

Audit Committee Institute



Report on the audit committee's activities - a framework

As part of the UK response to the issues raised by recent major corporate failures in the US, the Financial Reporting Council (FRC) was asked to set up a small group to develop the existing guidance for audit committees contained in the Combined Code.

In January, that group, chaired by Sir Robert Smith, produced a report and guidance to assist boards in making suitable arrangements for their audit committees, and to assist directors serving on audit committees in carrying out their duties.

The report recommends that the annual report and accounts should contain a separate section that describes the role and responsibilities of the audit committee and the actions taken by the audit committee to discharge those responsibilities.

A suggested outline for such a report is set out overleaf.



Role of the audit committee

- Set out the main responsibilities of the audit committee and, if possible, the web addresses where detailed terms of reference can be found.

Composition of the audit committee

- Names and appointment / resignation dates of the chairman, members and secretary.
- Details of the appointment process including relevant qualifications and specific skills of the members. Why are these people appropriate members of the audit committee?
- Resources available to committee members including the availability of company secretary and training / assistance provided during the year. Were external advisors used during the period?

Meetings

- Set out the frequency of meetings and attendance record of each audit committee member.

Remuneration of the members of the audit committee

- Cross reference to the remuneration report any specific policies in relation to the members of the audit committee.

Financial Statements

- Describe the activities carried out during the financial year in order to monitor the integrity of the financial statements.

Internal financial control and risk management systems

- Describe the activities carried out during the financial year in order to review the integrity of the company's internal financial control and, where requested to do so by the board, risk management systems.

External auditors

- Describe the procedures adopted and applied in reviewing the independence of the external auditors, including disclosure of the policy on the provision of non-audit services and an explanation of how the policy protects auditor independence.
- Describe the oversight of the external audit process and confirm that an assessment of the effectiveness of the external audit was made.
- Explain the recommendation to the board on the appointment of the auditors and, if applicable, the process adopted to select the new auditor.
- If the board does not accept the audit committee's recommendation regarding the appointment, reappointment and removal of the external auditors, explain the audit committee's recommendation and the reasons why the board has taken a different stance.
- Explain any disagreements between the audit committee and the board that have not been resolved.

Internal audit function

- Confirm that a review of the plans and work of the department was carried out.
- If there is no function explain the committee's consideration of whether there is a need for an internal audit function.



If you would like further information on any of the matters discussed in this publication, please talk to your usual contact at KPMG UK or contact:

Timothy Copnell on 020 7694 8082
tim.copnell@kpmg.co.uk

Further material is available on the
Audit Committee Institute website at
www.kpmg.com/aci/uk/home.html