



Audit Committee Effectiveness Framework



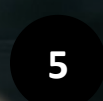
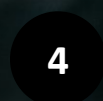
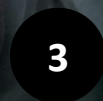
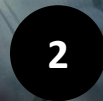
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Introduction | Audit Committee Effectiveness Framework



Introduction

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Audit committees (and their chairs) provide critical and objective **oversight** for companies over risk, control, audit, assurance, corporate reporting, ethics, and compliance (if required by law, corporate governance codes, or agreed to in the scope of the audit committee mandate). Effective and demonstrable delivery of this oversight role builds trust with stakeholders that the board is operating in their best interests—both today and in the future.

The work of the audit committee has never been more critical. In today’s world, investors, other key stakeholders, and regulators demand ever-more comprehensive and robust corporate reporting that extends well beyond the company’s financial performance.

As the demands and expectations of the audit committee continue to grow, **audit committee effectiveness** is essential to help ensure that the committee is equipped with the capabilities, processes, and resources to best fulfill its role.

The Audit Committee Effectiveness Framework can be used and applied in several ways. For example, the framework can be used as a self-assessment tool for the audit committee chair to consider, individually or in discussion with other members of the audit committee. It can be used to frame a conversation with the chair of the board or to guide and inform specific topic-focused discussions with management or assurance providers. The framework can also form the basis of a facilitated conversation with a trusted external party to challenge and set objectives for understanding and informing both current and future states of the effectiveness of the audit committee.



Who | Setting the tone at the top



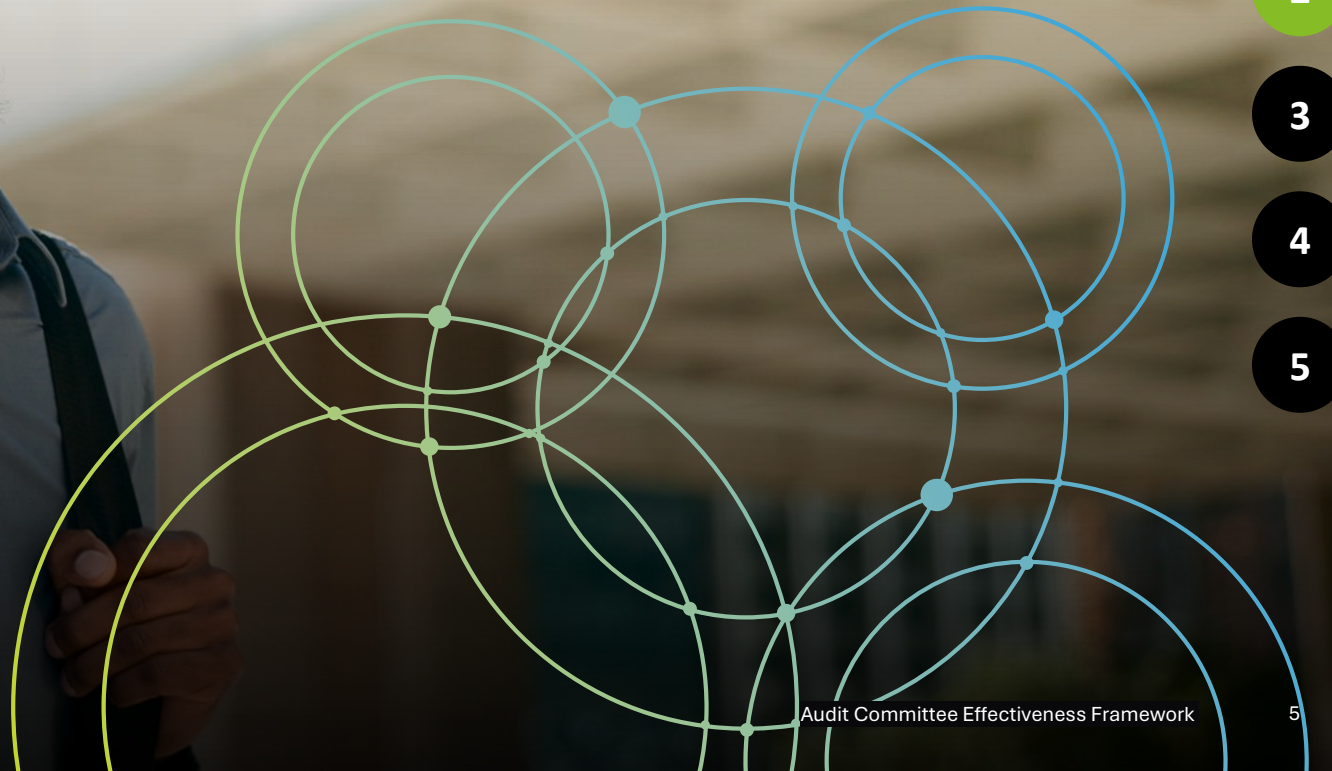
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Who

Setting the tone from the top

An effective audit committee chair brings together individuals with the appropriate skills, experience, and diversity and leads the committee in the best interests of the company's shareholders and other key stakeholders.



Matters to consider:

Tone at the top

- Is the audit committee setting the right 'tone at the top', highlighting the value of solid financial reporting and robust internal controls and risk management?
- Does the audit committee chair have a deep understanding of the company (including its industry and regulatory context) and do they use that to set the tone for and lead the audit committee?
- Is there an open mindset, absence of ego, and ability to contribute to an effective and inclusive culture which provides challenge in a way that supports productive discussions and decision making?
- Is there a strong sense of integrity which drives the committee to make decisions that align with the culture, values, and ethical standards of the business to successfully achieve the strategic ambitions of the organization?

Composition and culture

- Is the committee's mandate considered against member experience to identify skill gaps (considering skills beyond finance, such as leadership and risk)?
- Is there sufficient breadth of skillsets and experiences to avoid the risk of 'group think'?
- Is there a clear succession plan both for the chair and members (coordinated with the nominating committee) to help ensure that the composition of the committee is periodically refreshed?
- Is a high level of trust between members of the audit committee built and maintained?
- Is open and constructive dialogue encouraged in the boardroom and between the audit committee members, management, and the external auditors?





What the audit committee does

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What the audit committee does

Risk and control

The roles and responsibilities of the audit committee in relation to risk and control:

- **Reviewing the company's risk management and internal control framework, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself.**
- **Monitoring the effectiveness of the company's internal quality control and risk management systems regarding the corporate reporting, including the identification of matters and assessment of materiality against business strategy, priorities, and expectations.**



Matters to consider:

Risk management

- Is there an understanding of how the company identifies, assesses, and manages risk, including how the company sets risk appetite?
- Is the nature, source, format, and frequency of information submitted fit for purpose?
- Are the risk implications of significant events coming up for the company considered on a timely basis?
- Is there clarity around which risks are overseen by the audit committee versus the full board or other committees?

Internal control

- Is there an understanding of how the company develops, operates, and monitors its system of internal control?

- Is the maturity of controls around non-financial reporting metrics appropriate to produce reliable data?
- Is the committee receiving briefings on the key IT systems, data privacy activities, cyber and AI risks and controls, as well as related assurance?
- Is root cause analysis undertaken in relation to identified failings or weaknesses?

Monitoring and review

- Is the company's list of principal or most significant risks periodically reassessed?
- Are the procedures management is using to monitor emerging risks robust?
- Has an appropriate risk culture been instilled throughout the company?

Describing these activities in your external audit committee reporting

- How often was risk and control on the agenda? Every meeting, two meetings per year, once per year?
- Who did the audit committee engage with and on what topics in order to support their oversight activity?
- Is it clear what the outcome/conclusion of the audit committee's monitoring and review activities were?
- Is it clear what actions have been proposed to address any weaknesses or deficiencies?



What the audit committee does

Audit and assurance

The roles and responsibilities of the audit committee in relation to audit and assurance:

- **Monitoring the audit and assurance of the corporate reporting of the company, in particular its performance, and also taking into consideration the outcome of the latest regulatory review of the audit firm.**
- **Following applicable laws and minimum standards for the audit committee's oversight over the external audit; including pre-approval of audit and non-audit services provided by the external auditor and considering the scope of the non-audit services provided.**
- **Monitoring and reviewing the effectiveness of the company's internal audit function, or where there is not one, considering annually whether there is a need for one and making a recommendation to the board.**



Matters to consider:

Internal audit

- Is the audit committee setting the right 'tone at the top' to help ensure support for internal audit?
- Does the scope of internal audit's work cover the appropriate matters, including those of strategic relevance?
- Has the committee considered benchmarking the internal audit function against applicable standards or good-practice frameworks used globally?
- Is there a direct reporting line from internal audit to the audit committee?
- Is the internal audit function appropriately resourced?
- Has the committee identified appropriate criteria for assessing the effectiveness of internal audit as part of a regular evaluation and has any third-party assurance of effectiveness been obtained?



What the audit committee does

Audit and assurance (cont.)

External audit: oversight

- Does the audit committee have an understanding of the external auditor's risk assessment, audit approach, and audit focus areas?
- Does the audit committee have established criteria for reviewing the effectiveness of the external audit process, including consideration of the environment in which the audit takes place and review of appropriate audit quality metrics?
- Does the audit committee have visibility of the firm's internal quality monitoring processes?
- Does the audit committee understand the extent to which component auditors and/or specialists are involved in the auditor's work?
- Does the audit committee encourage a debrief on the audit completed for ensuring that 'lessons learned' are considered for improving financial reporting and the audit process?

External audit: non-audit services

- Is the policy for the provision of non-audit services regularly reviewed and in line with the applicable ethical standards?

External audit: tendering

- Was any tendering process led by the audit committee, including initiating the tender process, setting selection criteria, negotiating the fee and scope of the audit, and making formal recommendations to the board?

Audit and assurance policy

- Are there areas where additional audit or assurance coverage over specific information included in the annual report would be of benefit?
- Is the company's approach to audit and assurance transparent for stakeholders, such that they can understand which areas of reporting have been subject to external assurance and what the nature of that assurance was?

Describing these activities in your external audit committee reporting

- What interactions has the audit committee had with internal and external auditors during the year?
- Have there been any significant changes in the company's external audit plan for the year?
- How did the audit committee exercise oversight of external audit?
- Has there been any change in the non-audit services policy during year?
- If there has been a tender during the year, how was this undertaken and what criteria was used for the final selection? What transition arrangements will be put in place?
- How did the audit committee assess the effectiveness of the internal audit function? What was the conclusion?
- Is it clear what decisions have been taken about obtaining assurance over specific information in the annual report? What was the nature of any assurance obtained and who was the provider?



What the audit committee does

Corporate reporting*

The roles and responsibilities of the audit committee in relation to corporate reporting*:

- **Monitoring the integrity of the corporate reporting of the company and any formal announcements relating to the company's financial performance; reviewing significant corporate reporting judgments contained in them.**
- **Monitoring the quality and appropriateness of the corporate reporting process.**
- **Providing advice (where requested by the board) on whether the annual report, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model, and strategy.**



Matters to consider:

Judgments and estimates

- Has the audit committee determined which financial reporting matters, including judgments and estimates, are significant and challenged the conclusions on these?
- Where are management forecasts being used?
- Is the forecasting process well understood and considered to be robust?

Misstatements

- Is there an agreed framework for decisions about materiality?
- Is the reason for any misstatements identified by the auditors understood?

Going concern

- Is there a good understanding of the requirements for the company's ongoing operational resilience?
- Are the scenarios considered in assessing going concern and viability sufficiently complete and robust?

*The term 'corporate reporting' is intended to cover all forms of external reporting of corporate performance, both financial and non-financial.



What the audit committee does

Corporate reporting* (cont.)

Non-financial reporting

- Are the disclosures consistent with the assumptions and disclosure in the financial statements?
- If sustainability reporting is required by law or regulation, how are the statements made verified, and are they consistent with the assumptions and disclosures in the financial statements?
- Has the audit committee assessed the effectiveness of the internal quality control and risk management systems for non-financial reporting?

Reporting outside the annual report

- Does the audit committee review earnings press releases and financial information provided to analysts to help ensure consistency with other corporate reporting?
- Is external information published to meet regulatory requirements reviewed by the audit committee?
- Has the audit committee considered, whether, for quarterly or half-year financial information, a review by external auditors might provide additional comfort to the committee?

Overall

- Is corporate reporting fair and balanced and does it reflect the audit committee's understanding of the position and performance of the company?
- If alternative performance measures are used, are they clearly explained and reconciled to statutory measures where appropriate?
- Have any restatements or changes in reporting format year-over-year been clearly explained?

**The term 'corporate reporting' is intended to cover all forms of external reporting of corporate performance, both financial and non-financial.*

Describing these activities in your external audit committee reporting

- What significant issues has the audit committee considered during the year in relation to the financial statements?
- What involvement has the audit committee had in considering and, where appropriate, challenging management's conclusions around going concern and viability?
- Is it clear what the responsibilities of the audit committee are in relation to the first half of the annual report?
- How has the audit committee ensured that the disclosures in the front half of the annual report are consistent with the assumptions and disclosure in the financial statements?
- Is it clear what review the audit committee undertakes of reporting outside the annual report (e.g., earnings press releases and other information provided to analysts)?



What the audit committee does

Ethics and compliance

The roles and responsibilities of the audit committee in relation to ethics and compliance:

- **Depending on the scope of the terms of reference (or audit committee charter) and local regulatory requirements, the audit committee may also provide board oversight over the:**
 - **Company’s code of conduct;**
 - **Whistleblowing function;**
 - **Processes for identifying and responding to the risks of fraud in the company; and**
 - **Internal controls that management has established to mitigate fraud risk assessment.**



Matters to consider:

Ethics and compliance

- Has the committee reviewed the company’s code of conduct or equivalent to help ensure it sets an appropriate tone on ethics?
- Is the committee receiving regular reports on whistleblowing, ethical breaches, and non-compliance with laws and regulations from the appropriate functions within the organization?
- Has the committee reviewed a fraud risk assessment to gain confidence that risks are being adequately managed or mitigated?
- Has the committee discussed with the internal and external auditors how they have responded to the possibility of the risks of material misstatement due to fraud?

Describing these activities in your external audit committee reporting

- How often were ethics and compliance on the agenda? Every meeting, two meetings per year, once per year?
- Which functions submitted reports to the audit committee to support its oversight activity? What were they reporting on?
- Is it clear what the outcome/conclusion of the audit committee’s monitoring and review activity was?
- Is it clear what actions have been proposed to address any weaknesses or deficiencies?





How | The conditions in which the audit committee operates

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How

The conditions in which the audit committee operates

The establishment and composition of the audit committee:

- The audit committee has the appropriate number of members, in accordance with applicable laws or guidelines.
- The audit committee and its members are independent where required by applicable laws, regulations or governance practices, or otherwise structured to provide appropriate oversight.
- At least one member of the audit committee has recent and relevant financial, accounting, or auditing experience, in accordance with applicable laws or guidelines.
- The audit committee as a whole has competence relevant to the sector in which the company operates.



Matters to consider:

Meetings and timetable

- Are there sufficient meetings each year to meet the audit committee's role and responsibilities?
- Are meetings of an appropriate length to be effective?
- Is there scope to add 'deep dives' to an agenda as necessary (while also considering the risk of scope creep)?
- Is the agenda set and circulated in a timely manner?
- Are meetings conducted in a manner that promotes open and honest discussion, meaningful participation, constructive questions, and timely resolutions?
- Has the need for periodic combined committee meetings been considered if there are overlapping topics?

Information and training

- Is there an appropriate induction program covering all aspects of the audit committee's role?
- Is appropriate training provided on matters relevant to the audit committee's remit?
- Does the audit committee have confidence in the quality of the management and other information provided to it?
- Is information provided by management understandable and provided timely in advance of the meeting?
- Are there sufficient resources available to support the audit committee in meeting its duties?
- Is the committee's mandate considered against member experience to identify the need for any external advisers?



How

The conditions in which the audit committee operates

Engagement and relationships

- Is a robust annual audit committee assessment conducted with feedback sought from key stakeholders?
- Is adequate, timely, and honest feedback provided to audit committee members regarding their contributions?
- Are stakeholder expectations, risks, and concerns openly discussed, and does the CFO actively use the audit committee as a sounding board?
- Does the audit committee chair offer to meet significant investor bodies or take questions from stakeholders on matters within the audit committee remit, if required?
- Is there an open and frank dialogue between the audit committee, CFO, and external auditor considering their respective roles and responsibilities?

Communication and feedback

- Is adequate time allowed for discussion of audit committee matters with the board?
- Is there appropriate coordination with the board and other committees?
- Is the audit committee keeping the board sufficiently informed and involved?
- Does the audit committee chair demonstrate ownership and accountability for the audit committee report?
- Does the annual audit committee report discuss the specific activities and outcomes from the reporting year and highlight the audit committee's areas of focus for the year ahead?
- Does the audit committee chair communicate clearly with the board, seek views from committee members, and engage with shareholders as appropriate?

Balance and inclusivity

- Does the audit committee consider how it balances its oversight role with providing insight and foresight for the benefit of the organization?
- Is the audit committee adding value to the organization by being an advisor, coach, or mentor to management and drawing from experience to support people who manage business challenges?
- Is there interactive participation in meetings and a healthy balance struck between challenge and mutuality?
- Does the audit committee foster a culture where sound corporate governance principles are valued versus being seen as a compliance function?



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