The audit committee oversees and monitors the company’s audit processes, including the internal control activities.

The ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations 3e (2014) suggests that the role of the audit committee is usually to review and make recommendations to the board in relation to:

- the adequacy of the entity’s corporate reporting processes;
- whether the entity’s financial statements reflect the understanding of the committee members of, and otherwise provide a true and fair view of the financial position and performance of the entity;
- the appropriateness of the accounting judgements or choices exercised by management in preparing the entity’s financial statements;
- the appointment or removal of the external auditor;
- the rotation of the audit engagement partner;
- the scope and adequacy of the external audit;
- the independence and performance of the external auditor;
- any proposal for the external auditor to provide non-audit services and whether it might compromise the independence of the external auditor;
- if the entity has an internal audit function:
  - the appointment or removal of the head of internal audit
  - the scope and adequacy of the internal audit work plan; and
  - the objectivity and performance of the internal audit function.

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The charter should clearly articulate the committee’s role and responsibilities, composition, structure and membership requirements, authority, processes and procedures as approved by the board. For smaller corporations, a combined audit/risk committee is sometimes constituted. In this case the committee’s charter will detail a combined responsibility to oversee and monitor both functions.
Responsibilities of the audit committee

Financial reporting

- Review significant financial and reporting issues, including complex or unusual transactions and highly judgemental areas, and recent professional and regulatory announcements and understand their effect on the financial report.
- Review management’s processes for ensuring and monitoring compliance with laws, regulations and other requirements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial report.
- Assess significant estimates and judgements in financial reports by asking management about the process used in making material estimates and then asking the internal and external auditors about the basis for their conclusions on the reasonableness of management’s estimates.
- Review with management and the external auditors all matters required to be communicated to the audit committee under the Australian Auditing Standards.
- Consider the appropriateness of the accounting principles and policies adopted and any amendments, and consider the methods of applying those principles and policies to ensure they are in accordance with the stated financial reporting framework.
- Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement.
- Assess management explanations for unusual transactions or significant variances from prior year results or current year budget.
- Assess the management of non-financial information in documents to ensure the information does not conflict with the financial statements or other documents.
- Recommend to the board whether the financial and non-financial statements should be signed based on the audit committee’s assessment of them.

Internal control and risk management

- Assess the internal processes for determining and managing key risk areas, particularly:
  - compliance with laws, regulations, standards and best practice guidelines;
  - important judgments and accounting estimates;
  - litigation and claims;
  - fraud and theft;
  - relevant business risks other than those dealt with by other specific board committees.
- Ensure that the company has an effective risk management system and that significant or material risks are reported to the board.
- Address the effectiveness of the internal control, risk management and performance management systems with management and the internal and external auditors.
- Assess the effectiveness of, and compliance with, the corporate code of ethical conduct and compliance with internal plans, policies and procedures.
- Obtain regular updates from management and company lawyers about compliance matters.

“Address the effectiveness of the internal control, risk management and performance management systems with management and the internal and external auditors.”
External audit

- Make recommendations to the board on the appointment, remuneration and monitoring of the effectiveness and independence of the external audit provider.
- Review the external audit provider’s fee and be satisfied that an effective audit can be conducted for that fee.
- At the start of each audit, agree the terms of engagement with the provider and review the annual engagement letter.
- Review and confirm the independence of the external audit provider by obtaining statements from the provider detailing relationships between the auditor and the company (including non-audit services) and discussing these relationships with the auditor.
- Monitor and critique management’s response to the external audit provider’s findings and recommendations; ask the provider to detail any significant disagreements with management irrespective of whether they have been solved.
- Provide the opportunity for audit committee members to meet the external audit provider without anyone from management being present at least once a year.
- Advise the board on the rotation of the external audit provider at intervals of approximately five years or otherwise as appropriate.

Internal audit

- Make recommendations to the board on the appointment, remuneration and monitoring of the effectiveness and independence of internal audit.
- Ensure that there are sufficient resources for an effective audit to be conducted in the areas identified for internal audit review.
- Communicate the audit committee’s expectations to internal audit in writing and ensure that reports are provided directly to the audit committee.
- Review and approve the scope of the internal audit plan and work program, monitor progress and consider the implications of internal audit findings for the control environment.
- Monitor and critique management’s response to the internal audit findings and its recommendations.
- Ensure that the internal audit and external audit programs are effectively coordinated.
- Provide the opportunity for audit committee members to meet the internal auditor without anyone from management being present at least once a year.

Related party transactions

Review and monitor the propriety of related party transactions.

Corporate governance

Assist the board to ensure appropriate corporate governance is in place with respect to the scope of its remit.

Other responsibilities

- Perform other activities related to this charter as requested by the board.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of this charter annually, requesting board approval for changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the performance of the audit committee and its members on a regular basis.

Points to consider

- The charter should not be overly detailed or prescriptive.
- Establish a formal process to ensure that the charter is regularly monitored and reviewed so that it.
- Remains relevant to the company’s needs, reflects current regulatory requirements and audit committee good practice.
- Consider referring to the company’s code of conduct for expected behaviours and processes for resolving conflicts of interest.
Sample audit committee charter

Role and responsibilities

The audit committee is not a policy-making body nor does it have substantive executive function. However, it assists the board in developing board policy and monitoring corporate activity within the scope of its remit, and making recommendations to the board for resolution.

The role of the committee includes assisting the board with the company’s governance and exercising of due care, diligence and skill in relation to:

- reporting financial information to users of financial reports;
- application of accounting policies;
- financial management;
- the internal control system;
- the risk management system;
- the performance management system;
- business policies and practices;
- protection of the company’s assets;
- compliance with applicable laws, regulations, standards and best practice guidelines.

Other committee objectives include:

- improving the credibility and objectivity of the accountability process, including financial reporting;
- overseeing the effectiveness of the internal and external audit functions and providing a forum for communication between the board and the internal and external auditors;
- ensuring the independence of the external auditor;
- providing a structured reporting line for internal audit and monitoring the objectivity and independence of the internal auditor;
- assuring the quality of internal and external reporting of financial and non-financial information;
- ensuring an ethical culture is embedded throughout the company.

Authority

The board authorises the audit committee, through the audit committee chairman, to:

- oversee the appointment, compensation and work of any registered company auditor employed by the organisation;
- resolve any disagreements between management and the auditor on financial reporting;
- pre-approve all auditing and non-audit services;
- retain independent counsel, accountants or others to advise the audit committee or assist in the conduct of an investigation;
- seek any information it requires from employees directed to co-operate with the audit committee’s requests, or from external parties.

Composition

The audit committee will consist of at least three, and usually no more than five, members of the board. The board, usually on recommendation of its nominating committee, will appoint audit committee members and the chairman of the committee.

Membership of the audit committee is reviewed annually and members are eligible for reappointment. Membership of the audit committee is to be confirmed annually by the board in alignment with the annual general meeting.

Each audit committee member will be non-executive and financially literate and the majority will be independent.

At least one member of the audit committee will have relevant qualifications and experience – for example a qualified accountant holding a current accounting qualification, CPA or CA, or a finance professional with experience of financial and accounting matters. At least some members should have an understanding of the industry in which the entity operates.

The chairman of the committee must be non-executive and independent, and must not be the chairman of the board.
**Invitees**

Other people may attend meetings of the audit committee by invitation, for example the:

- chief executive officer;
- chief financial officer;
- company secretary;
- head of internal audit;
- external audit provider.

They may take part in the business and discussions but have no voting rights.

Sometimes all executive and management personnel will be asked to leave the meeting because the committee requires a closed session with or without the external audit provider.

**Meetings**

The audit committee will meet at least four times a year and hold extra meetings as required. A request for a meeting from the internal or external auditors must be met.

A quorum will be more than half of the members. In the chairman’s absence, the members who are present will select a chairman for that particular meeting.

All audit committee members are expected to attend each meeting in person or by other approved means such as teleconferencing or video conferencing.

The notice and agenda of a meeting will include relevant supporting papers.

The audit committee may invite other people to attend a meeting, consult other people or seek any information considered necessary to fulfil its responsibilities. The members may meet separately with auditors.

**Voting**

Matters will generally be decided by consensus or, if a consensus can’t be reached, by a majority of votes from the members present.

**Conflicts of interest**

Committee members will be invited to disclose conflicts of interest at the start of each meeting.

Ongoing conflicts of interest need not be disclosed at each meeting once they have been acknowledged. Where members or invitees are deemed to have a real or perceived conflict of interest they will be excused from committee discussions about the issue where a conflict exists.

**Secretariat duties**

The company secretary or another appropriate, designated person will act as secretary to the audit committee.

The secretary will help the chairman to develop and distribute the agenda, papers, minutes and calendar.

**Minutes**

Minutes must be prepared, approved by the chairman and circulated to the members within two weeks of a committee meeting. The minutes must be ratified and signed by the chairman at the following meeting.

**Reporting to the board**

The chairman of the audit committee is to report to the board following each committee meeting. He or she may distribute a copy of the minutes supplemented with other necessary information, including recommendations requiring board action and/or approval. The chairman is to organise the information relating to the audit committee to be included in the company’s annual report.

**Reviews**

The audit committee will review its performance on an annual basis. The review may be conducted as a self-assessment and will be coordinated by the chairman. The assessment may seek input from any person. Training needs will be monitored by the chairman.

The audit committee should review this charter and its composition annually to ensure that it remains consistent with the board’s objectives and responsibilities. The board should consider the committee’s review and either approve or further review the committee’s charter and/or composition.
Disclaimer

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