

The 20 Critical Questions Series

What Directors should ask about their Audit Committee

Updated 2022

Audit Committee Foundations

1. Is there a written charter or terms of reference (mandate) for the audit committee with clearly defined boundaries (for example for subsidiaries, controlled entities, shared arrangements) and committee scope of activities (refer question 8 below)? Is this complemented with a code of conduct and a conflict of interest policy?
2. Is there a well-considered audit committee skills matrix to guide the selection and appointment of future audit committee members, with remuneration pitched at a level commensurate with workload, experience, and personal risk exposure?
3. Is there a forward schedule of audit committee meetings, with regular meetings held as scheduled? Is there a forward work plan for the audit committee aligned to the defined audit committee scope of activities to clearly show what will be examined at each meeting in the year?
4. Does the audit committee provide regular written and verbal reports back to the governing authority?

Audit Committee Membership

5. Does the audit committee comprise an appropriate mix of people, typically at least three members, with skills and experience relevant to the organisation's current and future operations and risk profile? Does membership include an independent non-executive chair, non-executive directors and independent members (but not board chair or the governing authority)?
6. Is there a formal induction process for audit committee members to acquaint them with the organisation and its operations including the values, vision, mission, strategies, business objectives, policies, and the audit committee's role and responsibilities?
7. Are member succession arrangements managed to ensure continuity and ongoing corporate knowledge including membership terms staggered, limit on the number of years a person can serve, and transparency of the appointment process?

Audit Committee Scope

8. Does the audit committee scope of activities encompass?
 - › Governance structure and processes.
 - › Risk management structure and processes.
 - › Controls activities.
 - › Financial management, accounting policies, financial statements and annual reporting.
 - › External audit.
 - › Internal audit.
 - › Compliance.
 - › Implementation of audit and other review recommendations.
 - › Ethics and organisation culture.
 - › External accountability.
 - › Fraud and corruption control.
 - › Business continuity management, including ICT disaster recovery arrangements.
 - › Security including physical security, cybersecurity and ICT security.
 - › Legal issues.
 - › Complaint management.
 - › Organisation performance and management reporting.
 - › Work health safety.
 - › Environment management.
 - › Major projects and business initiatives.
 - › Regulator activities.
 - › Response to significant government enquiries such as Royal Commissions.

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9. Do the chief executive officer, management and support areas value the audit committee members' time, recognising this role is a relatively small part of their life with meeting dates firm when set, and papers that are clear, concise, succinct and always delivered on time?

Audit Committee Meetings

10. Is there a written agenda and accompanying papers distributed in a secure manner (for example, via secure board portal) in advance of each meeting that gives sufficient time for members to properly review the content?
11. Do agenda items go to the heart of the organisation's governance and assurance, or are reports and messages filtered by management? Is the audit committee scope of activities limited in any way? If so, why?
12. Are there well-structured written reports for agenda items to be considered at audit committee meetings, with the papers painting the true picture by being carefully crafted, aligned to strategic risks and priorities, balanced, and without jargon and acronyms?
13. Are there written minutes for each audit committee meeting that are produced promptly after each meeting, provide clarity of action items, and are signed-off by the chair?
14. Is there a written record of every decision detailed in the minutes (there may also be a decision register), and are action plans from previous meetings followed-up at the next meeting to ensure they are meaningfully actioned in a timely way?
15. Does the audit committee meet privately with internal audit and external audit at least once each year without management present? Does the audit committee formally assess internal audit and external audit performance?
16. Does the audit committee schedule meetings with a different senior executive each meeting to receive updates on risks and issues in specific business areas, together with progress on major initiatives and important projects? In most circumstances, these would be 'closed sessions' without the chief executive officer or other management present.
17. Does the audit committee have a process for senior executives to present details on why audit remediation actions past their due implementation date have not been fully implemented and closed-out, and how the resulting risk is being addressed in the interim? Where management seeks to accept a risk from an audit recommendation outside the organisation's approved risk appetite, are they required to complete a management acceptance of risk form and have it considered by the audit committee?

Audit Committee Effectiveness

18. Does the audit committee deliver to the governing authority an annual report on the audit committee's operations, activities and outcomes?
19. Is there a section in the organisation's published annual report on audit committee achievements and value added during the year, including summary of member attendance at audit committee meetings?
20. Are there performance measures (KPIs) and a regular, structured evaluation process to confirm compliance to audit committee charter responsibilities, and to assess effectiveness of the audit committee and the individual committee members?

The Big Question

How does the audit committee cover 'risk culture' to satisfy itself the organisation has an acceptable culture aligned to its values?