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Center for Board Effectiveness

Questions for audit committees to consider

The audit committee agenda is ever changing. Asking questions can help audit committee members gain a deeper understanding of a particular area of oversight. Throughout the sections available on this site, you'll find key questions committee members can consider asking related to specific requirements, responsibilities, and effectiveness. For your ease, all questions are included in this downloadable PDF.

Composition

1. What process can the audit committee use to periodically assess its composition to confirm whether its members collectively have the skills and experience (e.g., financial acumen, industry, business, leadership) needed to fulfill the company's evolving needs and the committee's duties? Are gaps discussed with other board members, such as the nominating/governance committee chair?

2. How does the committee cultivate diversity of thought and composition to elicit multiple points of view that can help the committee effectively meet its responsibilities?

3. What process can the committee consider for reconfirming the financial literacy of the audit committee members and revisiting the financial expert designation periodically?

4. What training and education programs are available to help audit committee members maintain their financial knowledge and remain current with new developments and trends in areas included in the committee's oversight responsibilities, including company-specific needs or issues?

5. How does the committee periodically assess, maintain, monitor, and review the independence of the audit committee members?

Charter

1. How does the committee consider additional risks that have arisen related to committee responsibilities in the charter?

2. What new responsibilities have been assigned or reassigned to the audit committee, and how have they been incorporated in the charter?

3. How do committee members manage their time commitments to allow adequate attention to their responsibilities as outlined in the charter?

4. How has the audit committee considered whether the responsibilities assigned to the committee are manageable? If the workload may hinder the committee's ability to execute its duties effectively, are there options for reallocating certain responsibilities to the board or other committees where reasonable?

5. How does the committee align its activities with a calendar to incorporate both required activities as set forth in the charter and additional responsibilities of the audit committee as they emerge? What updates to the charter might the committee consider as a result of changes in the company?

Evaluation and self-assessment

1. Should an objective third party be engaged to assist in the process for a fresh perspective?

2. Is the grading scale similarly understood by all participants of the evaluation process? Are participants encouraged to provide qualitative feedback?

3. Are the results of the assessment discussed with the committee? Is an actionable plan developed based on identified opportunities and areas of concern?

4. Have we leveraged the assessment results as a catalyst to influence where the audit committee spends its time?

5. Have the results of the evaluation been shared with the board? Has feedback on individual committee members been shared with those committee members?

Review of filings and earnings releases

1. How have changes in the business impacted accounting and disclosures, including estimates and judgments?

2. Where management has accounted for an estimate from a range of possibilities, why did management select the point in the range? If management selected another point in the range, how would that impact the financial statements?

3. Did the company record all known misstatements? If not, how did management consider materiality, as well as the control impact, of the misstatements?

4. If the company issues earnings guidance, how confident is management in its ability to forecast earnings accurately? Is the disclosure of a range of earnings estimates preferable to a specific target, and has management considered seeking input directly from shareholders regarding the types of forward-looking information they would find meaningful?

5. What disclosure controls and procedures are in place related to the disclosure of non-GAAP measures?

6. Is the non-GAAP measure prepared consistently from period to period in accordance with a defined policy, and is it comparable to that of the company's peers? Is the measure balanced? For example, does it adjust not only for nonrecurring expenses but also for nonrecurring gains?

7. How clear is the audit committee's understanding of how non-GAAP measures impact compensation? To what extent are the audit and compensation committees aligned on this?

Internal control over financial reporting

1. What is the committee's level of understanding with respect to key risks and related controls identified by management, the independent auditor, and internal audit?
2. To what extent does the company rely on third-party service providers, and how are controls and processes over these relationships and data flows managed?
3. Have there been any changes in the design and monitoring of controls? How has management ensured that controls have been appropriately redesigned?
4. What new internal controls should be considered if there are shifts in the business operating model, such as a shift to more remote work?
5. How well resourced is the company to adequately perform internal control activities? Has the company engaged specialists, where applicable, in evaluating controls over complex or IT-dependent processes?
6. Has management defined and implemented remediation plans for deficiencies? If those remediation plans span a specific time frame, have temporary compensating controls been implemented to mitigate risk? How is management held accountable for timely remediation?

Related-party transactions

1. What are the business reasons for the transaction? Are these reasons in line with the company's overall strategy and objectives?
2. Are the terms of the transaction consistent with the market? In other words, would these terms apply to an unaffiliated party?
3. When and how will the transaction be disclosed? How will investors view the transaction when it is disclosed?
4. What impact will the transaction have on the financial statements?
5. Which insiders could benefit from the transaction, and in what way?
6. Are outside advisers needed to help understand the implications of the transaction?

Proxy disclosures

1. How effectively does the proxy statement describe for investors and other stakeholders the audit committee's oversight responsibilities?
2. How has the role of the audit committee evolved to include areas such as cyber, sustainability, enterprise risk management, or others, and how are these changes being disclosed to stakeholders in the proxy statement?
3. To what extent are the qualifications and experiences of audit committee members disclosed?
4. How does the audit committee describe in the company's proxy statement the committee's oversight of and engagement with the independent auditor?
5. To what extent does disclosure address issues such as auditor independence, auditor performance, and other matters of interest to investors?

Enterprise risk management

1. To what extent do the board and its committees agree on where primary responsibility lies for overseeing the enterprise risk management (ERM) program and related processes?
2. How clearly are oversight responsibilities for key risks delegated to the board and individual committees? How frequently is this delineation of responsibilities reassessed? How clearly is responsibility for key risks assigned to management, and does each risk have a member of management noted as the risk owner?
3. How often is ERM on the audit committee's agenda, if appropriate, and what information is being provided in support of this? How does the audit committee confirm that new or emerging risks are considered and that board oversight responsibility is clearly defined?
4. How does internal audit's plan align with the key risks identified in the ERM program?
5. How are management and internal audit staying ahead of emerging and evolving risk areas such as technology, cyber, and sustainability?
6. How is management considering unlikely but potentially severe risks that could have a significant detrimental effect on the company?
7. How are risks to the extended enterprise, including third-party risks, assessed?

Fraud risk

1. At what levels within the company are fraud risk assessments performed? For example, are assessments performed at the entity level, at significant locations or business units, on significant account balance, or at the major process level?
2. How do management and the board consider the risk of management override of controls?
3. How has management considered the potential for emerging fraud risks, and what has been the process for developing and assessing the appropriate internal controls?
4. How have shifts in the company's talent model and the associated job responsibilities affected whether there is an appropriate segregation of duties?
5. How does the company map or link identified fraud risks to control activities designed to mitigate the fraud risks?
6. To what extent has management designed and implemented preventive controls to stop fraud from occurring as well as detective controls to identify the fraud if it occurs?

Cyber risk

1. Where does the primary oversight responsibility for cyber risk reside on the board? If responsibility is delegated to the audit committee, has the board considered calling this risk out specifically in the audit committee charter?
2. Does management and the board understand and agree with what the cyber risk appetite or tolerance is for the company, as well as factors for determining what constitutes a material cyber incident or event?
3. To what extent does the board and management understand where the company's most sensitive "crown jewel" information is kept and how it is stored, used, and protected?
4. Is there an updated incident response plan taking into account the SEC rules, and to what extent do management and the board leverage cyber simulations to assess the effectiveness of the company's cyber response plan and make improvements?
5. How are cyber assessments conducted on the company's operational technology? Do assessments highlight the business impact of an operational technology breach?
6. How have cyber incidents escalated, and what controls have been reassessed as a result, including those related to an evolving talent model (for example, with a remote or hybrid workforce)?
7. How does the company assess its cyber risk profile internally or externally to identify areas where digital finance transformation, sustainability, and other new or quickly shifting requirements and initiatives may pose risks?
8. How do leadership, structure, capabilities, and resources support a comprehensive focus on cyber risks?
9. How effectively could an enterprise response plan and a ransomware playbook or checklist be implemented if needed?
10. How proactive is management in identifying and complying with the laws and regulations that govern data capture, use, retention, security, and disposal or require the reporting of cyber incidents to regulators or the public?
11. Has internal audit considered cyber risk in the development of the internal audit plan?
12. Does management and the board understand the company's insurance policies in the event of a cyber incident? This understanding is not limited to whether a company has cyber insurance and the related key provisions, but also considers what IT and security officers are covered by directors and officers insurance.

Artificial intelligence

1. How is the company adopting AI and how does the company align its AI initiatives with its overall mission and strategy?
2. If the company has AI use cases or applications, has management implemented a governance framework over AI initiatives and implemented AI use cases? Who has primary oversight over AI initiatives and implemented AI use cases?
3. How does the company identify, assess risk, perform testing, and monitor performance of AI use cases/applications (including those developed by a third-party)?
4. How does the company assess impact of its AI use cases or applications to financial reporting and internal controls over financial reporting (e.g., includes evaluating dependencies from AI use cases in other functions such as operations, cyber, data management)?

Mergers and acquisitions

1. How does the deal affect the future returns on equity and assets as well as the projected growth trajectory of the newly combined entity following the transaction?
2. How has the due diligence preceding a transaction considered risks and compliance associated with environmental, health, safety, legal, and regulatory standards that might affect financial statements of the combined new entity following the transaction?
3. How is management relying on qualified subject matter experts and other advisers as appropriate through the deal process?
4. To what extent has management adopted a post-merger plan for integrating the newly combined business units and processes?
5. To what extent has management considered the importance of the culture and the control environment as part of its integration plan?

Sustainability

1. Where does the primary oversight responsibility for sustainability reside on the board, both overall and in terms of its various components (for example, climate, talent, cyber)? Is there consistent understanding of where and when these elements are being discussed at the board and committee level?
2. How is the company kept aware of developments in sustainability legislation and regulations in relevant jurisdictions for the business?
3. How is management considering the company's environmental goals and related activities for SEC reporting purposes (for example, the business, risk factors, and results of operations sections in SEC filings)?
4. What climate-related information is currently gathered and reported? What level of assurance is currently obtained over this information? What additional information (if any) may need to be developed or gathered (including for disclosure in the audited financial statements)?
5. How does the company evaluate the materiality of climate-related disclosures? What systems and processes are in place for gathering the necessary information for determining whether such disclosures are material?
6. If the company issues a sustainability report, to what extent has the audit committee reviewed the report prior to issuing, and how has management walked through the key assumptions made and the basis for the metrics and goals disclosed?
7. If the company discloses climate-related information in the annual report that contains or accompanies the financial statements, such as in the management discussion and analysis section, how consistent are those disclosures with the audited financial statements? What internal controls over financial reporting are in place to address the disclosure that would be required in the audited financial statements?

Oversight of the independent auditor

1. Does the independent auditor have sufficient knowledge and experience to address the risks and types of transactions managed by the company, and are the auditor's specialists engaged where applicable?
2. Does the independent auditor communicate to the committee in a clear, succinct, and timely manner? Is communication focused and prioritized on the right areas?
3. Is the committee engaging in an ongoing dialogue, both formal and informal, with the independent auditor to discuss topics beyond required communications? Does dialogue include, for example, perspectives on management and tone at the top, business trends, and the regulatory environment in financial reporting and standard setting?
4. In instances where the company's needs are evolving, is the independent auditor also evolving with appropriate talent to serve the company?
5. How does the independent auditor evaluate the reasonableness of significant estimates made by management? How does the auditor challenge these estimates?
6. What top three areas did the independent auditor spend the most time discussing with management during the reporting period? How satisfied is the committee that management is cooperative and forthcoming with requested information and documentation in these areas and that management was able to produce the information requested?
7. Does the independent auditor use technology such as automation, data analytics, and machine learning to improve the effectiveness and efficiency of its audits?
8. Is the independent auditor delivering value and insights to management and the committee beyond the audit?
9. Does the committee meet separately with the independent auditor outside the presence of management? With individual members of management? With the internal auditor?

Oversight of internal auditors

1. How is the internal audit plan aligned to the primary risks of the company and other assurance activities? To what extent are internal audit's risk assessment processes linked to the company's ERM activities?
2. How flexible and dynamic is internal audit in addressing new risks promptly and meeting the needs of the audit committee? How does the mix of experience and capabilities in the internal audit team—for example, in areas such as technology and emerging risks—meet the current needs of the company?
3. How effective is internal audit in using digital technologies, such as data analytics and Generative AI, to improve audit quality, insights and value to stakeholders?
4. How frequent does internal audit perform peer reviews or self-assessments and report the results to the audit committee? Are action plans and timelines for addressing identified deficiencies and opportunities for improvement communicated and approved?
5. How does the internal audit function conform with the International Professional Practices Framework (IPPF), including the Global Internal Audit Standards and Topical Requirements, and Global Guidance as issued by The Institute of Internal Auditors (IIA)?
6. To what extent does the internal audit function have and demonstrate the level of objectivity and independence needed to execute its responsibilities properly? How does internal audit's reporting structure within the company support independence and enable internal audit to perform effectively?
7. How timely does internal audit report issues and address them with management? How are issues identified and reported by internal audit and highlighted for the audit committee? To what extent are they actionable, and how is the progress of remediation tracked and reported?

Codes of ethics and conduct

1. How does the reporting process keep the audit committee informed of ethics and compliance issues as well as the actions taken to address them? How regularly does the committee discuss ethics and compliance?
2. How frequently does the committee hear directly from the person who has day-to-day responsibility for ethics and compliance matters? To what extent does the committee consider holding these discussions in an executive session?
3. How systematically does the company scrutinize the sources of ethics and compliance failures and respond to them?
4. How does management act on reports? What evidence is captured regarding prompt, appropriate, and consistent disciplinary measures?
5. How does the audit committee engage external advisers to conduct independent investigations?
6. What ongoing monitoring and auditing processes are in place to assess the effectiveness of the ethics and compliance program?

Hotlines

1. Does the committee understand how hotlines are evaluated, tested, and audited? To what extent do hotline processes and controls confirm that calls are received, recorded, and managed in a consistent, confidential, accurate, and timely manner?
2. Has the hotline and whistleblowing process been evaluated and benchmarked by an independent third-party expert or consultant?
3. Has the audit committee, directly or through the internal audit function, made an anonymous report to the whistleblower system alleging financial reporting fraud or other wrongdoing by senior management, to test the integrity of the flow of communications directly to the audit committee without management intervention?
4. Does the level of alleged or suspected fraud and other violations of company policies reported through the whistleblower system or other channels suggest that the tone at the top or the tone communicated by management may need strengthening?
5. Are there regular companywide trainings and communications in place for employees to learn about code of ethics, hotlines, and whistleblower functions?

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