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ΤΜΗΜΑ ΟΙΚΟΝΟΜΙΚΩΝ ΕΠΙΣΤΗΜΩΝ

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ΔΙΠΛΩΜΑΤΙΚΗ ΕΡΓΑΣΙΑ

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1. Abstract

During the last two decades Audit Committees have increasingly been recognized as basic part of modern corporate governance practices. The Audit Committee integrates accountability and control structures and so protects the shareholders' and other stakeholders' interests.

The aim of this study is to investigate the effectiveness of Audit Committees in Greece and its alignment with best practices abroad. This study was undertaken through questionnaire and interview surveys in order to collect the data. The respondents of these surveys were members and Chairpersons of Audit Committees of listed Companies in the financial services sector in Greece. The objective of the interviews was to complement the findings of the questionnaire survey by obtaining a greater insight into the issue.

More specifically, the observations made in our study include efficiency limitations to the following critical areas: a) Risk Management, b) Financial Reporting and Compliance, c) Internal Control Environment and d) Corporate Governance.

The findings of the study indicate that the overall function of Audit Committees in Greece is not perceived as effective. Furthermore, the current study identified that Audit Committees in Greece can still improve their overall effectiveness in their performance towards alignment with best practices in the areas of monitoring and oversight activities over risk management, internal control, financial reporting and governance.

2. Introduction

The objective of this study is, through the responses of Audit Committee members of various firms within the Financial Services sector:

- to gather the literature in the field of Audit Committee effectiveness,
- to contribute to the understanding of the current Audit Committee and Corporate Governance practices in Greece,

Through the comprehensive review of the literature, two stages of data collection process were necessary to achieve the objective of the study.

The first stage of the data collection was the administration of a questionnaire survey about the opinions from Audit Committee members of Greek Companies & Corporations. Two questionnaires were used for the collection of the required data. The first questionnaire used was *"The Audit Committee self-assessment checklist, 2nd edition January 2012, Financial Management & Reporting, National Audit Office, UK"* and the second was *"Audit Committee effectiveness self- assessment,*

Enterprise Risk Services, Deloitte". The related to Audit Committee aspects covered in the questionnaires are: composition, size, resources, authorities, diligence, meeting and role as well as areas of oversight over risk management, internal control, financial reporting and governance.

The second stage, undertaken after the completion of the data collection, involved semi-structured interviews. The prime aim of the interview survey was to complement the questionnaire survey findings as well as, through a quantitative and a qualitative approach, to gain an insight on the current state of Audit Committee practices in Greece.

The first and the second chapter of the Thesis present briefly the research methodology used in the study. Chapter Three reviews the research literature related to the Audit Committee and presents historical development, legal framework, professional standards and the advanced Audit Committee roles in the Corporate Governance field. Chapter Four includes the Empirical Analysis of the study, the questionnaire surveys and the interview results. Chapter Five discusses the results of the interview & questionnaire survey focusing on the alignment with general accepted practices for an effective Audit Committee. Finally, Chapter Six presents the bibliography and other sources used for this study.

3. The Evolution of the Audit Committee

3.1 Historical Development of Audit Committees

In the late 80s a number of financial scandals and corporate failures in the US and the UK (Spanos, 2003) highlighted Audit Committees as a very important Corporate Governance machine in the financial market. The restoration of the confidence to corporate practices should include sound principles and Corporate Governance regulations. Following high profile Corporate Governance failures, there have been proposals and actions internationally concerning the responsibilities and powers of Audit Committees, their mandatory or voluntary status, membership and independence.

So, the Audit Committee should consist of at least three members, all financially literate within a reasonable period of time after his/hers appointment and one of the members should have accounting or related financial management experience. Managers should also be accountable to shareholders. This trend of development can be seen as part of the potential 'globalization' of Corporate Governance.

Moreover, the national Corporate Governance codes reflect different economic, legal and cultural features (Lazarides Th, 2009). Therefore the OECD Principles of Corporate Governance in 1999 aligned the governance codes to any national legal framework. These principles cover five areas: i) The rights of shareholders, ii) The equitable treatment of shareholders, iii) The role of stakeholders, iv) Disclosure and transparency and v) The responsibilities of the board. The principles focus on the equal treatment of the shareholders, the application of international accounting standards and the independence of the auditors and the board of directors. That international alignment formed the European Commission's 8th Directive requiring all public interest entities in the European Union to have an Audit Committee.

The last years many countries reviewed their company legislation aiming at how to enforce information transparency and disclosure, to protect the minor shareholders, to improve the board functions and corporate structures and to improve auditing processes (Klein, 2002).

3.2 Legal Environment / Sarbanes – Oxley Act

In USA following high profile accounting scandals at companies such as Enron, Global Crossing, Tyco International, and WorldCom, was enacted the Sarbanes-Oxley Act of 2002 (Lazarides Th., 2009). SOX Act also required that all US publicly traded companies should establish an independent Audit Committee (Klein, 2002). SOX Act concentrated the Audit Committee's responsibilities and authority, imposed Audit Committee's independence and expertise, provided legal protection to "whistleblowers". The Audit Committee represents a committee of the board of directors that is charged with dealing with audit related issues. SOX Act required rules on auditors independence, prohibition of the conflict of interests, the control of audit quality, the duty of auditors to report to the Audit Committee on significant issues by extending the auditor's duty to audit the adequacy of internal controls over financial reporting the rotation of audit partners.

The new Audit Committee requirements got public criticism in the business community as the SOX costs were supposed to have outweighed the company benefits. But despite that, there has been a noticeable increase of the countries following the new corporate initiative and SOX led to Corporate Governance improvements. Further, failing companies and financial institutions (e.g., Fannie Mae, Freddie Mac, AIG) in late 2008, indicated additional regulations as warranted.

So, Professor Ian Ramsay, Head of the Federal Government's inquiry on auditor independence, through the Corporations Act recommended auditor's independence with most important statement the mandatory auditor's independence through the following:

- ✓ Auditors to declare to the Board of Directors that their independence is maintained,
- ✓ Prohibition of special relationships between the auditor and the client,
- ✓ Establishment of an auditor's independence supervisory board,
- ✓ Establishment of an Audit Committee to oversee the issue of non-audit services, audit fees, scope disagreements and auditor-client relationships.

When SOX was signed into law, only 10 of the world's 40 largest capital markets faced Audit Committee as mandatory requirement (Madan, 2012). But over the next 7 - 8 years a significant number of countries amended their laws, regulations or listing rules establishing an Audit Committee.

The SOX Act, 2002 has expanded the formal responsibilities of an Audit Committee (Klein, 2002).

Nowadays, an Audit Committee is viewed as an oversight function of Corporate Governance, financial reporting process, internal control structure, and audit functions. Government authorities, regulators and international bodies have indicated that they view an Audit Committee as a corporate trigger to enhance the reliability and transparency of financial information.

3.3 Professional Standards

IIA Standard 2060: Reporting to the Board and Senior Management states that the *"CAE must report periodically to senior management and to the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board."*

The Audit Committee is responsible for overseeing controls to prevent or detect management fraud. In this role, the Audit Committee is responsible for overseeing senior management's compliance with appropriate financial reporting and for preventing senior management override of controls or other inappropriate influence over the reporting process.

3.4 The Audit Committee as a Corporate Governance Mechanism

Historically, companies were owned and managed by the same persons. For economies to grow, necessary became the separation between ownership and control. The owner-principal employed an agent to undertake on his behalf the management of the company and that Agent was accountable to that principal (employer).

Conflicting interests arise due to the separation of ownership and control, divergent management and shareholder objectives, and information asymmetry between managers and shareholders (Spanos, 2003). The types of conflict of interest are: 1.Exercising biased judgment 2.Engaging in direct competition 3.Misusing a position 4.Violating confidentiality. Economists refer to the conflict between the interests of shareholders and the interests of top management as a *principal – agent problem* (Madan, 2012).

To mitigate conflict of interest a company should apply activity, liability, disclosure and ethical rules. Thus, the best way for investors and management to act in their best interests is the adoption and implementation of the best Corporate Governance

practices.

Corporate Governance is the mechanism for aligning principal agency interests and incentives, encouraging accountability (Committee on Corporate Governance in Greece, 1999). Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation, and of their own role as trustees on behalf of the shareholders.

During the last two decades, Audit Committee has become very popular internationally (Madan, 2012). The Audit Committee is expected to monitor the reliability of the corporation's accounting and auditing processes, to protect shareholder interests and prevent manipulated earnings. Also, an Audit Committee holds external auditors accountable, recommends the appointment of external auditors, reviews financial statements, mediates between the auditor and management, and gives advice on any significant findings in the external and internal audit investigations (Klein, 2002). Finally, the Audit Committee is increasingly responsible for the financial reporting and oversight of the audit processes in large public companies.

3.5 The evolution of Audit Committees in Greece

During 1999 the Greek Economy experienced a huge development resulting in the massive entrance of investors but also the burst of speculative events in the Greek Capital Market (Committee on Corporate Governance in Greece, 1999). These Corporate Governance failures have been identified as reasons of the collapse of the Greek Capital Market, of the loss of the public confidence and Greek economy's instability.

Hence, for the restoration of the public trust mandatory became the investor's protection and the market's transparency. This necessity led the Greek State to introduce regulations, laws and codes of conduct in order to restore public confidence, to improve the transparency of the market and to establish the relevant business ethics and essentially to protect the investors against the market abuse (Spanos, 2005). Where laws protect investor's rights, the investors are encouraged to invest on organizations facilitating the development of the economy, risks are mitigated and the system by which businesses are conducted is protected (Lazarides Th, 2009).

3.6 Relevant Law and Legislation for Audit Committees in Greece

During 2000 the *"Code of Conduct for Companies listed in the Athens Stock Exchange and their affiliated persons"* set as obligatory the duties and obligations of major shareholders, BoD and management as well as the disclosure of information and the organizational structures and operations. But the most important innovation was that listed companies were obliged to have an internal audit department, making clear the terms and conditions on its independence (Spanos, 2003). The duties of the audit department included the monitoring of i) compliance ii) legitimacy of remuneration and other benefits of the management iii) the company's relationships and transactions with connected companies and other companies in the share capital. The code also required independent external auditors to monitor the effectiveness and efficiency of the internal audit activity.

In 2002 the Corporate Law **3016/2002**, in order to strengthen transparency and investor's confidence, set fundamental Corporate Governance obligations referring to i) the composition of the BoD, ii) the non-executive directors remuneration, iii) the share capital increase and iv) the internal auditing operation. Companies were required to establish internal audit departments that employ at least one full time independent auditor (Spanos, 2003). The purpose of the internal audit unit was to ensure the implementation of the company's internal regulations and to report discrepancies to the BoD at least once every quarter. Listed companies might also establish a set of internal regulations and the mandatory Audit Committee assured the mitigation of the financial, operational and compliance risk that a Greek company potentially faces.

On May 2003 the European Commission presented a Corporate Governance plan (Spanos, 2005).

In 2008 the Law **3693/2008** with article 37 transferred the 8th European Directive on Company Law into Greek legislation referring to statutory audits of annual accounts and consolidated accounts.

In 2010 the Law **3873/2010** referring to "Disclosure of annual information about their Corporate Governance" required companies whose securities are traded in a regulated market to disclose an annual Corporate Governance Statement in the annual report, providing shareholders information about the Corporate Governance practices applied in the company above and beyond the requirements of law, including a description of the main features of any existing risk management systems and internal controls in relation to the preparation of the financial statements (Grose

Ch. – Kargidis Th. – Chouliaras V., 2013).

In Greece the last two decades, Audit Committee can assist the BoD in implementing and monitoring good Corporate Governance practices to the benefit of the organization and its stakeholders. Audit Committee, viewed as an oversight function of Corporate Governance:

- a) is responsible to ensure that senior management establishes and maintains an effective and efficient internal control system framework and internal audit function (Spanos, 2005),
- b) is expected to monitor the reliability of the company's accounting and auditing processes in order to protect shareholders interests and prevent earnings manipulation.
- c) recommends the appointment of external auditors and keep them accountable for their duty and the quality of their work,
- d) reviews the company's financial statements, direct audit investigations,
- e) assures the mitigation of the financial, operational and compliance risk that a modern Greek company potentially faces.

2013 was the issuance year of the first Hellenic Corporate Governance Code. The Code applies to all Greek listed companies but may also facilitate to the nonlisted providing the best governance practices. It is divided in General Practices and Special Practices (Hellenic Corporate Governance Council, 2013).

Law 4449/2017 incorporated in the Greek legislation the provisions for the amendment of the 2006 Directive/43/EC on statutory audits of annual and consolidated accounts. Among other things, the law laid down the conditions for granting a license to practice and registering in the Public Register of natural persons and an entity those carrying out statutory audits of companies' financial statements, the rules on independence, objectivity and professional conduct applicable to those persons and the framework for their public oversight. The objective of the above law is to strengthen investor confidence in the reliability and objectivity of financial statements through the further improvement of the quality of statutory audits carried out in the European Union.

With respect to Audit Committee and internal control, the Greek Code of Corporate Governance sets the following:

Internal Control

For all listed companies, the establishment of an Audit Committee is a legal

requirement. In alignment with the European best practices, the Code recommends majority of independent non- executive board members raising the need of minority shareholders for protection referring to the oversight over internal control and risk.

General principles

Through the Audit Committee the BoD can:

- 1) Review the main risks to the business and the system of Internal Controls, ensure the integrity of financial statements and disclosure it to shareholders and the public,
- 2) Maintain a sound system of internal control, safeguard company's assets and ensure that significant risks are identified and adequately managed,
- 3) Regularly review the corporate strategy,
- 4) Develop a direct and ongoing relationship with external and internal auditors and receive regular reports from the company's auditors in respect of the effective functioning of the internal control systems.

4. Empirical Analysis

This study aims to explore the alignment of Greek Audit Committee practices with the general accepted best practices followed by Audit Committees worldwide. Empirical analysis was carried out using surveys to targeted Audit Committee executives.

The result of the analysis showed insufficient alignment between Greek Audit Committee practices in Greece and general accepted – best practices followed by Audit Committees worldwide.

However, appropriate room for improvement has been identified and analyzed within this study.

4.1 Methodology adopted - Interviews

The qualitative research interview seeks to describe, though difficult, and the meanings behind the responds of the interviewees (Kvale, 1996). Interviews are particularly useful for getting the story behind a participant's experiences or for further investigation of the responses (McNamara, 1999).

Aspects of Qualitative Research Interviews

- ✓ Interviews are conducted by the interviewer directly with the respondent,
- ✓ Interviews are more personal from questionnaires,
- ✓ Interviews are generally easier for respondent, especially if what is sought is opinions or impressions,
- ✓ Interviews take time so they are resource intensive,
- ✓ The interviewer is considered as part of the measurement process and the interviewer has to be well trained in how to respond to any contingency.

4.2 Approach through questionnaire

By questionnaires the information is collected from the common areas of information for all interviewees and allows a degree of freedom in getting the information from the interviewee.

Questionnaires were used in order to investigate frequency, expectations, perspectives, priorities, opinions etc.

The main advantages of questionnaires are:

- ✓ Easy to analyze,
- ✓ Simple and quick for the respondent to complete,
- ✓ Information is collected in a standardized way,
- ✓ Can be used for sensitive topics which users may feel uncomfortable

speaking to an interviewer about,

- ✓ Respondents have time to think about their answers

To the scope of this Thesis “Audit Committee effectiveness” two questionnaires were used for this research.

Audit Committee effectiveness self-assessment, *Deloitte – Enterprise Risk Services – Appendix A*

The Audit Committee self-assessment checklist, *National Audit Office 2nd Edition – Appendix B*

The questionnaire aimed at Audit Committee members of listed and non-listed firms in Greece. The data was collected through face to face interviews, personally administered.

4.3 Interview results and analysis

The analysis performed has been divided into two segments. First segment takes into consideration the Audit Committee effectiveness for the critical operations of a firm and second segment Audit Committee practices linked with roles, membership, independence, objectivity and understanding, skills, scope of work and communication.

The analysis of the first segment covered the following critical areas for the operations of a firm:

- ✓ Risk Management
- ✓ Financial Reporting and Compliance
- ✓ Internal Control Environment
- ✓ Corporate Governance

Limited and partially limited efficiency of Audit Committee operations has been identified for the above critical areas.

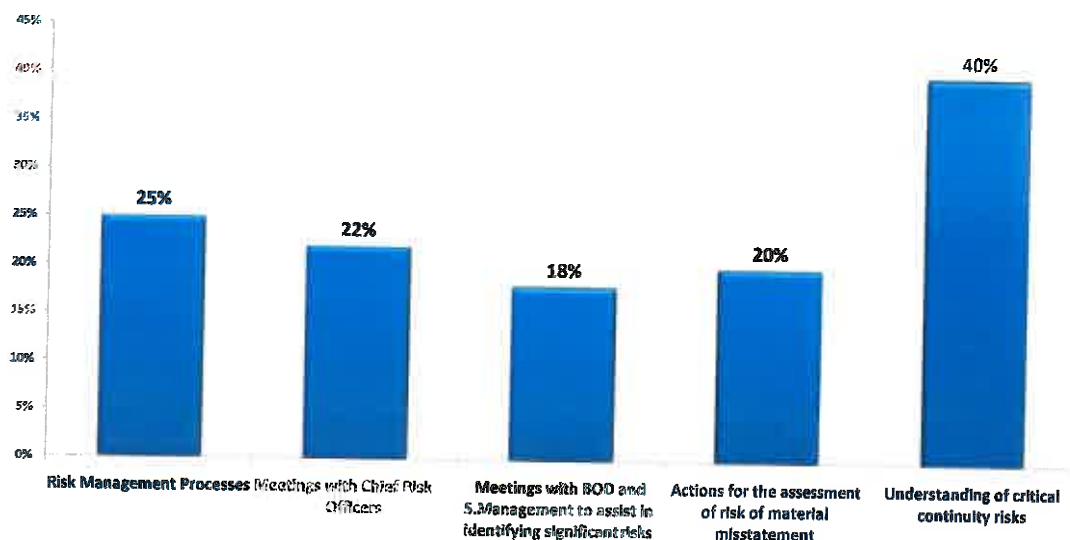
Specifically,

Risk Management

According to the analysis performed from the interviewee responses, Audit Committees in Greece perform:

- Limited assessment of the risk management processes used by management,
- Limited meetings with chief risk officers to understand relevant risks that each organization faces and how these risks are monitored for possible financial implications,
- Limited meetings with the Board of Directors and Senior management and other key business Department Heads to assist in identifying significant risks,
- Limited actions with respect to how management and the external auditors assess the risk of material misstatement, what the major risk areas are and how they respond to identified risks,
- Limited understanding of the Company's critical business continuity risks and management's plans to address such risks.

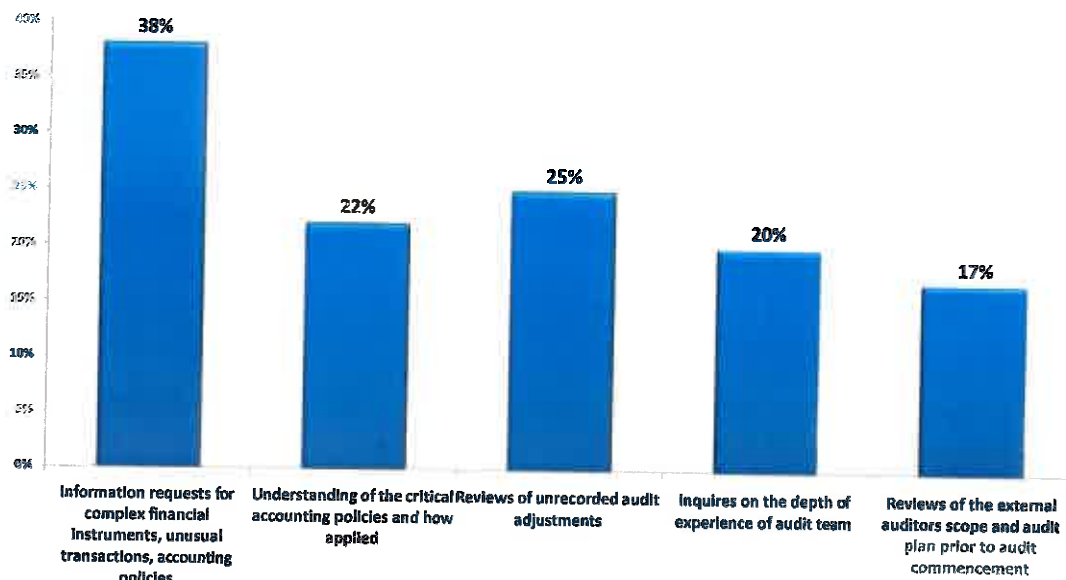
Assessment of Risk Management



Financial Reporting

- Partially limited efficiency to requests of sufficient information related to important financial reporting issues such as the use of complex financial instruments, areas of judgment or high subjectivity, unusual transactions and changes in accounting policies,
- Limited understanding of the critical accounting principles chosen and how they were applied,
- Limited reviews of all unrecorded audit adjustments with management and the external auditors in order to obtain an understanding as to why they were not recorded,
- Partially limited inquires made by the Audit Committee to management and the external auditors on the depth of experience and sufficiency of the audit team assigned to the engagement,
- Limited reviews of the external auditor's scope and audit plan to its satisfaction prior to commencement of the audit.

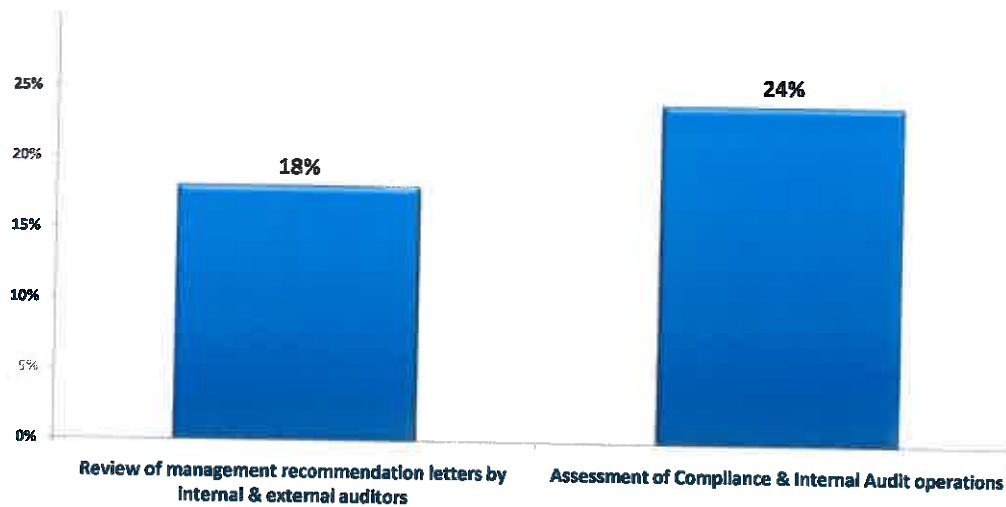
Assessment of Financial Reporting



Internal Control Environment

- Limited reviews of the management recommendation letters written by the internal and external auditors in order to ensure that all significant matters are properly assessed,
- Limited assessment of the effectiveness of the Compliance operations and the value of service of the internal audit department.

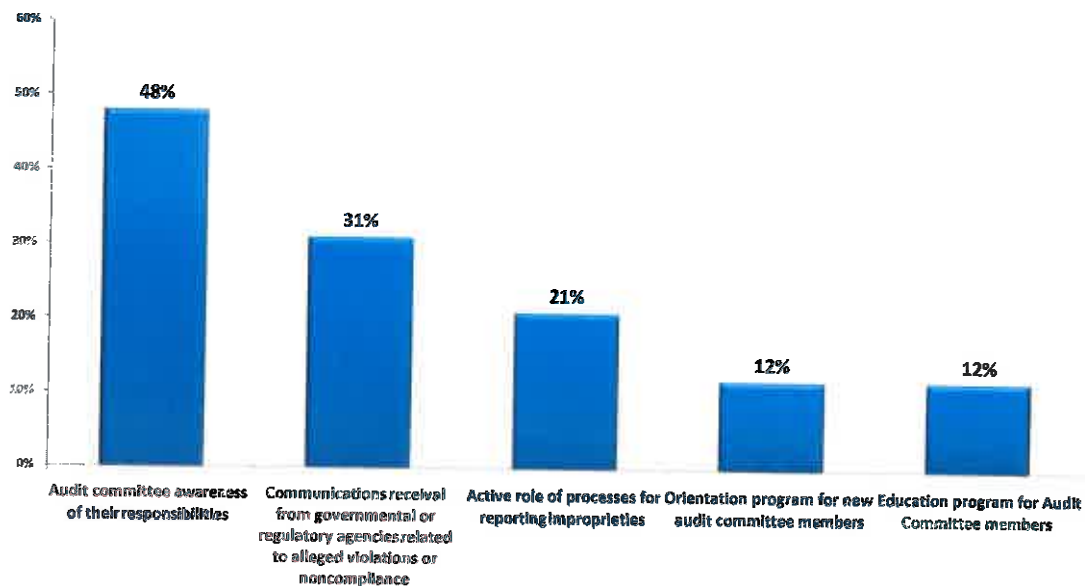
Assessment of Internal Control Environment



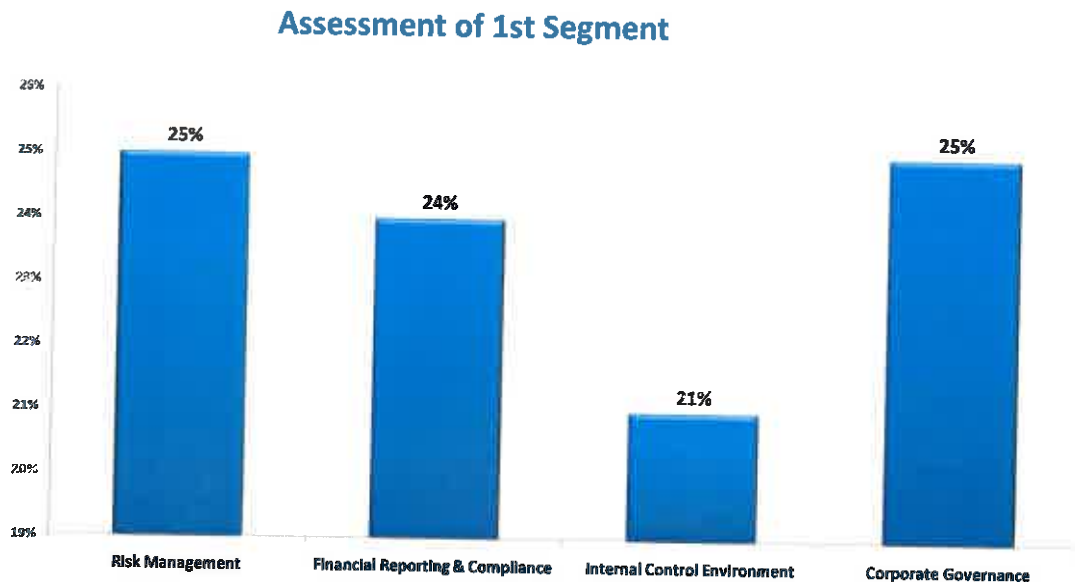
Corporate Governance

- Audit Committees do not hold an orientation program to educate new members on their responsibilities,
- Limited participation of the Audit Committees to continuing education programs in order to enhance Audit Committee members' understanding over accounting and reporting areas,
- Limited understanding of the Audit Committee awareness regarding responsibilities as stipulated in the Audit Committee Charter,
- Limited role of Audit Committees to ensure the processes (e.g. a whistle-blower program) for reporting improprieties are handled independently, fair and properly followed up,
- Audit Committees have limited Information of communication received from governmental or regulatory agencies or similar parties relating to areas of alleged violations or non-compliance.

Assessment of Corporate Governance



The analysis of the first segment revealed place for improvement. The overall score per category is illustrated below:



However, Audit Committees are efficient on the following areas:

Financial Reporting and Compliance

- The Audit Committee chairperson meets with the external and internal auditors outside of the regularly scheduled meetings to encourage open and frank dialogue,
- The Audit Committee chairperson communicates to the external auditors his/her expectations that the external auditor will contact the committee or its chairperson, when necessary,
- The Audit Committee is satisfied that management exhibits the proper "tone at the top" to foster an environment that promotes high-quality financial reporting and strong internal controls.

Internal Control Environment

- The Audit Committee reviews the internal audit plan annually

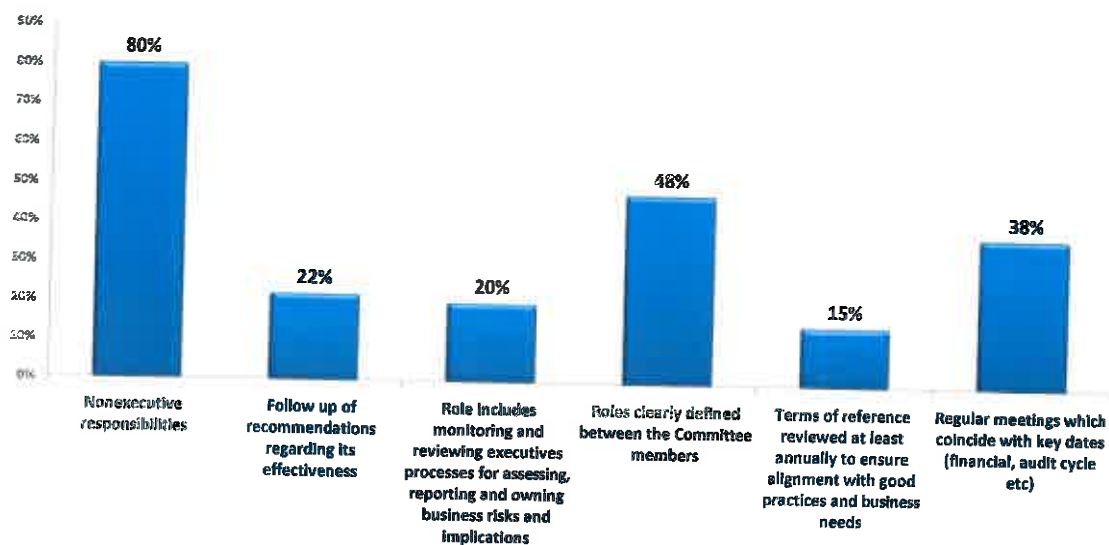
The second segment of the analysis involves Audit Committee practices linked with roles, membership, independence, objectivity and understanding, skills, scope of work and communication.

The analysis of the second segment covered the following critical areas for the operations of a firm:

- ✓ Role of the Audit Committee
- ✓ Membership, Independence, Objectivity and Understanding
- ✓ Skills
- ✓ Scope of Work
- ✓ Communication

The assessment of the above mentioned areas revealed the following results,

Role of the Audit Committee

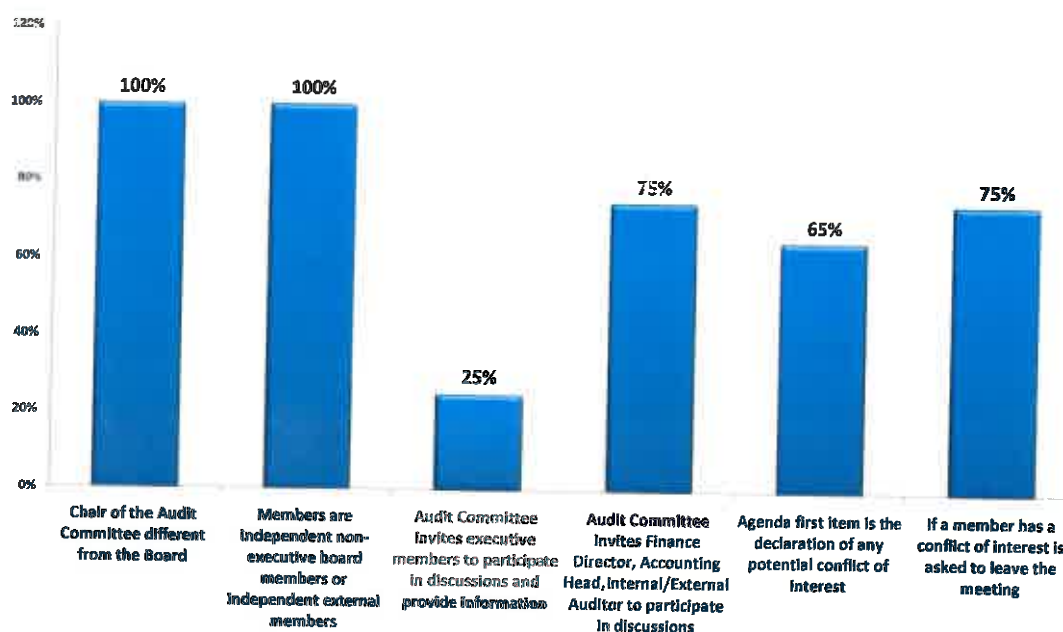


The analysis revealed that Audit Committee members do not hold any executive responsibilities and are not involved on any decisions taken by the organizations. Roles are not clearly defined between the committee members at least for the 52% of our sample.

Limited efficiency was discovered for processes such as follow up of recommendation for Audit Committee effectiveness or meetings to coincide with organization key dates.

Additionally the Audit Committee members do not review their own terms of reference to ensure alignment with good practices and business needs.

Membership, Independence, Objectivity and Understanding

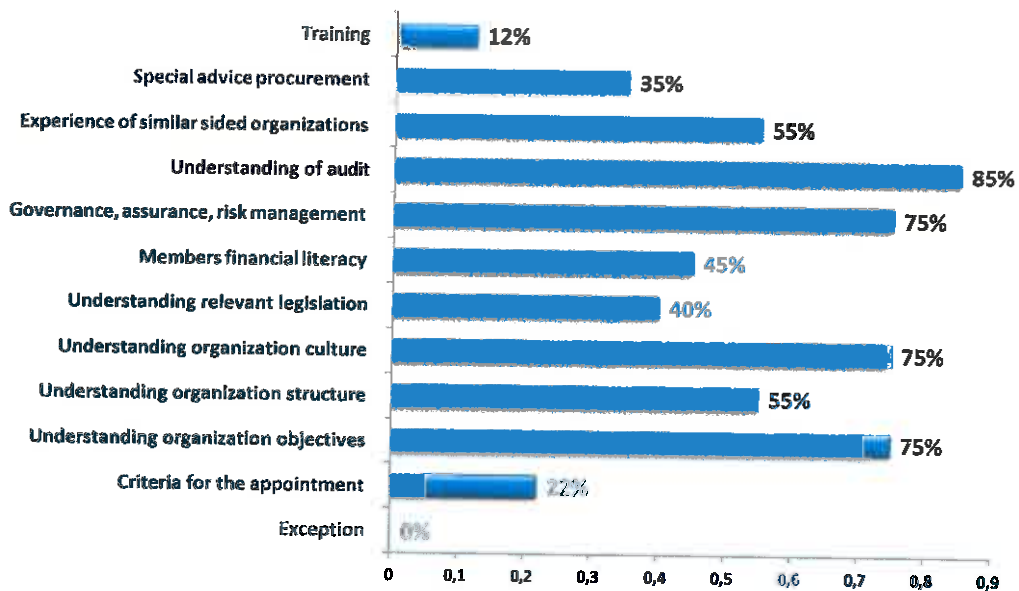


The Chair of the Audit Committee is different from the chair of the Board. Audit Committee members are independent non-executive board members or independent external members and have been appointed for an appropriate period of time.

The majority of the Audit Committees invite executives such as finance directors, accounting officers, auditors etc. during its meetings. In instances where there is a declaration of interest in any of the agenda business items, appropriate actions are taken.

Executive members of the organization (board members) are rarely invited to participate in discussions and provide information to the Audit Committee as and when the Audit Committee deems it necessary.

Audit Committee Skills



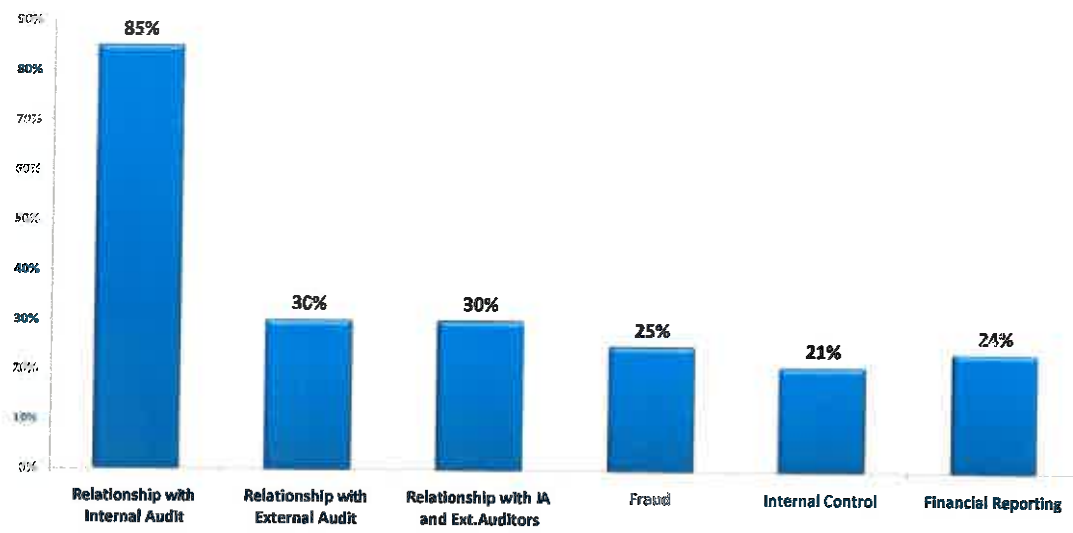
Audit Committee members show an adequate understanding of the culture and the objectives of the organization. There is a collective understanding of the areas of audit, governance, assurance and risk management.

However, weaknesses have been identified on training and development of its members. There are no training programs and there is an absence of training processes for new members in order to have the sufficient knowledge to identify the key risk areas so as to be able to discuss management and internal, external auditors on critical and sensitive issues.

Rarely Audit Committees take advice from specialist in relation to particular issues of committee business.

Financial literacy and legislation knowledge represents the 45% of the assessed sample.

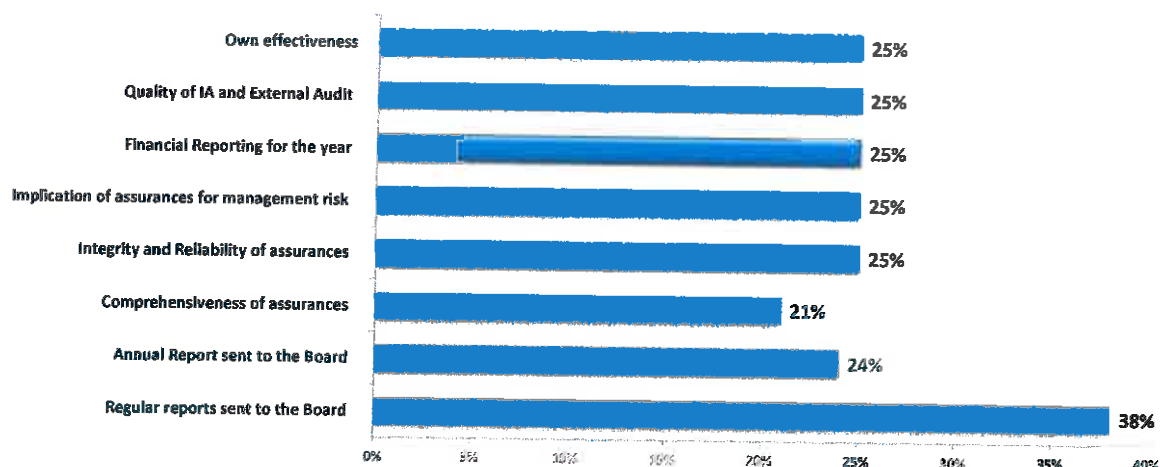
Scope of Work



The Audit Committee considers the independence and effectiveness of Internal Audit. It also considers experience, expertise and professional standard of the Internal Audit team etc. It ensures that the Internal Audit has access to the available resources and people allow it to investigate significant risks within the organization. The internal audit plan is reviewed and approved before work commencement and suggestions are being made regarding risk and problem areas. Regular reports and appropriate reviews and monitoring are being undertaken by internal audit.

On the other hand the Audit Committee has limited cooperation with external auditors and rarely considers that cooperation between internal audit and the external auditors would be beneficial. There is limited knowledge of what is an internal control system and its impact on the organization objectives. Internal control system is more treated as a compliance exercise instead of a need for embedded Corporate Governance throughout the organization. This limitation may lead to non-effective anti-fraud and corruption policies, nonexistent code of conduct and whistle-blowing arrangements.

Communication



The analysis revealed that Audit Committees rarely view their own effectiveness and most commonly they do not seek advice on ways in which there is a potential for strengthening or developing its performance.

Additionally their annual report does not include opinions such as:

- Comprehensiveness of assurances in meeting the board and accounting officer's needs,
- Reliability and integrity of these assurances,
- Implication of these assurances for the overall management risk,
- The quality of both Internal and External Audit and their approach to their responsibilities.

It should be mentioned that only the 25% of the sample submit an annual report to the Board.

5. Moving towards Audit Committee Effectiveness

5.1 Moving towards best practices

Audit Committees in Greece need to re-establish their terms of reference and promote their role within the organization, as the important player towards the achievement of sound Corporate Governance. Towards that direction the formation of an effective Audit Committee is fundamental and Organizations need to understand the importance of the Audit Committee role and promote the necessary changes.

Best practice principles for Audit Committees were identified and summarized within this study.

These principles are divided into 4 sections:

- The role of Audit Committee,
- Membership, Independence, Objectivity and Understanding,
- Skills,
- Scope of Work (includes Corporate Governance, Risk Management, Financial Reporting and Compliance, Internal Control Environment).

Audit Committee Role

- Executive responsibilities and making final decisions has been excluded from the roles and responsibilities of the Audit Committee members,
- Audit Committee follows up any recommendations regarding its effectiveness,
- Role includes monitoring and reviewing the executives processes for assessing, reporting and owning business risks and their financial implications,
- Roles are clearly defined and communicated to all Audit Committee members.
- Terms of reference are reviewed at least annually by the Board and the Audit Committee, to ensure that the work of the Audit Committee is aligned with good practice and business needs,
- Regular meetings on the same dates in the financial reporting and audit cycle.

Membership, Independence, Objectivity and Understanding

- The Chair of the Audit Committee should be different from the Chair of the Board,
- Audit Committee members are independent non-executive Board members and have been appointed for an appropriate period of time,
- Executive members of the organization participate in Audit Committee meetings and provide information to the Audit Committee when the Audit Committee if necessary,
- Any conflict of interest issues are being properly assessed (interest declarations, etc.),
- Audit Committee members have a clear understanding of what is expected of them in their role, including :
 - Appointment and purpose,
 - Support and training that they will receive,
 - Commitment required,
 - Remuneration,
 - Conflict of interest procedures,
 - Expected Conduct,
 - Duration of appointment and how often it may be renewed,
 - How their individual performance will be appraised,
 - Term of conditions.

Skills

- Existence of formal assessment criteria for the appointment of the audit chair,
- Assessment criteria of committee members should include the understanding of :
 - The objectives of the organization,
 - The organization structure,
 - The organization culture,
 - Any relevant legislation or other rules governing the organization,
 - The government environment and major initiatives.

- Existence of collective understanding of the following areas :
 - Accountancy,
 - Governance, Assurance and Risk Management,
 - Audit,
 - Technical or specialist issues pertinent to the organization's business,
 - Experience in managing,
 - Understanding of the wider environment in which the organizations operates,
 - Detailed understanding of the government environment and accountability structures.
- Training and Development :
 - Existence of checklist for new members that details the key roles and responsibilities,
 - Attendance of all new members to an induction training course,
 - New members should have sufficient knowledge of the business in order to identify the key risk areas and to challenge both line management and internal and external auditors on critical issues,
 - Appropriate recommendations are made to the Board for training needs.

Scope of Work

Corporate Governance

- Assessment of the financial literacy of Audit Committee members in accordance with the applicable accounting rules and regulatory procedures,
- Existence of an orientation program to educate new Audit Committee members on their responsibilities,
- Participation of Audit Committee members in a continuing education program to enhance Audit Committee members' understanding of relevant accounting and reporting areas,
- Awareness of Audit Committee members regarding their responsibilities as defined in the Audit Committee Charter,
- Meeting minutes are properly recorded and reviewed,

- Appropriate processes in place to review significant issues with management and external auditors prior to interim and annual earnings releases,
- Audit Committees ensure that processes such as a whistle- blower program, are handled independently,
- Existence of appropriate information channels with governmental or regulatory agencies relating alleged violations or noncompliance.

Risk Management

- Assessment of the effectiveness of the risk management processes used by management,
- Periodical meetings with the chief risk officer to understand relevant risks and how those are monitored,
- Understanding of the processes used by management, the external auditors and the internal auditors to identify and respond to risks related to critical third party interdependencies (suppliers, customers, outsourced operations, counterparties) that influence the organization's operations,
- Management and external auditors are questioned about how they assess the risk of material misstatement, what the major risks are and how they respond to identified risks,
- Understanding of the company's critical business continuity risks and management's plans to address such risks.

Financial Reporting and Compliance

- Request for sufficient information, related to important financial reporting issues such as unusual transactions and changes in accounting policies,
- Reads the company's annual report, interim report, financial statements to determine if anything is inconsistent with its own knowledge, including areas such as liquidity, unusual transactions and off balance-sheet arrangements,
- Considers the quality of financial accounting and reporting, including the transparency of disclosures,
- Understands the process used by management to identify related parties and considers the transparency of the related-party disclosures,
- Obtains from management and the external auditors an understanding of significant transactions and how they were accounted for, such as acquisitions, dispositions, special-purpose entities and significant audit adjustments,
- Meets with the external and internal auditors outside of the regularly scheduled meetings to encourage open and frank dialogue,
- Monitors if management exhibits the proper "tone at the top" to enhance an environment that promotes high quality financial reporting and strong internal controls.

Internal Control Environment

- Receives sufficient information to review, understand, and assess the organizations system of internal controls, including financial, operational and compliance controls as well as risk management functions,
- Reviews the internal audit plan annually,
- Reviews the management recommendation letters written by the internal and external auditors to ensure that all significant matters are properly addressed,
- Adopts a process to assess both the compliance effectiveness and the value of service of the internal audit department.

5.2 Ten Key Internal Audit Topics for Audit Committee Consideration

AICPA, AUDIT COMMITTEE BRIEF from the Business, Industry & Government Team, August 2013, 10 Key Internal Audit Topics for Audit Committee Consideration by Richard J. Anderson, MBA, CPA J. & Christopher Svare, submitted to Journal of Accountancy

Introduction

One of an Audit Committee's most important responsibilities is to oversee the organization's internal audit function, which plays a major role in the areas of risk management and Corporate Governance. Typically, a Chief Audit Executive, or CAE, will have a direct reporting line to the Audit Committee, which has functional oversight of internal audit activities. To assist Audit Committees with this oversight, and to provide a strategic framework for the direction and orientation of internal audit, the authors outline 10 suggested topics for discussion between the CAE and the Audit Committee.

These topics, framed as questions, stem from the results of the largest-ever global survey of internal auditors, which identified 10 "imperatives" for internal audit focus. Every five years, the Institute of Internal Auditors (the "IIA") conducts its Global Internal Audit Survey to gain a current snapshot of the profession. The IIA's most recent survey included responses from more than 13,000 internal auditors around the world. During 2011, the Institute of Internal Auditors Research Foundation (IIARF) published a series of reports to discuss the results of the global survey. One report, "The Global Internal Audit Survey, Imperatives for Change: The IIA's Global Internal Audit Survey in Action," used the data as a springboard to take a forward look at the profession and suggest 10 areas for scrutiny and focus in the years ahead.

Although developed for internal auditors, the Imperatives for Change report also suggest a roadmap of important topics for joint consideration by the Audit Committee and chief audit executive. They also point to the linkages between topics and the need to consider the implications of their interrelationships.

10 Key Questions for Audit Committees

Outlined below are the 10 imperative topics for internal auditors recast into rhetorical questions for Audit Committees. Each question is followed by a short discussion of the topic, examples of related internal audit activities, and additional topics and / or questions for Audit Committee consideration.

Q1: What is the internal audit coverage of the organization's risk management and governance processes?

In recent years, internal auditors have been increasing their focus on the risk management and governance processes of the organizations they audit and assess. At the same time, Audit Committees have stepped up their interest in risk management and governance, reflecting the heightened oversight of these areas on the parts of regulatory and supervisory bodies in both the public and private sector. Given the importance of these areas, the Audit Committee needs to evaluate the current and projected scope of internal audit coverage of risk management and governance.

In organizations in the initial stages of risk management implementation, the role of internal audit is often that of a catalyst or facilitator to help foster development of the organization's risk management processes. In such situations, internal auditors' knowledge of the organization and its risks can be very helpful. And as the organization's risk management processes mature, internal audit can serve in more of an assurance capacity, providing audit coverage of the risk practices that have been implemented.

On a similar note, internal audit also can provide advice and assurance over the organization's governance processes. Of note, the IIA's International Standards for the Professional Practice of Internal Auditing (the "Standards") now require internal auditors to address both risk management and governance processes in their audit coverage.

Q2: How responsive to change and flexible is internal audit's risk-based audit plan?

Internal auditors are required by the Standards to conduct a risk-based audit plan. While there is no one approach to conducting risk assessments and developing the related audit plan, many internal audit groups conduct an annual risk assessment and prepare an annual audit plan.

In today's world of complex and dynamic risks, however, more and more internal audit groups are updating their risk assessments and audit plans on a more frequent and timely basis than just annually. For example, survey results indicate that it is

becoming more common for internal auditors to update their audit plans on a quarterly basis. What's more, a number of internal audit groups have moved to "rolling" audit plans of that only cover six-month periods.

By taking a more timely approach to their audit planning, organizations are helping to ensure that their audit coverage is focused at the most critical issues in a given time period. The Audit Committee needs to understand how, and with what frequency, internal audit updates their risk assessment and how responsive and flexible they are with their audit plans. In addition to recommended changes to the audit plan, the Audit Committee needs to ensure that internal audit provides it with a rundown on changes to the organization's risk profile or new emerging risks that are driving audit plan changes. By reviewing changes to the organization's risk profile, the Audit Committee can gain comfort that the recommended audit plan changes will address current risks.

One further point: The Audit Committee should have a clear understanding that the CAE's role extends beyond audit plan execution to ensure that the internal audit process is identifying changes to the organization's risks and addressing these risks on a timely basis.

Q3: How does internal audit use technology to enhance its auditing and monitoring activities?

Technology tools are increasingly being used by internal auditors to enhance both the efficiency and effectiveness of their auditing activities. For example, powerful data mining tools enable internal auditors to perform audit tests on entire populations of data as opposed to testing data samples alone. In addition, data mining tools enable internal auditors to monitor controls, risk and fraud indicators, and performance metrics. Given the scope of these capabilities, many internal auditors find that such tools offer significant opportunities to improve and enhance their auditing efforts.

Audit Committees need to determine how their internal auditors are using technology, their plans for leveraging technology further, and what types of support the internal audit function needs to be successful. To make these determinations, the Audit Committee also needs to be aware of the specialized skills and budgetary support required by internal auditor achieves its technology objectives. These are all topics of possible inquiry by the Audit Committee.

Q4: What is the strategic vision and plan for internal audit?

With the rapid changes in commerce today, strategic planning has taken a new and elevated focus in many organizations. Internal auditing is no different. For internal auditors to keep current with new developments in auditing, technology and business, they must plan effectively. As the IIA Global Survey indicates, "A well-conducted strategic planning exercise will allow the CAE to develop his or her mission and various approaches and strategies to achieving that mission."

To assess the strategic orientation of their internal audit functions, Audit Committees should ask questions such as these:

- What is internal audit's vision for the near and mid-term future?
- Does internal audit have a strategic plan?
- How does internal audit plan to keep pace with the risks and processes in the business?
- Has internal audit identified gaps between where its processes and practices are today and where they need to be in the 3-5 years?
- Does the internal audit strategy align with and support the organization's strategic plans?

Q5: What perceived value does the organization receive from its internal audit activities?

According to the definition of internal auditing promulgated by the IIA, internal auditing activities are designed to "add value" to an organization.

How an internal audit function goes about adding value differs from one organization to another, depending on the expectations of internal audit's key stakeholders. Thus the challenge for Audit Committees and internal auditors alike is to define clearly what those expectations for adding value are and then to tailor their processes to meet those expectations. For any internal audit function, providing assurance is a core and expected value driver. But what other types of value do stakeholders expect internal audit to provide?

For example, some internal auditors today add value by providing high quality talent to their organizations. Others assist management by providing monitoring and data mining capabilities that contribute to improved business unit performance, or assist in enhancing risk management and governance processes.

Irrespective of the specific value drivers of an organization, however, there should be clarity and agreement among internal audit, executive management and the Audit Committee as to stakeholder expectations and the specific internal audit activities to

which stakeholders ascribe value. It's then up to internal audit to address those expectations and value drivers and assess how well it is doing so. By operating in this manner, stakeholder perceptions become real and tangible and increase the likelihood that internal audit will deliver sought-after value.

Q6: How do we strengthen communications and relationships between internal audit and the Audit Committee?

Ideally, the relationship between internal audit and the Audit Committee will be characterized by open communications, respect and trust.

To achieve and maintain such a relationship demands ongoing attention by both parties. For their part, members of the Audit Committee should continually ask themselves how they might enhance their relationship with internal audit, particularly with regard to informal communications.

One way to enhance Audit Committee/ CAE relationships is joint training involving the Audit Committee chair and chief audit executive. In another example of effective relationship building, a CAE's direct reports meet periodically with the Audit Committee chair and are invited to make presentations to the Audit Committee. Such interactions provide opportunities for the Audit Committee to see key members of the internal audit staff in action, a factor contributing to effective succession planning for the CAE.

Q7: How does internal audit ensure that its activities are in full compliance with "The International Standards for the Professional Practice of Internal Auditing?"

The IIA is the global standards-setting body for the internal audit profession. In this capacity, the IIA promulgates The International Standards for the Professional Practice of Internal Auditing (the "Standards").

Most internal audit functions have charters stating that internal audit conducts its activities in accordance with these Standards. In the same manner that the Audit Committee expects its external auditors to comply fully with their professional standards, it should also expect its internal auditors to comply fully with their Standards. To this end, the Audit Committee should request periodic confirmation from their internal auditors that they do, indeed, comply fully with the IIA Standards.

Of note, the IIA Standards require an external assessment of the internal audit function at least every five years. The Audit Committee should ensure that this requirement is met and that it receives the report from the external reviewer.

Q8: How does internal audit acquire and develop top talent for the organization?

The quality of an organization's internal audit function is heavily dependent on the quality of its people. This is especially true today where the amount of change and complexity of risks facing most organizations create significant and varying challenges. Traditional auditing and accounting skills remain highly valued in today's environment, but must be augmented with non-traditional auditing skills. Data-mining specialists and staff with in-depth industry knowledge are just two types of talent being sought after by today's internal audit functions.

A true measure of internal audit staff quality is the degree to which the internal audit function is perceived to be a source of talent for other parts of the organization. Some companies have formal rotational programs wherein highly talented staff members are assigned to internal audit for a specific time period to gain valuable experience that can then be taken back to the business units. At other organizations, members of the internal audit staff are recruited by other organizational entities because of their in-depth knowledge of the business and its risks and controls. It is important for Audit Committees to be aware of the role that internal audit either is playing or could be playing to address the broader talent needs of the organization.

Q9: What types and levels of training necessary for internal audit to accomplish its mission?

For internal auditors to keep pace with the dynamic changes in business, technology and risk today, they must have access to continuous, current and robust training. An effective training program needs to go beyond basic accounting or auditing skills to address critical areas such as data mining and analysis, risk management, governance processes, new-product marketing and new technological applications. Softer skills – such as how to make good decisions, how to interview effectively, and how to think critically – also need to be stressed. In particular, the Audit Committee should inquire as to whether the training is adequately equipping the internal audit staff to conduct auditing activities appropriate for the organization's current and evolving risk profile.

Q10. Does internal audit periodically inventory and assess its skills to identify gaps and, if so, how are they being addressed?

The dynamic nature of organization's and their risks places a continuing demand on internal audit to periodically assess its skills inventory. In addition to audit and accounting capabilities, the organization's risks may drive needs for specialists in languages, social media, data security, mathematics and beyond. In this

Environment, most internal audit functions will experience some sort of skills gap from time to time. When they do so, they are increasingly turning to third parties to supply needed skills on an “as needed” basis.

Audit Committees need to have a critical discussion of skills with their internal audit leadership. In posing questions to the CAE and senior auditors, the Audit Committee should start with the internal audit risk assessment, not the audit plan. The central question: Has internal audit identified all the skills needed to address the organization’s risk profile and where does it stand relative to acquiring those needed skills?

The Audit Committee should encourage the CAE to consider various approaches to addressing those needs, including third parties as well as tapping corporate resources outside of internal audit to address particular needs.

The primary concern is that internal audit has the breadth of skills necessary to provide coverage and assurance over the organization’s control and risk management processes. This is an issue that can be particularly critical to small- and medium-sized internal audit functions that lack the size or budget to have in-house access to the broad range of skills needed to address their changing risk profiles.

Conclusion

The 10 topics of discussion listed above can form a useful framework for in-depth discussions between an Audit Committee or Audit Committee chair and their chief audit executive. Such discussions can help both parties come to a better understanding and agreement on where their internal audit function stands relative to the profession and point to needed areas of focus moving forward. Audit Committees are encouraged to take advantage of the discussions above in seeking to gain additional insight on the quality and direction of the internal auditing activities being conducted under their oversight.

5.3 Conclusion

This study has been able to achieve its main objective and answer all of the research questions posed. More specifically, the study has comprehensively investigated the Audit Committee practices in Greece and its establishment against Audit Committees abroad and general accepted practices. It has also identified the crucial factors that affect the Audit Committee effectiveness.

This study came to the conclusion that the overall function of audit committees in Greece is not perceived as effective. Furthermore, our study identified that audit committees in Greece can still improve their overall effectiveness in their performance towards alignment with best practices in the areas of monitoring and oversight activities over risk management, internal control, financial reporting and governance.

Recognizing that the existence of an Audit Committee does not guarantee its effectiveness, Greek companies and regulatory authorities should turn their attention to the need for an effective Audit Committee especially for the listed companies.

Through the comprehensive review of the literature it has been deemed that inside companies with effective Audit Committee there is less space for fraud and other irregularities. An effective Audit Committee reduces the occurrence of inaccurate financial statements, integrates accountability and control structures and so protects the shareholders' and other stakeholders' interests. The restoration of the shareholder's confidence to corporate practices should include sound principles and corporate governance regulations. Moreover, Audit Committee plays critical role in an organization's tone at the top and is more than considerable in recent years.

Having a good understanding of the business model and its associated risks, maintaining an open communication with the external and internal auditors, the second line or defense and the management of the company, the Audit Committee has the expertise to investigate any issues, the company's operations and people. Being the central pillar of effective corporate governance Audit Committee has to take effort of its power and offer effective oversight of anything that takes place in the organization. The key to a truly effective Audit Committee is the creation of a corporate culture that will offer different perspectives and further questions.

Looking forward to adding to the literature on Audit Committee practices and also assisting to the development of Greek capital market, it is hoped that this study will contribute to further researches around the model of the effective Audit Committee.

I hereby declare that, in accordance with article 8 of Law 1599/1986 and article 2.4.6 par. 3 of Law 1256/1982, this thesis/dissertation is solely a product of personal work and does not infringe any intellectual property rights of third parties and is not the product of a partial or total plagiarism, and the sources used are strictly limited to the bibliographic references.

Konstantina Panagiotaki

A stylized, handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke at the end.

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Appendices

Appendix A

National Audit Office 2nd Edition, The Audit Committee self-assessment checklist



National Audit Office

GOOD PRACTICE

The Audit Committee self-assessment checklist

2nd edition January 2012

Financial Management and Reporting

**Our vision is to help the nation
spend wisely.**

**We apply the unique perspective
of public audit to help Parliament
and government drive lasting
improvement in public services.**

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 860 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies, and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

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Introduction

1 This Checklist¹ has been designed to help Audit Committees in central government assess how well they apply good practice. The criteria we have used are derived largely from the Audit Committee Handbook (March 2007),² published by HM Treasury.

2 The Handbook highlights five good practice principles which aim to answer the following key questions:

- **Principle 1: The Role of the Audit Committee** – Does the Audit Committee effectively support the Board and the Accounting Officer by reviewing the completeness of assurances to satisfy their needs, and by reviewing the reliability and integrity of these assurances?
- **Principle 2: Membership, Independence, Objectivity and Understanding** – Is the Audit Committee suitably independent and objective, and does each member have a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee?
- **Principle 3: Skills** – Does the Audit Committee contain or have at its disposal an appropriate mix of skills to perform its functions well?
- **Principle 4: Scope of Work** – Is the scope of the Audit Committee suitably defined, and does it encompass all the assurance needs of the Board and Accounting Officer?
- **Principle 5: Communication** – Does the Committee engage effectively with Financial and Performance Reporting issues, and with the work of internal and external audit? And does the Audit Committee communicate effectively with the Accounting Officer, the Board, and other stakeholders?

3 For each principle, we have developed a series of Good Practice Questions to help Audit Committees conclude whether they are meeting these principles. These are set out in **Section I** of this checklist.

4 In addition, the role of the Chair and the provision of appropriate secretariat support are key for an effective Audit Committee. The Handbook details Good Practice Questions on these two roles. **Sections II** and **III** of this checklist include questions that will enable the Audit Committee to determine if they currently meet this guidance.

¹ This Checklist was originally published in November 2009 and has been updated (January 2012) to reflect the requirement for departments, their executive agencies and arm's-length bodies to produce a Governance Statement in place of the Statement on Internal Control in their annual report and accounts for 2011-12 onwards. Guidance on the Governance Statement is set out in the revised Chapter 3 of *Managing Public Money* (HM Treasury, 2011)

² *Corporate governance in central government departments: Code of good practice* (HM Treasury, July 2011) provides that Audit Committees should be established and function in accordance with the *Audit Committee Handbook* (HM Treasury, March 2007).

How to use this Checklist

5 To help Audit Committees conclude as to whether they are meeting the Principles highlighted above, we have developed Good Practice Questions to inform the thinking process. These Questions are phrased to identify 'yes', 'no' or 'not applicable' responses.

6 We recognise, though, that organisations and their Audit Committees vary considerably in their size and in the complexity of issues that they deal with. In some circumstances, it may therefore be more appropriate to only use the more important Questions to help inform debate – and we have highlighted these in **bold**.

7 Also, the checklist is not exhaustive, and should the Audit Committee or their organisation feel that they have experience of other good working practice that will make the Committee work more effectively, they should not be deterred from implementing these practices, after consulting with the Board, if appropriate.

NAO Facilitated Workshops

8 To help Audit Committees use this checklist, the National Audit Office, as part of its performance improvement work, offers **Facilitated Workshops** for Audit Committees to help them use a tailored version of this checklist and draw conclusions as to their effectiveness. In this way, the workshop provides an opportunity for individual Audit Committees to work together, away from their normal business, to assess how well they work and establish areas to develop further. The workshop is followed up with an Action Plan that draws from the decisions and actions raised. This Action Plan will be owned by the Audit Committee, and act as the means by which decisions are implemented and reviewed.

9 If you would like the NAO to facilitate a workshop for your Audit Committee, please ask your usual NAO contact or Client Lead.

10 This checklist is also available as a Word document to enable Audit Committees to record their responses electronically.

National Audit Office

November 2009

Section I

Good practice principles for Audit Committees

Principle 1: The role of the Audit Committee

The Audit Committee should support the Board and the Accounting Officer by reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer's assurance needs, and reviewing the reliability and integrity of these assurances.

Good Practice Questions

Terms of Reference		Yes	No	N/A
1	Have all executive responsibilities, and making or endorsing of decisions been excluded from the roles and responsibilities of the Audit Committee members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Does the Audit Committee follow up recommendations regarding its effectiveness?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Does the Audit Committee's role include monitoring and reviewing the executive's processes for assessing, reporting and owning business risks and their financial implications?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Has the role and responsibilities of the Audit Committee been clearly defined and communicated to all Audit Committee members, along with details of how the Committee supports the Board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Are the Terms of Reference reviewed at least annually by the Board and the Audit Committee, to ensure that the work of the Audit Committee is aligned with good practice and business needs?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Do the Terms of Reference include rules for a quorum?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Does the Audit Committee meet regularly (at least four times a year), and do meetings coincide with key dates in the financial reporting and audit cycle?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

Conclusions

Do we achieve **Principle 1: The Role of the Audit Committee** – Does the Audit Committee support effectively the Board and the Accounting Officer by reviewing the comprehensiveness of assurances to satisfy their needs, and by reviewing the reliability and integrity of these assurances?

What do we need to do to enhance the Audit Committee?

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 ☐ none of the good practice questions.
- 2 ☐ some of the good practice questions.
- 3 ☐ most, if not all of the good practice questions.

Principle 2: Membership, Independence, Objectivity and Understanding

The Audit Committee should be independent and objective; in addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as an Audit Committee member.

Good Practice Questions**Independence****Yes No N/A**

- | | | | | |
|---|--|--------------------------|--------------------------|--------------------------|
| 8 | Is the Chair of the Audit Committee different from the Chair of the Board? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9 | Are the Audit Committee members either independent non-executive Board members or independent external members, and have they been appointed for an appropriate period of time (e.g. three years)? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Relationship with the Executive

- | | | | | |
|----|--|--------------------------|--------------------------|--------------------------|
| 10 | Are the Executive members of the organisation invited to attend Audit Committee meetings, participate in discussions, and provide information to the Audit Committee as and when the Audit Committee deems it necessary? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|----|--|--------------------------|--------------------------|--------------------------|

Other Participants

- | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|
| 11 | Where appropriate, does a representative from the sponsoring body attend the Audit Committee meetings (e.g. if an Executive Agency, does a member of the Sponsoring Department attend the meeting)? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12 | Does the Accounting Officer, Finance Director, Head of Internal Audit and the External Auditor routinely attend the Audit Committee, or attend at the request of the Audit Committee members? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 13 | Are the numbers attending the Audit Committee meetings sufficient to deal adequately with the agenda, but not too many to blur issues? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Conflict of Interest

- | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|
| 14 | Is the first agenda item of every meeting a request for the Audit Committee members to declare any potential conflict of interest with any of the business items on the Audit Committee's agenda? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|----|---|--------------------------|--------------------------|--------------------------|

Conflict of Interest (continued)**Yes No N/A**

- | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|
| 15 | In instances where there is a declaration of interest in any of the agenda business items, are appropriate actions taken, e.g. is the member asked to leave the meeting while the business item is being discussed? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 16 | In instances where the conflict of interest is likely to last for a long time, has the Audit Committee member been asked to relinquish his or her membership? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 17 | Are the Audit Committee members required to declare their interest in a register of interests? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Terms of Appointment

- | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|
| 18 | Do all Audit Committee members have a clear understanding of what is expected of them in their role, set out in a letter of appointment, including: | | | |
| a | their appointment and purpose; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b | the support and training that they will receive; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c | the commitment required; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d | their remuneration; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e | conflict of interest procedures; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| f | expected conduct; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| g | duration of appointment and how often it may be renewed; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| h | how their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance; and | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| i | termination conditions? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Do we achieve Principle 2: Membership, Independence, Objectivity and Understanding – Is the Audit Committee suitably independent and objective, and does each member have a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee?

[illegible]

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 ☐ none of the good practice questions.
- 2 ☐ some of the good practice questions.
- 3 ☐ most, if not all of the good practice questions.

Principle 3: Skills

The Audit Committee should collectively possess an appropriate skills mix to perform its functions well.

Good Practice Questions**Range of Skills****Yes No N/A**

- | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|
| 19 | Are there formal assessment criteria for the appointment of the Audit Chair, including attitudes to non-executives, strength of personality, experience of chairing, and time commitment? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 20 | Do the assessment criteria of Committee members include, or expect Audit Committee members to acquire as soon as possible after appointment: | | | |
| a | understanding of the objectives of the organisation and current significant issues for the organisation; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b | understanding of the organisation's structure, including key relationships such as that with a sponsoring department or major partner; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c | understanding of the organisation's culture; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d | understanding of any relevant legislation or other rules governing the organisation; and | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e | broad understanding of the government environment, particularly accountability structures and current major initiatives? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 21 | Does the Audit Committee ensure that there are areas of collective understanding, including: | | | |
| a | accountancy – with at least one member having recent and relevant financial experience; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b | governance, assurance and risk management; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c | audit; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d | technical or specialist issues pertinent to the organisation's business; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e | experience of managing similar sized organisations; | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| f | understanding of the wider environments in which the organisation operates; and | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| g | detailed understanding of the government environment and accountability structures? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Additional Skills**Yes No N/A****22 Do the Audit Committee members feel empowered to:**

- a co-opt members for a period of less than one year to provide specialist skills that the members do not have to be an effective Committee;**
- b procure specialist advice at reasonable approved expense to the organisation, on an ad-hoc basis to support them in relation to particular pieces of Committee business.**

☐ ☐ ☐☐ ☐ ☐**Training and Development****23 Is there an induction checklist for new Audit Committee members that details key things that they must do e.g. visits to important business locations, meetings with Board, Risk Manager, Internal Audit and External Auditors?**☐ ☐ ☐**24 Do all new members of the Audit Committee attend an induction training course for Audit Committee members run by the National School of Government, or other sector-related organisation?**☐ ☐ ☐**25 Does the Audit Committee ensure that new members have sufficient knowledge of the business to identify the key risk areas and to challenge both line management and internal and external auditors on critical and sensitive issues?**☐ ☐ ☐**26 Does the Audit Committee and the Chair make recommendations to the Board on the Committee's and individual members training needs?**☐ ☐ ☐**27 Does the Audit Committee keep abreast of best practice and developments in corporate governance in central government and more widely?**☐ ☐ ☐

Do we achieve **Principle 3: Skills** – Does the Audit Committee contain or have at its disposal an appropriate mix of skills to perform its functions well?

[illegible]

- 1 ☐ none of the good practice questions.
- 2 ☐ some of the good practice questions.
- 3 ☐ most, if not all of the good practice questions.

Principle 4: Scope of Work

The scope of the Audit Committee's work should be defined in its Terms of Reference, and encompass all the assurance needs of the Board and Accounting Officer. Within this, the Audit Committee should have particular engagement with the work of Internal Audit, the work of External Auditor, and Financial Reporting issues.

Good Practice Questions

Relationship with Internal Audit		Yes	No	N/A
28	Does the Audit Committee consider the independence and effectiveness of Internal Audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29	Does the Audit Committee consider that the experience, expertise and professional standard of the Internal Audit team are appropriate for the size, complexity, and inherent risk of the organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
30	Does the Audit Committee consider that the scope of Internal Audit work, the available resources at its disposal, and their access to information and people allow it to address significant risks within the organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31	Does the Audit Committee review and approve the Internal Audit plan before they commence any work and make suggestions regarding risk and problem areas that the audit could address in the short and long term?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
32	Does the Audit Committee receive regular progress reports on studies/work undertaken by Internal Audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33	Does the Audit Committee review internal audit reports and management responses to issues raised, and monitor the progress made on Internal Audit's recommendations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Relationship with External Audit				
34	Where relevant, does the Audit Committee consider the independence, objectivity, and effectiveness of the External Auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35	Does the Audit Committee periodically obtain the views of the External Auditor on the work and effectiveness of the Audit Committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Relationship with External Audit (continued)**Yes No N/A**

- 36 Is the Audit Committee informed by the External Auditors on an annual basis as to their quality control procedures and compliance with applicable UK ethics guidance? ☐ ☐ ☐
- 37 Does the Audit Committee consider the External Auditor's Audit Strategy before they commence work, and make suggestions regarding risk and problem areas the audit could address in the short and long term? ☐ ☐ ☐
- 38 Do the External Auditors inform the Audit Committee of key developments and issues at key stages of the audit? ☐ ☐ ☐
- 39 Where relevant, does the Audit Committee review the audit fees? ☐ ☐ ☐
- 40 Does the Audit Committee consider the management letter and other relevant reports (e.g. the NAO's Value for Money work), and the management's response, and monitor the progress made on the recommendations? ☐ ☐ ☐

Relationship between Internal Audit and External Auditors

- 41 Does the Audit Committee consider whether there are areas where joint working between Internal Audit and the External Auditors would be beneficial? ☐ ☐ ☐
- 42 Does the Audit Committee seek confirmation from Internal Audit and the External Auditors on the effectiveness of the relationship? ☐ ☐ ☐

Fraud

- 43 Does the Audit Committee consider whether effective anti-fraud and corruption policies and procedures are in place and operating effectively? ☐ ☐ ☐
- 44 Does the Audit Committee consider whether there is a code of conduct and its distribution to employees? ☐ ☐ ☐
- 45 Does the Audit Committee consider whether management arrangements for whistle-blowing are satisfactory? ☐ ☐ ☐

Internal Control		Yes	No	N/A
46	Does the Audit Committee consider whether corporate governance is embedded throughout the organisation, rather than treated as a compliance exercise?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
47	Does the Audit Committee consider whether the system of internal reporting gives early warning of control failures and emerging risks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
48	Does the Audit Committee consider whether the Governance Statement is sufficiently comprehensive and meaningful, and the evidence that underpins it?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
49	Does the Audit Committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
50	Does the Audit Committee consider whether financial control, including the structure of delegations, enables the organisation to achieve its objectives and achieve good value for money?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
51	Does the Audit Committee monitor whether the organisation's procedures for identifying and managing business risk have regard for the relevant legislation and regulation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
 Financial Reporting				
52	Does the Audit Committee review the first draft of the annual accounts before the External Auditors start work on them?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
53	Before the Accounting Officer signs off the Annual Report and Financial Statements, does the Audit Committee consider:			
a	that the accounting policies in place comply with relevant requirements, particularly the Treasury's Financial Reporting Manual and Accounts Direction;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b	that there has been a robust process in preparing the accounts and annual report;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Financial Reporting (continued)		Yes	No	N/A
c	whether the accounts and annual report have been subjected to sufficient review by management and by the Accounting Officer and/or Board;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d	that when new or novel accounting treatments arise, whether appropriate advice on accounting treatment has been taken;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e	whether there is an appropriate anti-fraud policy in place, and whether losses are suitably recorded;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f	whether suitable processes are in place to ensure accurate financial records are kept;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g	whether suitable processes are in place to ensure regularity and propriety is achieved; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h	whether issues raised by the External Auditors have been given appropriate attention.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
54	Where the accounts have been qualified, does the Audit Committee consider the action taken by the Board to deal with the causes of the qualification?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
55	Does the Audit Committee satisfy itself that the annual financial statements represent fairly the financial position of the organisation, regardless of the pressures on executive management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
56	Before the Accounting Officer signs off the Letter of Representation, does the Audit Committee review it and give particular attention to non-standard issues of representation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

Conclusions

Do we achieve **Principle 4: Scope of Work** – Is the scope of the Audit Committee suitably defined, and does it encompass all the assurance needs of the Board and Accounting Officer?

What do we need to do to enhance the Audit Committee?

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 ☐ none of the good practice questions.
- 2 ☐ some of the good practice questions.
- 3 ☐ most, if not all of the good practice questions.

Principle 5: Communication

The Audit Committee should ensure it has effective communication with the Board, the Head of Internal Audit, the External Auditor, and other stakeholders.

Good Practice Questions

Reporting to the Board		Yes	No	N/A
57	Does the Audit Committee send regular reports or provide oral updates to the Board that they review at their meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
58	Does the Audit Committee provide an Annual Report to the Board, timed to support preparation of the Governance Statement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
59	Does the Annual Report of the Audit Committee present the Committee's opinion about:			
a	the comprehensiveness of assurances in meeting the Board and Accounting Officers needs;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b	the reliability and integrity of these assurances;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c	whether the assurance available is sufficient to support the Board and Accounting Officer in their decisions taken and their accountability obligations;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d	the implication of these assurances for the overall management of risk;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e	any issues the Audit Committee considers pertinent to the Governance Statement, and any long-term issues the Committee thinks the Board and/or Accounting Officer should give attention to;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f	financial reporting for the year;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g	the quality of both Internal and External Audit and their approach to their responsibilities; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h	the Audit Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

[illegible]

Do we achieve **Principle 5: Communication** – Does the Committee engage effectively with Financial and Performance Reporting issues, and with the work of internal and external audit? And does the Audit Committee communicate effectively with the Accounting Officer, the Board and other stakeholders?

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- 1 ☐ none of the good practice questions.
- 2 ☐ some of the good practice questions.
- 3 ☐ most, if not all of the good practice questions.

Section II

The role of the Chair: good practice

The Chair of the Audit Committee has particular responsibility for ensuring that the work of the Audit Committee is effective, that the Committee is appropriately resourced, and that it is maintaining effective communication with stakeholders.

Good Practice Questions

Agenda Setting

	Yes	No	N/A
60 Is the Board Secretary different from the Audit Committee Secretary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
61 Does the Chair of the Audit Committee meet with the Committee Secretary before every meeting to discuss and agree the business for the meeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
62 Are inputs on Any Other Business formally requested in advance from Committee members and attendees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
63 Are outline agendas planned one year ahead to cover core activities and specific issues on a cyclical basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
64 Does the agenda exclude executive business, so that there is no overlap with the work of the Board whilst linking to the main elements of the organisation's business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
65 Are the meetings set for a length of time which allows all business to be conducted, yet not so long that the meeting becomes ineffective?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
66 Does the Chair encourage full and open discussion and invite questions at the Audit Committee meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Communication

67 Does the Chair of the Audit Committee have open lines of communication with the Board, Head of Internal Audit, and the External Auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
68 Does the Chair encourage all Committee members to have regular interface with the organisation and its activities to help them understand the organisation, its objectives, and business needs and priorities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
69 Do reports to the Audit Committee communicate relevant information at the right frequency, time, and in a format that is effective?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
70 Does the Audit Committee issue guidelines concerning the format and content of the papers to be presented to the Committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Monitoring Actions**Yes No N/A**

- | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|
| 71 | Does the Chair or the Secretariat ensure that all action points from Committee meetings are appropriately acted upon? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 72 | Does the Chair or the Secretariat ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 73 | Is a report on matters arising made and minuted at the Audit Committee's next meeting? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Appraisal

- | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|
| 74 | Does the Chair ensure that the Committee members are provided with an appropriate appraisal of their performance as a Committee member? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 75 | Does the Audit Committee Chair seek appraisal of their personal performance from the Accounting Officer or Chair of the Board? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 76 | Are Audit Committee meetings well attended, with records of attendance maintained and reviewed annually by the Board? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Appointments

- | | | | | |
|----|--|--------------------------|--------------------------|--------------------------|
| 77 | Is the Chair involved in the appointment of new Committee members, including providing advice on the skills and experience required of the new individual? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|----|--|--------------------------|--------------------------|--------------------------|

Additional Comments:

Conclusions

Do we meet **Good Practice: the Role of the Chair** – Is the Committee appropriately resourced, work planned in advance as far as possible, and effective communication with stakeholders maintained?

What do we need to do to enhance the Audit Committee?

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 ☐ none of the good practice questions.
- 2 ☐ some of the good practice questions.
- 3 ☐ most, if not all of the good practice questions.

Section III

Committee support: good practice

The Audit Committee should be provided with appropriate Secretariat support to enable it to be effective. This is more than a minute-taking function – it involves providing proactive support for the work of the Committee, and helping its members to be effective in their role.

Good Practice Questions

Does the Audit Committee Secretariat:

	Yes	No	N/A
78 Commission papers as necessary to support agenda items?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
79 Circulate meeting documents to all Committee members, Internal Audit and External Auditors in good time before each meeting, to allow members time to study and understand the information e.g. at least one week before the meeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
80 Arrange for Executives/senior management to be available as necessary to discuss specific agenda items with the Audit Committee during meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
81 Keep records of meetings and minutes after they have been approved by the Audit Chair and circulate them to Committee members, Head of Internal Audit, External Auditors, Board, and the Accounting Officer on a timely basis e.g. within one week of the meeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
82 Ask for confirmation that the minutes are a true and fair representation of a summary of the business taken by the Audit Committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
83 Ensure that the minutes clearly state all agreed actions, the responsible owner, when they will be done by and any advice given from any stakeholders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Does the Audit Committee Secretariat: (continued)		Yes	No	N/A
84	Ensure action points are being taken forward between meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
85	Support the Chair in the preparation of Audit Committee reports to the Board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
86	Arrange the Chair's bilateral meetings with:			
	a the Accounting Officer, the Head of Internal Audit, Director of the External Auditors;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b the Chair of the Board of sponsored NDPBs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
87	Keep the Chair and members in touch with developments and relevant background information about developments in the organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
88	Maintain a record of when members' terms of appointment are due for renewal or termination?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
89	Ensure that appropriate appointment processes are initiated when required?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Do we meet **Good Practice: Support for the Committee** – Does the Committee receive appropriate support from its secretariat?

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 ☐ none of the good practice questions.
- 2 ☐ some of the good practice questions.
- 3 ☐ most, if not all of the good practice questions.

Where to find out more

The National Audit Office website is
www.nao.org.uk

Links to other websites:

www.hm-treasury.gov.uk/audit_committee_handbook.htm
www.hm-treasury.gov.uk/d/mpm_annex3.1.pdf

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the NAO's work in this area please email
Z5-FMGP@nao.gsi.gov.uk

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Appendix B

Deloitte – Enterprise Risk Services, Audit Committee effectiveness self -
assessment

Audit committee effectiveness self-assessment.

Objective

In view of the growing importance of sound corporate governance, the formation of an effective Audit Committee is fundamental. The following self-assessment questions are intended to assist audit committees to self assess their effectiveness.

Risk Management	Rate Effectiveness (1 = less effective; 5 = highly effective)	Comments
The audit committee has assessed the effectiveness of the risk management processes used by management.	1 2 3 4 5	
The audit committee meets periodically with the chief risk officer or his/her equivalent to understand relevant risks facing the organization and how those risks are monitored for possible financial reporting implications.	1 2 3 4 5	
The audit committee periodically meets with the Board of Directors and Senior Management such as CEO, CFO, CIO, Legal Counsel, Compliance Director and other key Business Department Heads to assist in identifying significant risks.	1 2 3 4 5	
The audit committee reviews and obtains an understanding of the processes used by management, the external auditors, and the internal auditors to identify and respond to risks related to critical third-party interdependencies (suppliers, customers, outsourced operations, counterparties) that influence the organization's operations.	1 2 3 4 5	
The audit committee questions management and the external auditors about how they assess the risk of material misstatement, what the major risk areas are, and how they respond to identified risks.	1 2 3 4 5	

Risk Management	Rate Effectiveness (1 = less effective; 5 = highly effective)	Comments
The audit committee has an understanding of the company's critical business continuity risks and management's plans to address such risks.	1 2 3 4 5	

Financial Reporting and Compliance	Rate Effectiveness (1 = less effective; 5 = highly effective)	Comments
The audit committee requests and obtains sufficient information related to important financial reporting issues such as the use of complex financial instruments, areas of judgment or high subjectivity, unusual transactions, and changes in accounting policies.	1 2 3 4 5	
The audit committee reads the company's annual report, interim report, financial statements, and MD&A (Management Discussion & Analysis) to determine if anything is inconsistent with its own knowledge, including areas such as liquidity, unusual transactions, and off balance-sheet arrangements.	1 2 3 4 5	
The audit committee understands why critical accounting principles were chosen and how they were applied, and considers the quality, not just the acceptability, of financial accounting and reporting, including the transparency of disclosures.	1 2 3 4 5	
The audit committee understands the process used by management to identify related parties and considers the transparency of the related-party disclosures.	1 2 3 4 5	
The audit committee obtains from management and the external auditors an understanding of significant transactions and how they were accounted for, such as acquisitions, dispositions, special-purpose entities, and significant audit adjustments.	1 2 3 4 5	
The audit committee reviews all unrecorded audit adjustments with management and the external auditors and obtains an understanding as to why they were not recorded.	1 2 3 4 5	
The audit committee asks the external auditors about pressures on management that may affect the quality of financial reporting, such as earnings targets and performance measures.	1 2 3 4 5	
The audit committee makes inquiries of management and the external auditors on the depth of experience and sufficiency of the audit team assigned to the engagement.	1 2 3 4 5	

Financial Reporting and Compliance	Rate Effectiveness (1 = less effective; 5 = highly effective)	Comments
The audit committee considers the level of non audit services provided by the external auditor in determining the external auditors' independence.	1 2 3 4 5	
The audit committee reviews the external auditors' scope and audit plan to its satisfaction prior to commencement of the audit.	1 2 3 4 5	
The audit committee chairperson meets with the external and internal auditors outside of the regularly scheduled meetings to encourage open and frank dialogue.	1 2 3 4 5	
The audit committee chairperson communicates to the external auditors his/her expectation that the external auditor will contact the committee or its chairperson, when necessary.	1 2 3 4 5	
The audit committee is satisfied that management exhibits the proper "tone at the top" to foster an environment that promotes high-quality financial reporting and strong internal controls.	1 2 3 4 5	

Internal Control Environment	Rate Effectiveness (1 = less effective; 5 = highly effective)	Comments
The audit committee receives sufficient information to review, understand, and assess the organization's system of internal controls, including financial, operational and compliance controls as well as risk management functions.	1 2 3 4 5	
The audit committee makes inquiries of the external auditors and management on the depth of experience and sufficiency of staff in the finance and internal audit organizations.	1 2 3 4 5	
The audit committee reviews the internal audit plan annually. (If the organization does not have an internal audit department, leave blank.)	1 2 3 4 5	
The audit committee reviews the management recommendation letters written by the internal and external auditors to ensure that all significant matters are properly addressed.	1 2 3 4 5	
The audit committee has adopted a process to assess both the compliance effectiveness and the value of service of the internal audit department. (If the organization does not have an internal audit department, leave blank.)	1 2 3 4 5	

Corporate Governance	Rate Effectiveness (1 = less effective; 5 = highly effective)	Comments
The board of directors or audit committee assesses the financial literacy of audit committee members in accordance with the applicable accounting rules and regulatory procedures.	1 2 3 4 5	
The audit committee has an orientation program to educate new members on their responsibilities.	1 2 3 4 5	
The audit committee participates in a continuing education program to enhance audit committee members' understanding of relevant accounting and reporting areas.	1 2 3 4 5	
Management, the external auditors, and the board of directors provide input on the audit committee charter and meeting agendas.	1 2 3 4 5	
The audit committee members understand and are fully aware of their responsibilities as stipulated in the audit committee charter.	1 2 3 4 5	
Audit committee meetings are scheduled with sufficient time to cover all agenda items.	1 2 3 4 5	
The audit committee ensures all meeting minutes are properly recorded and reviewed.	1 2 3 4 5	
The audit committee and/or its chairperson have a process in place to review significant issues with management and the external auditors prior to interim and annual earnings releases.	1 2 3 4 5	
The audit committee is authorized to retain independent counsel, accountants, or other advisors to assist in investigating any matters within the committee's scope, as appropriate.	1 2 3 4 5	
The audit committee takes an active role to ensure the arrangements/processes (e.g. a whistle-blower program) for reporting improprieties are handled independently, fair and properly followed up.	1 2 3 4 5	
The audit committee is informed of communications received from governmental or regulatory agencies, or similar parties, relating to areas of alleged violations or noncompliance.	1 2 3 4 5	