

# Audit committee charter

## *Role of the board*

The audit committee charter provides a blueprint for the committee's operations. It should be written to meet the specific needs of the organisation's industry, objectives and culture.

The charter should clearly articulate the committee's role and responsibilities, composition, structure and membership requirements, authority, and processes and procedures (for example, for inviting non-committee members to attend meetings), as approved by the board.

For smaller organisations, the committee may have a combination of finance, audit and risk management responsibilities. In this case the committee's charter will detail a combined responsibility to oversee and monitor all functions.

### What may be included in the audit committee's charter?

The audit committee may cross reference its annual plan to its charter, to ensure that it fulfils its responsibilities. A formal process should be established to ensure that the charter is regularly monitored and reviewed so that it remains relevant to the organisation's needs, reflects current regulatory requirements and audit committee good practice. The committee should also refer to the organisation's code of conduct for expected behaviours and processes for resolving conflicts of interest.

Key matters commonly included within a charter cover the following:

#### **Accountability**

The committee is an advisory committee of the board.

#### **Authority**

The committee has no authority to make decisions on behalf of the board, to approve financial expenditure or commit the organisation to activities or undertakings not otherwise approved by the board.

#### **Administration of the committee**

The committee is tasked with:

- minutes of the meetings;
- reporting to the board;
- meetings;
- evaluating performance;
- reviewing the audit committee charter.

#### **Role and responsibilities**

The committee is responsible for:

- financial reporting and underlying financial policies;
- working with the external auditor;
- working with the internal audit activity;
- risk management and internal controls;
- compliance with laws, regulations, ethical requirements, internal policies and industry standards;
- financial management and reporting of fraud;
- other responsibilities as deemed important.

## 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 organisational 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 organisation's governance and exercising of due care, diligence and skill in relation to:

### Audit

The committee will:

- review the audited annual financial statements before their presentation to the board, to ensure they represent a true and fair view of the organisation's financial position and performance and the organisation's cash flow;
- periodically review the appointment, terms of engagement and remuneration of the external auditor;
- meet with the external auditors to review results and discuss the adequacy and effectiveness of accounting and financial controls and any issues the external auditors wish to raise;
- ensure a system is in place to assess the appropriateness and compliance with the organisation's internal control systems;
- ensure the independence of the external auditors.

### Financial Management

The committee will:

- advise the board on financial management and reporting matters, including the financial processes and procedures of the organisation;
- review the proposed annual budget, assessing alignment to strategic and business plans and appropriateness of underlying assumptions before recommending it to the board;
- review the organisation's monthly financial reports in a timely manner, making recommendations to the board as required;
- monitor the solvency of the organisation and raise any concerns to the board's immediate attention.

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### Risk Management

The committee will:

- assess and monitor risks to the organisation and recommend strategies to the board to manage and mitigate the identified risks through the risk management plan;
- monitor compliance with applicable laws, regulations, standards, contracts and best practice guidelines;
- review the level and type of insurance coverage for the organisation and make recommendations to the board as required.

### Authority

The board authorises the audit committee, through the audit committee chair, 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 audit and non-audit services prior to seeking board approval;
- 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 will appoint audit committee members and the chair of the committee.

The term of appointment of the committee members who are directors will coincide with their board tenure. The tenure of any other committee members will be determined at time of appointment.

The chair of the committee must be non-executive and independent, and must not be the chair of the board.

#### **Invitees**

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

- Chief executive officer
- Chief financial officer
- Company secretary
- External audit provider

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

On occasion, the executive and management personnel may 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 external auditors must be met.

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

The notice and agenda of a meeting will include relevant supporting papers and must be made available to committee members at least one week prior to the meeting date.

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.

It may be useful to communicate if meetings are expected to be face-to-face or by teleconferencing.

#### **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 chair to develop and distribute the agenda, papers, minutes and calendar.

#### **Minutes**

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

#### **Reporting to the board**

The chair of the audit committee is to report to the board following each committee meeting. They may distribute a copy of the minutes supplemented with other necessary information, including recommendations requiring board action and/or approval. The chair is to organise the information relating to the audit committee to be included in the organisation'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 chair. The assessment may seek input from any person. Training needs will be monitored by the chair.

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.

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