

# Audit Committee – The Hidden Gem

Andrew Dougal, NED, Portfolio of PLCs  
Chairman of ICAS Technical Policy and Services Board

February 2013



# Audit Committee – The Hidden Gem

## Contents

1 How do audit committees most efficiently support their boards in meeting the objective of high quality financial reporting and efficient internal control systems?

2 What do users find relevant regarding the work of audit committees?

3 How to develop the reporting from and to audit committees to increase relevance and efficiency?



# 1. How do audit committees most efficiently support their boards in meeting the objective of high quality financial reporting and efficient internal control systems?

- a clear and unambiguous terms of reference;
- it requires the right balance of skills and experience on the committee; and
- audit committee must engage and communicate with relevant parties and have access to all the information it needs.

# 1. How do audit committees most efficiently support their boards in meeting the objective of high quality financial reporting and efficient internal control systems? (cont.)

## *Clear Terms of Reference*

- Committee Structure – no one size fits all
- Should be agreed by the board annually
- Primary functions are oversight, monitoring, assessment and review of how particular control and risk related functions are operating

# 1. How do audit committees most efficiently support their boards in meeting the objective of high quality financial reporting and efficient internal control systems? (cont.)

## *Clear Terms of Reference (cont.)*

- In particular, oversight and review of:
  - the preparation of financial statements by management;
  - significant judgements made in the financial statements;
  - design and operation of the risk management process;
  - planning and conduct of internal and external audits;
  - the effectiveness and independence of the internal and external audit processes

# 1. How do audit committees most efficiently support their boards in meeting the objective of high quality financial reporting and efficient internal control systems? (cont.)

## *Appropriate and Balanced Composition*

- Take account of industry sector, types of risks and then identify the requirements of the people it needs as a result.
- The Audit Committee must have the proper balance, taking account of the advantages of diversity, and should normally consist of:
  - someone with current and extensive financial experience;
  - someone with extensive general business experience, it is not essential that this experience is in the same industry but again this may be helpful; and
  - someone with broad international experience

# 1. How do audit committees most efficiently support their boards in meeting the objective of high quality financial reporting and efficient internal control systems? (cont.)

## *Effective Operation*

- Role of Audit Committee Chair is vital
- Regular engagement between meetings (internal and external auditor)
- Effective communication channels
- No surprises at meetings

## 2. What do users find relevant regarding the work of audit committees?

- Users take comfort from the work which the audit committee undertakes in relation to the scrutiny of financial reports and information and its oversight of the entity's internal controls over financial reporting
- Another pillar in the assurance chain
- Buffer between executive management on one hand and the external auditor on the other



### 3. How to develop the reporting from and to audit committees to increase relevance and efficiency?

- An informative but relatively concise report from the Audit Committee detailing the main actions, issues, considerations and judgements without breaching confidentiality
- Better explain to users the important role that is played by the audit committee in the governance structure of the company
- A greater proportion of the Audit Committee's time is spent on compliance issues HOWEVER there are forward looking aspects to the Committee's agenda as well
- Audit committee needs to become more visible externally and that is why I referred to the need for a concise report to be prepared detailing not its responsibilities but what work it undertook during the year and the key issues, judgements and challenges reviewed.

## The Hidden Gem

