

ORGANISATION

Audit committee charter

The audit committee oversees and monitors the company's audit processes, including the internal control activities.

The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*¹ Recommendation 4.1 states that the board of a listed entity should have an audit committee with at least three non-executive director members of whom the majority are independent and that the chair of the audit committee be an independent director. It is recommended that the chair of the audit committee is not the chair of the board of directors of the company.

The audit committee plays a key role in assisting the board to fulfil its corporate governance and oversight responsibilities in areas including:

- corporate reporting, including external financial reporting, the directors' report and annual report;
- external audit;
- internal audit;
- risk management and internal control;
- compliance;
- ethics and organisation culture; and
- fraud and corruption.

The main responsibilities of an appropriately established and effective audit committee may include assisting the board to discharge its responsibility to exercise due care, diligence and skill in relation to the following areas:

- promoting and monitoring an ethical culture throughout the entity;
- ascertaining that a code of conduct is appropriately designed and implemented and compliance with the code is monitored;
- reviewing the effectiveness of risk oversight and management;
- assessing the entity's fraud risk and action to mitigate fraud risk;
- assessing the effectiveness of the internal control system in relation to accounting and financial records and reporting;
- assessing the adequacy of financial management practices;
- overseeing the systems in place to protect the entity's assets;
- reviewing the adequacy of internal and external reporting (financial and non-financial) for users of financial reports;
- overseeing compliance with applicable laws, regulations, standards and best practice guidelines, including reviewing correspondence with regulators;

1. ASX Corporate Governance Council, 2019, *Corporate Governance Principles and Recommendations*, 4th edition, February, <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf>, (accessed 8 May 2019).

- providing a formal forum for communication between the board and senior financial management;
- obtaining an independent, effective and efficient external audit, including assessing audit quality and independence matters;
- facilitating effective communication between the board and the internal and external auditors, and providing timely and appropriate responses to matters arising from audits; and
- considering significant matters that were raised during the services provided by both internal audit and external audit.

The audit committee's responsibilities are typically documented in its charter. Ideally, the audit committee's annual work plan is derived from its charter to ascertain that the committee has fulfilled its responsibilities on a yearly basis.

Recommendation 4.1 makes clear that the audit committee ought to have a charter that "clearly sets out its role and confers on it all necessary powers to perform that role. This will usually include the right to obtain information, interview management and internal and external auditors (with or without management present), and seek advice from external consultants or specialists where the committee considers that necessary or appropriate."²



The charter is the audit committee's blueprint for its operations and should be developed to meet the needs of the entity, allowing for the entity's objectives, culture and the industry in which it operates.

The audit committee charter will clearly articulate the committee's role and responsibilities, composition (including size), structure and membership requirements, authority, processes and procedures.

The audit committee charter will be clear as to its independence and ensure that its members between them have the accounting

and financial expertise and a sufficient understanding of the industry in which the entity operates, to be able to discharge the committee's mandate effectively.

For smaller corporations, a combined audit/risk committee is sometimes constituted. In this case the committee's charter will detail a combined responsibility to oversee and monitor both functions.

Developing an effective audit committee charter

The charter is the audit committee's blueprint for its operations and should be developed to meet the needs of the entity, allowing for the entity's objectives, culture and the industry in which it operates.

The charter should cover all key aspects of the audit committee's operations while remaining flexible to enable the committee to respond appropriately to issues that arise.

The audit committee charter is developed and approved by the board.

Commonly, the charter defines and/or outlines the following:³

- The audit committee's purpose and objectives;
- The audit committee's responsibilities, including:
 - its duty to address matters referred to the audit committee by the board;
 - the scope of its activities for:
 - financial reporting oversight;
 - internal and external audit evaluation;
 - risk management and internal control;
 - compliance with laws, regulations, internal policies and industry standards;
 - fraud risk mitigation; and
 - continuous disclosure;
 - its responsibility for ensuring procedures are in place for the receipt, retention and treatment of complaints received by the entity regarding accounting, internal accounting controls or auditing matters;

2. Ibid, p 22.

3. Note that protocols applicable to all committees are not included here – such as appointment, conflicts of interest, preparation of agenda, minutes, attendance at meetings, etc.

- The authority delegated from the board to the audit committee, which might include the committee’s right to:
 - obtain outside legal or independent professional advice at the entity’s expense;
 - institute special investigations;
 - recommend the appointment and retention of the external auditor; and
 - recommend and approve the external audit fee and oversee the work of the external auditor;
- Audit committee membership and appointment;
- Arrangements for meetings, including flexibility for the audit committee to invite non-members such as external auditors, internal auditors and members of management;

- The audit committee’s responsibility for reporting on its activity; and
- How the audit committee performance will be assessed.

Audit committee members, the board, management and internal and external auditors need to understand the audit committee’s charter, including the audit committee’s scope of activities and communication and reporting arrangements.

The charter should be regularly monitored, and reviewed annually, to ensure it remains relevant to the entity’s needs (for instance, revising reporting requirements to cover board needs for additional information) and reflects current regulatory requirements and audit committee good practice.

SAMPLE AUDIT COMMITTEE CHARTER⁴

The following is one example of an audit committee charter and captures many of the good practices used today. No sample charter encompasses all activities that might be appropriate to a particular audit committee, nor will all activities identified in a sample charter be relevant to every committee. Each committee should tailor this charter to their needs and governing rules.

The audit committee’s annual work plan may be developed having regard to, and being cross-referenced to, its charter to ensure that the audit committee acts according to its authority and fulfils its responsibilities.

Audit committee charter – XYZ Limited

Purpose

The audit committee is appointed by the board of directors to assist the board in fulfilling its corporate governance and oversight responsibilities in relation to corporate reporting processes, including the financial reporting process, risk management and internal control, external audit, internal audit and compliance (including the code of conduct).

Authority

The board authorises the audit committee, within its scope of responsibilities, to perform the activities identified within this charter.

Responsibilities

The audit committee will carry out the following responsibilities:

Corporate reporting

- Review the half year (if relevant) and annual financial statements presented by management, together with reports and opinions from the external auditor.
- Review significant accounting and reporting issues and assess the appropriateness of accounting policies and methods chosen by management, particularly those relating to significant accounting estimates and judgements and the assessment of going concern.
- Review recent regulatory and professional pronouncements and understand their impact on the financial statements.

4. Auditing and Assurance Standards Board, Australian Institute of Company Directors and The Institute of Internal Auditors–Australia, 2017, *Audit Committees: A guide to good practice*, 3rd edition, AICD, p 71.

SAMPLE AUDIT COMMITTEE CHARTER *continued*

- Review the results of the audit with the external auditor, including significant adjustments, uncorrected misstatements and any difficulties encountered or unresolved disagreements with management.
- Review the appropriateness of disclosures in the financial statements and financial reporting to stakeholders, particularly with regards to estimates and judgements.
- Review all matters required to be communicated to the audit committee under Australian Auditing Standards with management and the external auditor, such as key audit matters for listed companies, significant internal control deficiencies, indications of fraud or corruption and non-compliance with laws or regulations.
- Review management representations, including the CEO and CFO declarations regarding the financial report and financial records.
- Provide a recommendation to the board whether the financial report should be approved, based on review of the financial statements, note disclosures and other information.
- Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the entity and its operations, and is unbiased.
- Review management's process for ensuring that information contained in analyst briefings, investor presentations and press announcements is consistent with published financial information, and is balanced and transparent.

External audit

Assess the quality and effectiveness of the audit conducted and evaluate performance of the auditor.

Provide a recommendation to the board on the selection, appointment, re-appointment or replacement of the external auditor and rotation of the engagement partner.

- Review with the external auditor the scope and terms of the audit and the audit fee including a review of non-audit services provided by the external auditor.
- Review the audit plan for coverage of material risks and financial reporting requirements

- Monitor and review auditor independence and objectivity.
- Establish ongoing communications with the auditors and ensure access to directors and the audit committee.
- Review reports from the external auditors (including auditor's reports, closing reports and management letters).
- Discuss with the external auditors matters relating to the conduct of the audit, including any difficulties encountered, any restrictions on scope of activities or access to information, significant disagreements with management and the adequacy of management response.

Internal audit

- Assess the overall effectiveness and evaluate performance of the chief audit executive (CAE) and the internal audit function.
- Recommend to the board on the appointment and replacement of the CAE.
- Review and approve the internal audit charter.
- Review the internal audit structure, independence and access to senior management, the Committee and the board.
- Review and approve the strategic internal audit plan, often for a 2-3 year period to assess whether it addresses the business risks of the entity.
- Review and approve the annual internal audit plan and any significant changes made to the plan.
- Review reports of results of internal audit engagements, audit-related activities, team capability, audit performance and other important matters.
- Enquire of the CAE to determine any scope or budget limitations that may impede the execution of internal audit responsibilities.

Risk management, fraud and internal control

- Consider the impact of the entity's culture on risk management and internal control.
- Monitor changes in the economic and business environment, including consideration of emerging trends and other factors related to the entity's risk profile.

SAMPLE AUDIT COMMITTEE CHARTER *continued*

- Review the effectiveness of processes for identifying the entity's risks and the appropriateness of the risk management procedures to maintain activities within the Board's risk appetite.
- Review disclosures in the annual corporate governance statement in relation to the recognition and management of business risks.
- Consider the adequacy and effectiveness of the internal control and risk management framework by reviewing reports from management, internal audit and external audit, and by monitoring management responses and actions to correct any noted deficiencies.
- Understand the processes management has implemented for managing insurable risks and, if applicable, self-insurance, including assessing the adequacy of insurance cover.
- Review the business continuity planning process and be satisfied that material risks are identified and appropriate business continuity plans are in place.
- Review management's anti-fraud/corruption strategies and programs.
- Enquire of management and the external auditor regarding their assessments of the risk of material misstatement in the financial report due to fraud.
- Enquire of management, the internal auditor and the external auditor whether they are aware of any actual, suspected or alleged fraud or corruption affecting the entity and how they responded to such instances.

Compliance and ethics

- Consider the impact of the entity's culture on compliance processes.
- Monitor the impact of changes in key laws, regulations, internal policies and accounting standards affecting the entity's operations.
- Review the effectiveness of the entity's systems, policies and practices that relate to compliance with laws, regulations, internal policies and accounting standards, and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- Obtain regular updates from management and the head of compliance about compliance and ethical matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies.

- Review and monitor related party transactions.
- Review processes and procedures designed to ensure compliance with the ASX listing rules on continuous disclosure.
- Review and, where applicable, approve the policies, processes and framework for identifying, analysing and addressing complaints (including whistleblowing) and review material complaints and their resolution.
- Review the entity's process for communicating the code of conduct to staff and assess the effectiveness of, and compliance with the code.
- Discuss with management whether all regulatory compliance matters of the entity have been considered in the preparation of the financial statements, such as compliance with accounting standards and the requirement for the financial statements to reflect a 'true and fair' view.

Other responsibilities

- Perform other activities related to this charter as requested by the board.

Membership

The audit committee will consist of [insert number (at least three)] non-executive members of the board of directors, the majority being independent.

The board, on the recommendation of its nominating committee (where applicable), will appoint audit committee members and the audit committee chair who will be independent and not the chair of the board.

Composition of the committee will be reviewed annually by the board (or nominating committee if applicable) to ensure the appropriate balance of skills, knowledge and experience.

Each audit committee member must be financially literate. At least one member must have accounting or related financial expertise.

The company secretary of the board will be the secretary of this committee.

SAMPLE AUDIT COMMITTEE CHARTER *continued***Meetings**

The audit committee will meet [insert number (at least four)] times a year or more frequently as necessary.

A quorum for a committee meeting will be a majority of committee members.

An agenda and meeting papers will be prepared and provided in advance to members, along with appropriate briefing materials.

Minutes of meetings will be prepared and circulated to audit committee members and all board members.

Meeting attendance by non-members

All directors may attend committee meetings, subject to exclusion as deemed appropriate by the committee chair from time to time.

The CEO, CFO, CAE shall normally be invited to attend committee meetings.

The external auditor is usually invited to attend all meetings of the committee.

The committee may ask management to present at committee meetings on issues relevant to the committee's duties and responsibilities.

The committee should meet privately with the following persons or parties at least annually in separate sessions to discuss any matters that the committee or these parties believe should be discussed privately with the committee:

- CAE;
- External auditor;
- Head of risk management;
- Head of compliance and legal counsel.

Reporting

The committee will report regularly to the board about audit committee activities and make appropriate recommendations.

Review

The committee will conduct an annual review of its performance and effectiveness. This review process will include review of the terms of this charter.

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