee. Before completion, the committee should determine how it can best ensure that responses reflect a forthright exchange of ideas and opinions among audit committee members. The committee should determine how the process should be completed. The following sample questions can be completed anonymously, before attending an evaluation discussion meeting or during a session of the committee. Discuss the following questions and include notes and comments if you feel further action is appropriate.

Audit Committee Self-Evaluation Tool	Yes	No	Not Sure	Comments
<p>1. Does the audit committee have the appropriate number of members? We would suggest a minimum of three members. The audit committee should not be so large that:</p> <ul style="list-style-type: none"> • Its ability to operate efficiently and effectively is reduced. • Members' ability to raise issues is hampered. • It is difficult to get a quorum when a time-sensitive issue arises. <p>The audit committee should have a sufficient number of members to ensure needed skill sets and knowledge are represented on the committee. An independent nominating/governance committee or independent directors have responsibility for appointing audit committee members and selecting the chair.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>2. Do all members continue to be independent, as defined by policies applicable to the organization? In addition to meeting the technical definitions of independence, committee members demonstrate their objectivity during meetings, through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>3. Are differences of opinion on issues resolved to the satisfaction of the committee?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>4. Do the members challenge the chair as appropriate?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>5. Is the audit committee charter used as a document to guide the committee in its efforts, and to help guide the committee's agenda? Is the audit committee charter matrix used to document compliance with the precepts of the charter?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Audit Committee Self-Evaluation Tool	Yes	No	Not Sure	Comments
<p>6. Are the members financially literate and has the audit committee determined that it has adequate financial expertise in accordance with its charter? Examples of this could be through the following:</p> <p>(a) The committee has a full understanding of the composition of the organization’s statement of financial position, including the degree of management judgment inherent in the various accounts.</p> <p>(b) The committee understands which financial ratios and indicators are key to the organization and industry, how the organization’s performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances.</p> <p>(c) The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted.</p> <p>(d) The committee discusses significant, complex, or unusual transactions with management and the external auditors.</p> <p>(e) The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors.</p> <p>(f) The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled.</p> <p>(g) The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances.</p> <p>(h) The committee commits sufficient time to review, discuss, and consider the financial statements.</p> <p>(i) The committee meets with financial management to discuss results reported before finalization.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>7. Does the committee engage outside experts as appropriate?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Audit Committee Self-Evaluation Tool	Yes	No	Not Sure	Comments
<p>8. Are the organization’s financial reporting processes stronger as a result of management’s interactions with the audit committee?</p> <p>For example:</p> <p>(a) The audit committee understands and agrees with the board on which categories of internal control it oversees. Categories include (from the COSO standards):</p> <ul style="list-style-type: none"> • Integrity of financial reporting • Compliance with laws and regulations • Operational efficiency and effectiveness <p>The committee and the board concur with any changes to the committee’s internal control oversight mandate.</p> <p>(b) The audit committee understands the current high-risk areas — including information technology and computer systems — in the categories of controls it oversees, as well as how management addresses those areas.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>9. Is the committee cognizant of the line between oversight and management, and does it endeavor to respect that line?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>10. Does the committee conduct executive sessions in a manner that offers a “safe haven” to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>11. Do audit committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>12. Does the committee do its part to ensure the objectivity of the internal audit team?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>13. Does the committee provide constructive feedback to the chief audit executive at least annually?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Sample Procedures

LIABILITY AND BONDING INSURANCE

Does the Organization have liability and bonding insurance?

Procedure:

Obtain a copy of the policy and summarize the coverage and key provisions.

INCOME

Was all income properly allocated and categorized in accordance with budget?

Procedure:

Budget will be reviewed and all deposits recorded on the bank statements will be traced to the general ledger and supporting deposit documents reviewed for proper classification of revenue.

Was all income properly deposited in the bank account?

Procedure:

Membership: Customize based on the Organization's activities

Fundraiser: Customize based on the Organization's activities

T-Shirt Sales: Customize based on the Organization's activities

EXPENDITURES

Were all expenditures properly allocated and categorized in accordance with the budget?

Is there a proper bill or voucher for each expenditure?

Was each expenditure part of the budget?

Procedure:

All disbursements will be selected and tested for proper allocation to the general ledger and budget line item as well as proper supporting documentation authorizing the expenditure.

INTERNAL REVENUE SERVICE

Did the Organization receive more than \$200,000 in gross income?

If yes, did the Organization file a form 990 with the IRS?

Did the Organization receive \$200,000 or less but more than \$50,000 in gross income?

If yes, did the Organization file a form 990-EZ with the IRS?

Did the Organization receive \$50,000 or less in gross income?

If yes, did the Organization file a form 990-N / E-postcard with the IRS?

Procedure:

Review appropriate filing with the IRS.

CHECKS/BANKING

Did authorized officers properly sign all checks?

Are all checks sequentially numbered?

Are all checks accounted for?

Did the treasurer properly reconcile all bank statements on a monthly basis?

Procedure:

A check register from 1/1/XX – 12/31/XX will be obtained. All check numbers will be accounted for and reviewed for sequential numbering. All bank reconciliations for the year ended 12/31/XX will also be reviewed for evidence of timely reconciliation and proper reconciling items and cash cutoff. Authorized signature card will be reviewed and cancelled checks included in the bank statements will be reviewed for proper authorized signature.

BUDGET/REPORTS

Is there an approved motion in the minutes for the budget?

Did the treasurer submit regular written financial reports?

Were the financial records maintained in an orderly manner?

Procedure:

Board meeting minutes will be reviewed from 01/01/XX – 12/31/XX and all reports submitted to the board by the treasurer.

CARRY OVER FUNDS

Did end of year balance increase by more than 10%?

If yes, was the increase necessary for a long-term project?

(the IRS views a growing balance as a for profit indicator.)

Did end of the year balance provide excess funds for the start of the new school year?

If yes, were excess funds for a long-term purpose?

Procedure:

Ending balances will be compared to beginning balance and investigated accordingly.