Responsibilities OF THOSE CHARGED WITH Governance

Who Is Charged with Governance?

A person (or group of people) "charged with governance" oversees the strategic direction and obligations of an entity, including oversight of the financial reporting process. In governments, those people might be:

- management personnel
- members of a governance board
- employees who have significant roles in internal control
- a combination of the above

To identify those charged with governance, you should evaluate the structure for directing operations to achieve the audited entity's objectives and how the entity delegates authority and establishes accountability for management.

In most entities, governance is the collective responsibility of a governing body, such as a Board of Trustees or City Council, a committee of management employees, or equivalent persons.

When governance is a collective responsibility, a subgroup (such as an audit committee or even an individual) may be charged with specific tasks to help the governing body meet its responsibilities but does not completely alleviate the governing body of its responsibilities.

What Are Their Responsibilities?

The primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity.

The emphasis should be on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This requires a commitment to creating a culture of honesty and ethical behavior, reinforced and overseen by those charged with governance.

Such oversight includes considering the potential for management override of controls or other inappropriate influence over the financial reporting process. An example of inappropriate influence might include management efforts to distort revenues or fund balances to influence the perceptions of financial statement users regarding the entity's performance and stewardship.

It is management's responsibility, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with applicable laws and regulations, including those that determine the reported amounts and disclosures in the entity's financial statements.

Is It Fraud, Noncompliance, or Error?

The difference among fraud, noncompliance, and error is whether the action that results is intentional or unintentional. Fraud is a crime that requires intent. People who commit fraud try to get benefits for themselves or others by being dishonest. Fraud is more than carelessness or making mistakes. If someone unintentionally does the wrong thing, we call this noncompliance. An error results when one just makes a mistake, such as a mathematical miscalculation.

How Do the Auditors Communicate with Those Charged with Governance?

Fraud Risk Assessment Questionnaire

Auditors are required to determine how those charged with governance oversee management's processes for identifying and responding to risks of fraud in the entity and the systems for monitoring risk, financial control, and compliance with the law.
Using the Fraud Risk Assessment Questionnaire, Ohio Auditor of State (AOS) auditors ask those charged with governance:

- What are their views about the risks of fraud?
- Do they know of any actual, suspected, or alleged fraud affecting the entity?
- Has the entity entered into any significant unusual transactions?

Other considerations of the auditor:

- What understanding do those charged with governance have of the entity's significant relationships and transactions with related parties?
- What concerns do they have about any relationships or transactions with related parties?

Responses to our Fraud Risk Assessment Questionnaire are not only required by auditing standards but also are extremely important to the auditors' planning and further audit procedures. Failure to respond to this questionnaire could result in additional testing, increased audit costs, and possible audit comments.

Audit Engagement Letter

Each AOS Audit Engagement Letter, approved by a management designee, outlines the entity's responsibilities and reporting framework, including, but not limited to:

- The entity is responsible for designing and implementing controls to prevent and detect fraud.
- The entity should not rely on our audit as their primary means of detecting fraud.

Definitions

Controls: Policies or procedures established by an entity to achieve the control objectives of management or those charged with governance.

System of internal control: The system designed, implemented, and maintained by those charged with governance, management, and other personnel to achieve reliable financial reporting; effectiveness and efficiency of operations; and compliance with applicable laws and regulations.

Control environment: The functions and attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal controls and its importance in the entity.

Risk assessment: A process for identifying and analyzing risks to the entity's objectives and forms the basis for how management or those charged with governance determine the risks to be managed.