

Audit Committee Institute



Assessment of audit committees

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, in addition to reviewing its terms of reference, the audit committee should review its own effectiveness annually. A suggested framework for such a review - an audit committee self assessment - is set out overleaf.

The self-assessment has been prepared on the basis that each audit committee member will complete it independently. The audit committee chairman would then lead discussion on the results of the questionnaire, focusing on those areas which clearly need improvement or where there is great variation in answers. Alternatively, the self assessment could be undertaken as a facilitated group activity led by the audit committee chairman or an external party. Audit committee chairmen may wish to give more weight to some aspects of the self-assessment than others. Appropriate weighting will be influenced by a number of factors including, but not limited to:

- the committee's terms of reference;
- the organisation's strategies and risk assessments;
- its control environment;
- the outcomes of previous self-assessments;
- the stage of maturity of the audit committee;
- the views of stakeholders on the organisation's corporate governance performance; and
- current and emerging business and economic factors.

The results of the self assessment and any action plans arising should be reported to the board after discussion with the chairman of the board. The board should also make its own assessment of the performance of the audit committee's effectiveness on an annual basis.



Evaluation checklist

Terms of reference	Yes / No / N/A	Excellent				Poor
		1	2	3	4	5
Have the audit committee's terms of reference been approved by the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee annually review its terms of reference and recommend any necessary changes to the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do the terms of reference (audit committee charter) include:						
■ monitoring the integrity of the financial statements;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
■ reviewing the company's internal financial control system;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
■ unless addressed by another board sub-committee or by the board itself, reviewing risk management systems;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
■ monitoring and reviewing the effectiveness of the company's internal audit function;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
■ recommending to the board the appointment of the external auditor and approving their remuneration and terms of engagement;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
■ monitoring the effectiveness of the external auditor's performance and their independence and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
■ developing and implementing a policy on the engagement of the external auditor to supply non-audit services?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Membership and appointments

Does the audit committee consist solely of independent non-executive directors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the board chairman excluded from audit committee membership?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are Audit Committee members appointed by the board on the recommendation of the nominations committee (where there is one) in consultation with the Audit Committee Chairman?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is audit committee membership restricted to a term no longer than three years (extendable by no more than two additional three year periods)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Meetings	Yes / No / N/A	Excellent				Poor
		1	2	3	4	5
Does the audit committee meet regularly (at least three times a year to coincide with key dates in the financial reporting and audit cycle)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are audit committee meetings well attended?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do audit committee meetings allow sufficient time for discussion and questions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are meeting agendas and related background information circulated in a timely manner to enable full and proper consideration to be given to the issues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is sufficient time allowed between audit committee meetings and board meetings to allow any work arising to be carried out and reported to the board as appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee invite non-members to attend meetings where necessary? (Only the audit committee members should be entitled to attend audit committee meetings).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are arrangements in place for the audit committee to meet with external and internal auditors during the year without the presence of management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee chairman, and to a lesser extent the other members, keep in touch on a continuing basis with the key people involved in the company's governance eg, the board chairman, the chief executive, the finance director, the external auditor and the head of internal audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Training and resources

Does the audit committee have sufficient skills, experience, time and resources to undertake its duties?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does at least one audit committee member have significant, recent and relevant financial experience?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is an induction programme (covering the role of the audit committee, its terms of reference and expected time commitment by members; an overview of the company's business; and the main business and financial dynamics and risks) provided for new audit committee members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do audit committee members receive relevant training in financial reporting and related company law on an ongoing and timely basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do audit committee members have the opportunity to attend formal courses and conferences, internal company talks and seminars, and briefings by external advisers such as the company's auditors and lawyers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee have access to the services of the company secretary and staff?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are funds available to enable the audit committee to take independent legal, accounting or other advice when it reasonably believes it necessary to do so?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Financial reporting	Yes / No / N/A	Excellent			Poor	
		1	2	3	4	5
Does the audit committee review the significant financial reporting issues and judgements made in connection with the preparation of the company's financial statements, interim reports, preliminary announcements and related formal statements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Where an accounting treatment is open to a different approach, does the audit committee consider whether the company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee review the clarity and completeness of disclosures in the financial statements, interim reports, preliminary announcements and related formal statements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Where, following its review, the audit committee is not satisfied with any aspect of the proposed financial reporting, does it report such views to the board and seek changes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Internal financial controls and risk management systems

Does the audit committee monitor the integrity of the company's internal financial controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee assist in the boards assessment of the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non financial risks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In carrying out such an assessment, does the audit committee receive and review reports from management on the effectiveness of the systems they have established and the results of any testing carried out by internal and external auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee review and approve the statements included in the annual report in relation to the process for managing risk and the boards review of the adequacy of that process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Internal audit process

Where no internal audit function exists, does the audit committee annually consider whether there is a need for one and make a recommendation to the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee review and approve the appointment or termination of the head of internal audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee review and assess the independence and objectivity of the internal audit function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee ensure that the internal auditor has direct access to the board chairman and to the audit committee and is accountable to the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Internal audit process (continued)	Yes / No / N/A	Excellent				Poor
		1	2	3	4	5
Does the audit committee review and approve the internal audit function's remit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee ensure that the internal audit function has the necessary resources and access to information to enable it to fulfil its mandate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee review and assess the annual internal audit work plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee receive a report on the results of the internal auditor's work on a periodic basis, and monitor management's responsiveness to the internal auditor's findings and recommendations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee meet with the head of internal audit at least once a year without the presence of management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee make appropriate enquiries about the coordination and cooperation between internal and external audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee ensure that the internal audit function follows the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

External audit process

Is the audit committee responsible for overseeing the auditor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee make recommendations to the board (and thence to shareholders) on the appointment, reappointment and removal of the external auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee annually assess the qualification, skills and resources, effectiveness and independence of the external auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee annually assess the procedures in place to ensure the independence and objectivity of the external auditor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee seek reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the company (other than in the normal course of business)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee regularly seek information from the auditor about its policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Did the audit committee agree with the board the policy for the employment of former employees of the external auditor, and does the audit committee monitor application of that policy (including the number of former employees of the external auditor currently employed in senior positions in the company)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

External audit process (continued)	Yes / No / N/A	Excellent				Poor
		1	2	3	4	5
Does the audit committee monitor the external audit firm's compliance with applicable ethical guidance relating to the rotation of audit partners, the level of fees that the company pays in proportion to the overall fee income of the firm, office and partner and other related regulatory requirements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee's policy specify non-audit work: from which the external auditors are excluded; for which the external auditors can be engaged without referral to the audit committee; and for which a case-by-case decision is necessary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee keep the nature and extent of non-audit services provided by the auditors under review?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee review and agree the engagement letter issued at the start of each audit and, where necessary, ensure that it has been updated to reflect changes in circumstances arising since the previous year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee satisfy itself that the level of fees payable in respect of the audit services provided is appropriate and that an effective audit can be conducted for such a fee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
At the start of each annual audit cycle, does the audit committee consider whether the auditor's overall work plan, including planned levels of materiality, and proposed resources to execute the audit plan appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee: discuss with the external auditor major issues that arose during the course of the audit; review key accounting and audit judgements; and review levels of errors identified during the audit, obtaining explanations as to why certain errors might remain unadjusted?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the audit committee review the audit representation letters before consideration by the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
At least annually, does the audit committee meet with the lead audit partner, and other members of the audit team as necessary, without the presence of management, to discuss issues arising from the audit, and any other matters that the auditor might wish to raise with the audit committee and visa versa?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
As part of the ongoing monitoring process, does the audit committee review the management letter (or equivalent) and monitor management's responsiveness to the external auditor's findings and recommendations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
At the end of the annual audit cycle, does the audit committee assess the effectiveness of the audit process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Whistle blowing	Yes / No / N/A	Excellent				Poor
		1	2	3	4	5
Does the audit committee review the arrangements by which staff may raise concerns in confidence about possible improprieties in matters of financial reporting, financial control or related matters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Relationship with the board

Does the committee report to the full board after each meeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Where disagreements between the audit committee and the board cannot be resolved, does the audit committee have the right to report the issue to shareholders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Where there is disagreement between the audit committee and the board, is adequate time set aside for discussion of the issue with a view to resolving the disagreement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Communication with shareholders

Does the audit committee ensure that a report on its role and responsibilities, and the actions taken to discharge those responsibilities is included in the annual report and accounts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does such a report provide sufficient detail to enable shareholders to understand how the audit committee has discharged its duties?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the report on the audit committee's activities provide sufficient detail to enable shareholders to understand how the audit committee has discharged its duties?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If the board did not accept the audit committee's recommendation regarding the appointment, reappointment or removal of the auditors, did the audit committee ensure the annual report and accounts included a statement explaining its recommendation and the reasons why the board took a different stance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the chairman of the audit committee attend the AGM and, where necessary, answer questions on matters within the scope of the audit committee's responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comment

Recommendations for improvement

How can the committee improve its performance?

How can I improve my performance?

Name

Signed

Date



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:

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