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## **Assessing the effectiveness of audit committees**

The role of the audit committee has developed significantly in recent years. There has been an ongoing initiative to embed effective risk management at all levels of the management of State organisations, which has increased the need for explicit assurance about risk, control and governance in the organisation. Consequently, the reliance that accounting officers and boards place on the work of audit committees has increased.

A ‘good practice model’ in relation to the operation of audit committees in Irish public bodies was developed for the purposes of the C&AG’s examination the results of which are set out in Special Report 87 – *Effectiveness of Audit Committees in State Bodies*. This model is set out in the appendix and centres on seven key dimensions in relation to the effectiveness of audit committees.

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## Appendix A Effectiveness of Audit Committees Questionnaire

CoP (Code of Practice), GP (Good Practice Principles)

<b>Principle 1: The Role of the Audit Committee</b>	
The audit committee fulfils an important role in the governance framework of an entity by providing the executive board with independent assurance and advice. The committee does not undertake management responsibilities and is not a substitute for entity management controls and accountabilities.	
1. Is there a written charter or terms of reference, setting out the roles and responsibilities of the audit committee and its members? <b>(CoP)</b>	
2. Have the audit committee's roles and responsibilities been communicated to all audit committee members? <b>(GP)</b>	
3. Do the terms of reference include provisions in regard to <ul style="list-style-type: none"><li>• membership of the committee</li><li>• reporting requirements</li><li>• timing, frequency and conduct of meetings</li><li>• information requirements</li><li>• responsibilities as regards<ul style="list-style-type: none"><li>➢ entity's financial statements</li><li>➢ risk management</li><li>➢ internal control</li><li>➢ internal audit</li><li>➢ external audit</li><li>➢ performance management/reporting <b>(GP)</b></li></ul></li></ul>	
4. Do the terms of reference require the audit committee to regularly review its own effectiveness? <b>(GP)</b>  If so, when was the last time such a review was carried out? <b>(GP)</b>	
5. How frequently are the terms of reference reviewed by the executive board and the audit committee? <b>(GP)</b>	
6. How often does the audit committee meet? <b>(CoP)</b>	

<b>Principle 2: Membership, Independence, Objectivity and Understanding</b>	
The audit committee should be independent and objective. In addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as a committee member.	
<b>Membership and Terms of Appointment</b>	
7. How many employees does the entity have? <span style="color: red;">(CoP)</span>	
8. If more than 20 employees, does the audit committee have at least three independent non-executive directors (or at least two, if less than 20 employees)? <span style="color: red;">(CoP)</span>	
9. For what duration are audit committee members appointed? <span style="color: blue;">(GP)</span>	
10. Is there a standard letter of appointment for new audit committee members and does it include <ul style="list-style-type: none"> <li>▪ role of audit committee</li> <li>▪ duration of appointment and renewal provisions</li> <li>▪ the support and training to be provided</li> <li>▪ the time commitment involved</li> <li>▪ level of remuneration (where appropriate)</li> <li>▪ rules regarding conflicts of interest</li> <li>▪ performance management arrangements</li> <li>▪ termination arrangements <span style="color: blue;">(GP)</span></li> </ul>	
<b>Independence</b>	
11. What is the breakdown of audit committee members in terms of executive directors, non-executive directors and external members? <span style="color: red;">(CoP)</span>	
12. Is the audit committee chair different to chair of the board? <span style="color: blue;">(GP)</span>	
13. Is the chair of the audit committee an executive director, non executive director or external member? <span style="color: red;">(CoP)</span>	
<b>Relationship with the Executive and Other Participants</b>	
14. Are the executive members of the organisation invited to attend audit committee meetings, participate in discussions and provide information to the audit committee as required? <span style="color: blue;">(GP)</span>	
15. Do the CEO, finance director, head of internal audit and the external auditor routinely attend all audit committee meetings?  If not, do they attend for specific meetings or specific agenda items, at the request of the committee? <span style="color: blue;">(GP)</span>	
<b>Managing Conflicts of Interest</b>	
16. Is there a register of audit committee members' interests? <span style="color: blue;">(GP)</span>	
17. Are members regularly required to declare any potential conflict of interest with any of the business items on the agenda for audit committee meetings? <span style="color: blue;">(GP)</span>	
18. In instances where a member declares an interest in an agenda item, what action is taken? <span style="color: blue;">(GP)</span>	

### Principle 3: Skills and Experience

The audit committee should collectively possess an appropriate range of skills (skills mix) to perform its functions to the required standard.

#### Range of Skills

19. Have the audit committee and executive board identified the skill set required for audit committee effectiveness? <b>(GP)</b>	
20. Are there formal assessment criteria for the appointment of the audit committee chair? <b>(GP)</b>	
21. Do the assessment criteria for committee members include (or expect members to acquire as soon as possible after appointment) <ul style="list-style-type: none"> <li>• understanding of the objectives of the organisation and current significant issues facing it</li> <li>• understanding of the organisation's structure, including key relationships such as that with the sponsoring Department</li> <li>• understanding of the organisation's culture</li> <li>• understanding of relevant legislation or other rules governing the organisation</li> <li>• broad understanding of the Government environment, particularly accountability structures and current major initiatives? <b>(GP)</b></li> </ul>	
22. Does the audit committee corporately possess knowledge, skills and experience of <ul style="list-style-type: none"> <li>• accountancy/finance – with at least one member having recent and relevant financial experience <b>(CoP)</b></li> <li>• governance, assurance and risk management</li> <li>• audit</li> <li>• technical or specialist issues pertinent to the organisation's business</li> <li>• the wider environments, including the Government and accountability structures, in which the organisation operates? <b>(GP)</b></li> </ul>	
23. Specifically, what accounting or financial qualifications, skills and experience do individual audit committee members have? <b>(CoP)</b>	

#### Access to Additional Skills

24. Is the audit committee empowered to co-opt members on a short-term basis to provide specialist skills needed at a particular time?  When was the last time this was done? <b>(GP)</b>	
25. Can the audit committee procure specialist advice (at reasonable and approved expense to the organisation) on an ad-hoc basis, to assist the members with specific areas of committee business?  When was the last time this was done? <b>(GP)</b>	

<b><i>Training and Development</i></b>	
26. Is there a formal induction process (including individually tailored training) for new audit committee members? <a href="#">(GP)</a>	
27. Does the audit committee and the chair make recommendations to the board on the committee's and individual members training needs? <a href="#">(GP)</a>	
28. Does the audit committee keep up to date with best practice and developments in corporate governance? How is this done? <a href="#">(GP)</a>	

#### **Principle 4: Scope of Work**

The scope of the audit committee's work should be defined in its terms of reference, and encompass all of the assurance needs of the executive board or the CEO, including particular engagement with the work of internal audit and external audit and financial reporting issues.

#### ***Relationship with Internal Audit***

29. Does the audit committee monitor and review the effectiveness of the internal audit unit? <b>(CoP)</b>	
30. Does the audit committee consider the independence of the internal audit unit? <b>(GP)</b>	
31. Does the audit committee consider that the experience, expertise and professional standard of the internal audit team are appropriate for the organisation? <b>(GP)</b>	
32. Does the audit committee consider whether the scope of internal audit work, the resources at its disposal and their access to information and people allow it to address significant risks within the organisation? <b>(GP)</b>	
33. Does the audit committee review and approve the internal audit plan before they commence any work and make suggestions regarding risk and problem areas that the audit could address? <b>(GP)</b>	
34. Does the audit committee receive regular progress reports on work undertaken by internal audit? <b>(GP)</b>	
35. Does the audit committee review internal audit reports and management responses to issues raised, and monitor the progress made on internal audit recommendations? <b>(GP)</b>	
36. Does the head of internal audit have direct access to the chair of the audit committee? <b>(CoP)</b>	

#### ***Relationship with External Audit***

37. Does the audit committee periodically request the views of the external auditor on the work and effectiveness of the audit committee? <b>(GP)</b>	
38. Does the audit committee consider the management letter and other relevant reports and the management response, and monitor the progress made on the recommendations? <b>(GP)</b>	
39. Does the audit committee meet the external auditors at least once a year, without executive board members being present, to discuss any issues of concern? <b>(CoP)</b>	

<b><i>Relationship between Internal and External Audit</i></b>	
40. Does the audit committee seek confirmation from internal audit and the external auditors on the effectiveness of their relationship? (GP)	
<b><i>Fraud</i></b>	
41. Does the audit committee consider whether effective anti-fraud and corruption policies and procedures are in place and operating effectively? (GP)	
42. Does the audit committee consider whether there is an anti-fraud policy and code of conduct and its distribution to employees? (GP)	
43. Does the audit committee consider whether management arrangements for whistle-blowing are satisfactory? (GP)	
<b><i>Internal Control</i></b>	
44. Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period? (GP)	
45. Does the audit committee consider whether the Statement of Internal Financial Control is sufficiently comprehensive and meaningful, and the evidence that underpins it? (GP)	
46. Does the audit committee consider whether financial control, including the structure of delegations, enables the organisation to achieve its objectives and achieve good value for money? (GP)	
47. Does the audit committee consider whether the system of internal reporting gives early warning of control failures and emerging risks? (GP)	
<b><i>Financial Reporting</i></b>	
48. Does the audit committee review the first draft of the annual accounts before the external auditor commences the audit? (GP)	
49. Before the accounting officer/CEO signs off the financial statements, does the audit committee consider: <ul style="list-style-type: none"> <li>• that the accounting policies in place comply with relevant requirements</li> <li>• that there has been a robust process in preparing the accounts to ensure completeness and whether appropriate processes are in place to ensure accurate accounting records are maintained</li> <li>• whether there is an appropriate anti-fraud policy in place, and whether losses are properly recorded and accounted for</li> <li>• whether suitable processes are in place to ensure regularity, probity and propriety are achieved; and</li> <li>• whether issues raised by the external auditors have been given appropriate attention? (GP)</li> </ul>	
50. Does the audit committee satisfy itself that the annual financial statements represent fairly the financial position of the organisation, regardless of the pressures on executive management? (GP)	
51. Before the accounting officer/CEO signs off the letter of representation, does the audit committee review it and give particular attention to non-standard issues of representation? (GP)	

## Principle 5: Communication

The audit committee should ensure it has effective communication with the board, the head of internal audit, the external auditor, and other stakeholders.

52. Does the audit committee provide oral updates at executive board meetings or send regular reports that are reviewed at executive board meetings? (GP)	
53. Does the audit committee provide an annual report to the executive board? (GP)	
54. Does the annual report of the audit committee present the committee's opinion about: <ul style="list-style-type: none"><li>the comprehensiveness of assurances in meeting the executive board and accounting officer/CEO's needs</li><li>the reliability and integrity of these assurances</li><li>whether the assurance available is sufficient to support the executive board and accounting officer/CEO in their decisions taken and their accountability obligations</li><li>the implication of these assurances for the overall management of risk</li><li>any issues the audit committee considers pertinent to the governance statement, and any long-term issues the committee thinks the executive board and/or accounting officer/CEO should give attention to</li><li>financial reporting for the year</li><li>the audit committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.</li></ul> (GP)	

<b>The Role of the Audit Committee Chair – Good Practice</b>	
The chair of the audit committee has responsibility for ensuring that the work of the committee is effective, that the committee is appropriately resourced, and that it is maintaining effective communication with stakeholders.	
<b><i>Agenda Setting</i></b>	
55. Is the executive board secretary different from the audit committee secretary? (GP)	
56. Does the chair of the audit committee meet with the committee secretary before every meeting to discuss and agree the business for the meeting? (GP)	
57. Are inputs on any other business formally requested in advance from audit committee members and attendees? (GP)	
58. Are outline agendas planned one year ahead to cover core activities and specific issues on a cyclical basis? (GP)	
<b><i>Communication</i></b>	
59. Does the chair of the audit committee have open lines of communication with the executive board, the head of internal audit and the external auditors? (GP)	
60. Do reports to the committee communicate relevant information at the right frequency, time and format to be effective? (GP)	
61. Does the audit committee issue guidelines concerning the format and content of the papers to be presented to the committee? (GP)	
<b><i>Monitoring Actions</i></b>	
62. Does the chair or the secretariat ensure that all action points from committee meetings are appropriately acted upon? (GP)	
63. Does the chair or the secretariat ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence? (GP)	
64. Is a report on matters arising made and minuted at the audit committee's next meeting? (GP)	
<b><i>Appraisal</i></b>	
65. Are records of attendance maintained and reviewed annually by the board? (GP) What was average attendance over 2010, 2011 and 2012? (GP)	
66. Does the chair ensure that committee members are provided with an appraisal of their performance as a committee member? (GP)	
67. Does the audit committee chair seek appraisal of their personal performance from accounting officer or chair of the board? (GP)	
<b><i>Appointments</i></b>	
68. Is the chair involved in the appointment of new committee members, including providing advice on the skills and experience required of the new individual? (GP)	

### **Audit Committee Support – Good Practice**

The organisation should provide its audit committee with appropriate secretariat support to enable it to be effective. This is more than a minute-taking function, it involves providing active support for the work of the committee and helping its members to be effective in their role.

69. Is the audit committee supported by a secretariat? <b>(GP)</b>	
70. Does the audit committee secretariat : <ul style="list-style-type: none"><li>• commission papers as necessary to support agenda items?</li><li>• circulate meeting documents to all committee members, internal audit and external auditors in good time (at least one week) before each meeting?</li><li>• keep records of meetings and minutes after they have been approved by the audit committee chair and circulate them to committee members, head of internal audit, external auditors, board and the accounting officer on a timely basis (within one week)?</li><li>• ensure that the minutes clearly state all agreed actions, the responsible owner, when they will be done by and any advice given by any stakeholders?</li><li>• ensure action points are being taken forward between meetings?</li><li>• support the chair in the preparation of audit committee reports to the Board?</li><li>• keep the committee up to date with developments and relevant background information about developments in the organisation?</li><li>• maintain a record of when members' terms of appointment are due for renewal or termination?</li><li>• ensure that appropriate appointment procedures are initiated when required? <b>(GP)</b></li></ul>	