

3.8 Board Committees – Audit Committee

Role of the Audit Committee

- Monitor and review internal control, external audit, accounting and external reporting

Responsibilities of the Audit Committee

- Report to the Board on all matters covered by the Terms of Reference
- Monitor the integrity of the financial statements of the company
- Monitor and review the effectiveness of the company's internal financial controls function and assess key financial risks
- Monitor the strategic direction of the internal audit function
- Review major audit issues and accounting policies. Where the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it should make recommendations to the Board on action needed to address the issues or to make improvements
- Review the effectiveness of IT systems, internal controls, environmental affairs, legal matters and pension investment performance
- Review company compliance with ethics, regulations, policies and practice reviews
- Act as the link between the Board and the external auditors
- Monitor and review the external auditor's independence, objectivity and effectiveness
- Make recommendations to the Board to be put to the shareholders for their approval in relation to the appointment of the external auditor and to approve their remuneration and terms of engagement
- Consider external auditor's management letter and management responses
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance
- Meet with the external auditors twice a year, once at the planning stage and once post-audit at reporting stage
- Non Executive Directors of the Audit Committee should meet the external auditors at least annually without the presence of any executive Board members
- The Chairperson of the Audit Committee should attend the AGM
- Under the Companies (Auditing and Accounting) Act 2003 (when commenced) the Board Audit Committee will be responsible for reviewing (before its approval by the Board of Directors) the Directors' compliance statement (see Section 3.3) and determining whether the system etc complies with the acts' requirements, is fair and reasonable and is based on due and careful enquiry. The Board Audit

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Committee will be responsible for recommending to the Board whether or not the compliance statement should be approved by them

Insights and practical suggestions

- Audit Committee membership should consist of a minimum of three independent Non Executive Directors of the Board. Two Non Executive Directors are recommended for smaller companies. Under the Companies (Auditing and Accounting) Act 2003 (when commenced), where there is a Board Audit Committee (see Section 3.3 for requirements in this regard), it must be constituted of at least two Non Executive Directors (neither of whom must be the Chairperson) unless the company only has one Non Executive Director in which case that person must be appointed sole member of this committee or be Chairperson of a committee consisting of two Directors and have a casting vote
- The Audit Committee Chairperson should not be the Chairperson of the Board
- Audit Committees may be an unnecessary overhead for smaller companies, but nevertheless can add value as it gives this function more focus than it may get at a Board meeting. If this is not possible, a Board member may be given responsibility for performing this task
- An Audit Committee meeting should be held at least annually and at such other times as the Chairperson of the Committee shall require
- The Audit Committee should have written Terms of Reference that provide a clear understanding of its role (see Appendix A4 for sample Terms of Reference)

Key legal considerations

Under the Companies (Auditing and Accounting) Act 2003 (when commenced),

- The Directors of all Irish public limited companies (excluding certain Plcs which are not the ultimate parent of their corporate groups) will be required to establish an Audit Committee
- The Directors of large private companies limited by shares and certain unlimited companies will be required either to establish a committee operating on the same basis or explain why they have decided not to do so. (This does not apply to small private companies limited by shares that, in both their most recent and the preceding financial year, and together with their subsidiary undertakings, had gross assets of less than €25,000,001 or turnover of less than €50,000,001, nor does this apply to certain unlimited companies, or to private companies limited by guarantee)

[A large private company is a company or undertaking with a balance sheet exceeding €25million and turnover in excess of €50million in both the current and prior financial year]

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10 Questions to help improve the effectiveness of the Audit Committee:

- 1 How detailed are your Audit Committee's Terms of Reference? Do they spell out:
 - an itemised yearly schedule for the Committee?
 - all the documentation the Committee should see?
 - the Committee's stand on key accounting principles and standards?
- 2 What specific qualifications and background (if any) do you require for the Audit Committee chair?
- 3 Are you emphasising continuing education requirements for Audit Committee members, tapping into the company's audit staff or outside audit resources?
- 4 Are independence standards for your Audit Committee members the same as those for your Non Executive Directors? Should you consider tighter standards?
- 5 How regularly is the Audit Committee in touch with internal company officers such as internal audit and the Director of Finance/Chief Financial Officer, and how thorough are reports from these officers?
- 6 Who writes the Audit Committee's agenda, and does it reflect the latest best practice in oversight and effective use of time and resources?
- 7 What specific financial details are most crucial to your business sector, strategic targets, and company structure? How can the Committee give these extra attention?
- 8 Does the Audit Committee meet privately with the external auditor, and how substantive are these discussions? What is your external auditor's personal view of the company's internal control systems?
- 9 Ask the company/ external audit staff to 'audit' your committee in light of Stock Exchange/ SEC policy changes discussed above. How will you be affected?
- 10 How involved is your Audit Committee in selecting and negotiating with the external audit firm?