

Conducting an Audit Committee Self-Evaluation: Guidelines and Questions

Purpose of This Tool. Audit committees should consider conducting a comprehensive self-evaluation on an annual basis. This can be accomplished in a number of evaluation formats and scenarios (for example, through the use of outside evaluators, a 360-degree evaluation format, and other methods). The sample questions included in this tool are only 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.

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 internal and independent auditors, members of management and elected officials. Consider including a representative of the governing body or an equivalent official in this evaluation process.
2. *Comprehensive.* Conduct 360-degree evaluations of all audit committee members and the committee chair. The chair should consider the result of the audit committee members' evaluations of each other in the context of the chair's evaluation of the members. The chair should consider whether any members of the committee should be rotated off the committee; this should be done in consultation with the representative of the governing body or the equivalent official. The members' attendance record and level of participation should be considered during this process.
3. *Performance improvement.* Ask the chief audit executive, chief financial officer, chief executive officer, and independent auditor for comments on the performance of the audit committee. Include this constructive feedback in the session referred to in item 1 above.
4. *Competency.* Use tools that are available, including the AICPA Competency Self-Assessment Tool (CAT) to evaluate performance. The CAT is available at <https://www.cpa2biz.com/CPEConferences/CAT.htm>.
5. *Leadership.* The members should talk about the performance of the committee chair. If the members collectively agree that the committee chair is not performing at the level needed, the members should bring their concerns to the attention of the chair of the governing body or equivalent official.

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. These questions are intended to provide guidance on assessing the general effectiveness of the audit committee in its roles and relationships, which includes understanding the government’s activities, its risk factors, and acquiring the technical and communication proficiency necessary for proper oversight of the accounting, financial reporting, and internal control environment.

Audit Committee Self-Evaluation Tool	Yes	No	Not Sure	Comments
A. Roles and Relationships				
1. Does the audit committee (committee) have a positive working relationship with management, the internal auditors, and the independent auditors?	—	—	—	
2. Does the committee provide its own view on issues to the chair?	—	—	—	
3. Are differences of opinion on issues resolved to the satisfaction of the committee?	—	—	—	
4. Do all members provide input to the committee chair as appropriate?	—	—	—	
5. Is an audit committee charter used as a document to guide the committee in its efforts, and to help guide the committee’s agenda?	—	—	—	
6. Does the committee engage outside experts as appropriate?	—	—	—	
7. 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?	—	—	—	

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A. Roles and Relationships (cont.)				
8. Did the audit committee evaluate the internal auditor’s overall effectiveness?	—	—	—	
9. Did the audit committee evaluate the independent auditors, including the auditors’ responsiveness to the committee’s expectations?	—	—	—	
10. Is the size of the committee appropriate for the complexity and operations of the government organization?	—	—	—	
11. Are committee members independent of management?	—	—	—	
12. Do committee members encourage a “tone at the top” that conveys basic values of ethical integrity as well as legal compliance and strong financial reporting and control?	—	—	—	
B. Government Activities				
1. Does the committee understand the organizational structure and programs of the government’s activities and programs?	—	—	—	
2. Does the committee evaluate whether management exhibits the proper tone at the top and foster a culture and environment that promotes high-quality financial reporting and appropriate attention to internal controls and compliance with laws and regulations?	—	—	—	
3. Does the committee evaluate management’s procedures for monitoring compliance with the government organization’s code of ethics?	—	—	—	
4. Does the committee receive the internal and the independent auditors’ assessments of the risks for fraud and other risk factors that lead to potential fraudulent financial reporting?	—	—	—	

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B. Government Activities (cont.)				
5. Is the audit committee aware of reports or other communications received from regulators, and updates from the general counsel on legal and regulatory matters, that may have a material effect on the financial activities and related financial statements, or that may affect related organizational compliance policies?	—	—	—	
C. Risk Factors				
1. Does the committee have discussions with the chief information officer to understand the organization’s technology strategy, information systems, and measures taken to protect technology resources, including disaster recovery and emergency preparedness?	—	—	—	
2. Has the audit committee reviewed all significant control deficiencies identified by the internal or independent auditors, as well as management’s corrective action plan and timetable to address those recommendations?	—	—	—	
D. Technical Proficiency				
1. Is the committee cognizant of the line between oversight and management, and does it endeavor to respect that line?	—	—	—	
2. Are committee members financially literate?	—	—	—	
3. Has a representative number of committee members attended recent training on governmental accounting, auditing, and financial reporting developments, and current business and industry practices?	—	—	—	
4. Does the committee review reports, financial statements, and related audit results with management, staff, and independent auditors? Does the committee include reviewing interim audit and A-133 Single Audit results?	—	—	—	

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D. Technical Proficiency (cont.)				
5. Has the committee discussed with management any significant year-end issues that may affect the financial integrity of accounting and reporting practices?	—	—	—	
6. Does the committee have a system to assess whether net assets are being managed effectively?	—	—	—	
7. Are the government's financial reporting processes stronger as a result of management's interactions with the committee?	—	—	—	
8. Does the committee discuss the audit plans with the internal and independent auditors, along with the extent of control testing to be performed and related concerns and challenges?	—	—	—	
9. Did the committee assess whether independence has been maintained by the independent auditors (and internal auditors, if relevant) and discussed the processes used by such auditors to monitor for independence?	—	—	—	
10. Where appropriate, did the committee approve and sign the engagement letter(s) for the annual and A-133 audits and nonaudit services?	—	—	—	
E. Communication Process				
1. Are meeting agendas prepared and distributed in advance to ensure effective and efficient meetings, to allow that necessary topics are addressed, and to comply with open meeting laws?	—	—	—	
2. Are minutes of meetings taken and circulated after the meeting?	—	—	—	
3. Does the committee review management's response to audit recommendations and whether follow-up audits indicate corrective action is in place, timely, and effective?	—	—	—	