

# Factsheet: Audit Committees

Updated 2022

## What is an Audit Committee?

An Audit Committee is a committee of a board of directors or, in the absence of a board, an advisory committee for the governing authority (organisation head), operating under delegation of authority. Its objectives should be clearly defined and documented in a charter or terms of reference, and its efficiency and effectiveness measured by reference to its objectives. An independent Audit Committee is a fundamental component of good corporate governance and typically:

- › Focuses on issues relevant to the integrity of an organisation's financial reporting.
- › Oversees external audit, internal audit, governance, risk management, internal control and compliance.
- › Liaises with the board, internal auditors, external auditors and management.

Some organisations establish one committee with responsibility for all these tasks, such as an audit and risk management committee. Larger entities may establish more than one committee, such as an audit committee, a risk and compliance committee, health and safety committee, and an environmental committee, depending on the nature and extent of the organisation's operations.

## Scope of Work

The Audit Committee plays a key role assisting the organisation to fulfil its corporate governance and oversight responsibilities in areas including:

- › 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.

- › Environmental management.
- › Major projects and business initiatives.
- › Regulator activities.
- › Response to significant government enquiries such as Royal Commissions.

## Corporate Sector vs Public Sector

- › In the corporate sector, an Audit Committee is a sub-committee of the board of directors.
- › In the public sector, an Audit Committee is generally an advisory committee to the organisation head (unless there is a board in place).
- › Arrangements for not-for-profit organisations are typically either of the above depending on their size, structure and legal requirements.

## Main Responsibilities

The main responsibilities of an appropriately established and effective Audit Committee may include assisting the governing authority to discharge their governance responsibility to exercise due care, diligence and skill in relation to:

- › Promoting and monitoring an ethical culture throughout the organisation.
- › Ascertaining that codes of conduct are appropriately designed and implemented covering staff, the board, and third-party suppliers, and compliance with the code is monitored.
- › Reviewing effectiveness of risk oversight and management.
- › Assessing the organisation's fraud risk and actions to mitigate fraud risk.
- › Assessing effectiveness of the internal control system in relation to financial and operational activities.
- › Assessing adequacy of financial management practices.
- › Exercising oversight of systems in place to protect an organisation's assets.
- › Reviewing the adequacy of internal and external reporting (financial and non-financial).
- › Exercising oversight over compliance with applicable laws, regulations, standards and good practice guidelines including reviewing correspondence with regulators.
- › Providing a formal forum for communication between the governing authority and senior financial management.
- › Obtaining an independent, effective and efficient external audit, including assessing audit quality and independence matters especially over non-audit services and conflicts of interest.

## Helpful References

IIA-Australia, 'Audit Committees – A Guide to Good Practice, 3rd edition', AICD / AUASB / IIA-Australia, 2017

Internal Audit Foundation, 'Powering Audit Committee Outcomes - The Essential Guide', Bruce R Turner AM, 2020

Office of the Auditor General WA, 'Western Australian Public Sector Audit Committees - Better Practice Guide', 2020

IIA-Australia, '20 Critical Questions Series - What Directors Should ask about their Audit Committee', 2022

IIA-Australia, 'Factsheet - Establishing a Skills-Based Audit Committee', 2022

- › Facilitating effective communication between the governing authority and the internal and external auditors, and providing timely and appropriate responses to matters arising from audits.
- › Considering significant matters raised during the services provided by both internal audit and external audit.

## Membership

- › Audit Committee composition should include a balance of professional skills, knowledge and technical experience, as well as sufficient capacity, independence and objectivity, to discharge its responsibilities as defined in its charter.
- › The chief executive officer should not be a member of the Audit Committee, although it is usual for the chief executive officer to be invited to attend Audit Committee meetings.
- › The majority of Audit Committee members should be independent members.
- › Periodic rotation of Audit Committee members is encouraged, as it provides fresh perspectives and enhances the perception of Audit Committee independence.
- › Member appointments should be staggered to ensure continuity.
- › New members should receive a formal induction.

## Operations

- › There should be a formal Audit Committee charter approved by the board, or governing authority where there is no board.
- › There should be a formal work plan of Audit Committee activities throughout the year.
- › The Audit Committee should receive briefings from executive management throughout the year on issues and emerging risks in their area of responsibility.
- › The Audit Committee should have private meetings with the internal auditor and external auditor at least once per year without management present - many Audit Committees do this more frequently.
- › The Audit Committee should be provided with an effective secretariat service.

## Reporting

- › The Audit Committee should provide timely strategic reporting on significant governance, risk and control issues to the governing authority soon after each meeting.
- › A formal Audit Committee annual report to the establishing authority reflects good practice.

