



Audit committee performance evaluation



January 2013

Audit committee performance evaluation

The following questionnaire is based on emerging and leading practices to assist in the self-assessment of an audit committee's performance. It is not intended to be all inclusive.

When completing the performance evaluation, consider the following process:

- Select a coordinator and establish a timeline for the process.
- In addition to audit committee members completing the form as a self-evaluation, ask individuals who interact with the audit committee members to provide feedback.
- Ask each audit committee member to complete an evaluation by selecting the rating that most closely reflects the audit committee's performance related to each practice.
- Consolidate the results into a summarized document for discussion and review by the committee.

For each of the following statements, select a number between 1 and 5, with 1 indicating that you strongly disagree and 5 indicating that you strongly agree with the statement. Select 0 if the point is not applicable or you do not have enough knowledge or information to rank the organization's audit committee on a particular statement.

<i>Circle one number for each statement</i>	Insufficient knowledge	Strongly disagree	Neither agree nor disagree	Strongly agree		
Composition and Quality						
1. Qualified audit committee members are identified by sources independent of management (e.g., independent board members assisted by an outside search firm).	0	1	2	3	4	5
2. Audit committee members have the appropriate qualifications to meet the objectives of the audit committee's charter, including appropriate financial literacy.	0	1	2	3	4	5
3. The audit committee demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonal skills, and the willingness to address issues proactively.	0	1	2	3	4	5
4. The audit committee demonstrates appropriate industry knowledge and includes a diversity of experiences and backgrounds.	0	1	2	3	4	5
5. Members of the audit committee meet all applicable independence requirements.	0	1	2	3	4	5
6. The audit committee participates in a continuing education program to enhance its members' understanding of relevant accounting, reporting, regulatory, auditing, and industry issues.	0	1	2	3	4	5
7. The audit committee monitors compliance with corporate governance regulations and guidelines.	0	1	2	3	4	5
8. The audit committee reviews its charter annually to determine whether its responsibilities are described adequately and recommends changes to the board for approval.	0	1	2	3	4	5
9. New audit committee members participate in an orientation program to educate them on the company, their responsibilities, and the company's financial reporting and accounting practices.	0	1	2	3	4	5
10. The audit committee chairman is an effective leader.	0	1	2	3	4	5

<i>Circle one number for each statement</i>	Insufficient knowledge	Strongly disagree	2	Neither agree nor disagree	3	4	Strongly agree
11. The audit committee, in conjunction with the nominating committee (or its equivalent), creates a succession and rotation plan for audit committee members, including the audit committee chairman.	0	1	2	3	4	5	
Understanding the Business, including Risks							
12. The audit committee considers or knows that the full board or other committees take into account significant risks that may directly or indirectly affect financial statement reporting. Examples include: <ul style="list-style-type: none"> • Regulatory and legal requirements • Concentrations (e.g., suppliers and customers) • Market and competitive trends • Financing and liquidity needs • Financial exposures • Business continuity • Company reputation • Financial strategy execution • Financial management’s capabilities • Management override • Fraud control • Company pressures, including “tone at the top” 	0	1	2	3	4	5	
13. The audit committee considers, understands, and approves the process implemented by management to effectively identify, assess, and respond to the organization’s key risks.	0	1	2	3	4	5	
14. The audit committee understands and approves management’s fraud risk assessment and has an understanding of identified fraud risks.	0	1	2	3	4	5	
15. The audit committee considers the company’s performance versus that of its peers in a manner that enhances comprehensive risk oversight by using reports provided directly by management to the audit committee or at the full board meeting. These may include benchmarking information comparing the company’s financial performance and ratios with industry competitors and peers, industry trends, analyst estimates, and budget analysis with explanations for areas where significant differences are apparent.	0	1	2	3	4	5	

<i>Circle one number for each statement</i>	Insufficient knowledge	Strongly disagree	Neither agree nor disagree	Strongly agree		
Process and Procedures						
16. The audit committee reports its proceedings and recommendations to the board after each committee meeting.	0	1	2	3	4	5
17. The audit committee develops a calendar that dedicates the appropriate time and resources needed to execute its responsibilities.	0	1	2	3	4	5
18. Audit committee meetings are conducted effectively, with sufficient time spent on significant or emerging issues.	0	1	2	3	4	5
19. The level of communication between the audit committee and relevant parties is appropriate; the audit committee chairman encourages input on meeting agendas from committee and board members, management, the internal auditors, and the independent auditor.	0	1	2	3	4	5
20. The audit committee sets clear expectations and provides feedback to the full board concerning the competency of the organization's CFO and senior financial management.	0	1	2	3	4	5
21. The audit committee has input into the succession planning process for the CFO.	0	1	2	3	4	5
22. The agenda and related information (e.g., prior meeting minutes, press releases, financial statements) are circulated in advance of meetings to allow audit committee members sufficient time to study and understand the information.	0	1	2	3	4	5
23. Written materials provided to audit committee members are relevant and concise.	0	1	2	3	4	5
24. Meetings are held with enough frequency to fulfill the audit committee's duties and at least quarterly, which should include periodic visits to company locations with key members of management.	0	1	2	3	4	5
25. Regularly, audit committee meetings include separate private sessions with management and the internal and independent auditors.	0	1	2	3	4	5
26. The audit committee maintains adequate minutes of each meeting.	0	1	2	3	4	5
27. The audit committee and the compensation committee regularly review management incentive plans to consider whether the incentive process is appropriate.	0	1	2	3	4	5

<i>Circle one number for each statement</i>	Insufficient knowledge	Strongly disagree	Neither agree nor disagree	Strongly agree		
28. The audit committee meets periodically with the committee responsible for reviewing the company's disclosure procedures.	0	1	2	3	4	5
29. The audit committee respects the line between oversight and management of the financial reporting process.	0	1	2	3	4	5
30. Audit committee members come to meetings well prepared.	0	1	2	3	4	5
Oversight of the Financial Reporting Process, including Internal Controls						
31. The audit committee considers the quality and appropriateness of financial accounting and reporting, including the transparency of disclosures.	0	1	2	3	4	5
32. The audit committee reviews the company's significant accounting policies.	0	1	2	3	4	5
33. The audit committee understands and approves the process used by management to identify and disclose related-party transactions.	0	1	2	3	4	5
34. The audit committee has a process for reviewing quarterly and annual earnings releases, including pro forma or non-GAAP information and other significant financial information or earnings guidance, with management and the independent auditor.	0	1	2	3	4	5
35. The audit committee oversees the organization's external financial reporting and internal control over financial reporting. This oversight includes a process for reviewing Forms 10-Q and 10-K (including management's discussion and analysis), proxies, and other filings before they are issued and providing comments to management and the independent auditor when applicable.	0	1	2	3	4	5
36. The audit committee reviews the processes related to financial statement certifications made by the CEO and the CFO.	0	1	2	3	4	5
37. The audit committee receives sufficient information to assess and understand management's process for evaluating the organization's system of internal controls (e.g., financial reporting and disclosure controls, operation controls, compliance controls) and also believes that management's scope of internal control testing adequately supports its internal control assessment.	0	1	2	3	4	5

<i>Circle one number for each statement</i>	Insufficient knowledge	Strongly disagree	Neither agree nor disagree	Strongly agree		
38. The audit committee understands and gives appropriate consideration to the internal control testing conducted by management, the internal auditors, and the independent auditor to assess the process for detecting internal control issues or fraud. Any significant deficiencies or material weaknesses that are identified are addressed, reviewed, and monitored by the audit committee.	0	1	2	3	4	5
39. The audit committee makes inquiries of the independent auditor, internal auditors, and management on the depth of experience and sufficiency of the company's accounting and finance staff.	0	1	2	3	4	5
40. The audit committee reviews the management recommendation letters written by the independent and internal auditors and monitors the process to determine that all significant matters are addressed.	0	1	2	3	4	5
41. The audit committee oversees that management takes action to achieve resolution when there are repeat comments from auditors, particularly those related to internal controls.	0	1	2	3	4	5
42. Adjustments to the financial statements that resulted from the audit are reviewed by the audit committee, regardless of whether they were recorded by management.	0	1	2	3	4	5
43. The audit committee is consulted when management is seeking a second opinion on an accounting or auditing matter.	0	1	2	3	4	5
Oversight of Audit Functions						
44. The audit committee understands the coordination of work between the independent and internal auditors and clearly articulates its expectations of each.	0	1	2	3	4	5
45. The audit committee regularly reviews the adequacy of the internal audit function (e.g., the charter; audit plan; budget; compliance; and number, quality, and continuity of staff).	0	1	2	3	4	5
46. The audit committee oversees the role of the internal audit director from selection to termination (e.g., appointment, evaluation, compensation, and retention) and provides feedback at least annually.	0	1	2	3	4	5

<i>Circle one number for each statement</i>	Insufficient knowledge	Strongly disagree	Neither agree nor disagree	Strongly agree		
47. The internal audit reporting lines established with the audit committee promote an atmosphere where significant issues that might involve management will be brought to the attention of the audit committee.	0	1	2	3	4	5
48. The audit committee appropriately considers internal audit reports, management's responses, and steps toward improvement.	0	1	2	3	4	5
49. The audit committee oversees the role of the independent auditor from selection to termination and has an effective process to evaluate the independent auditor's qualifications and performance.	0	1	2	3	4	5
50. The audit committee considers the independent audit plan and provides recommendations.	0	1	2	3	4	5
51. The audit committee reviews the audit fees paid to the independent auditors.	0	1	2	3	4	5
52. The audit committee comprehensively reviews management's representation letters to the independent auditor, including making inquiries about any difficulties in obtaining the representations.	0	1	2	3	4	5
53. The audit committee preapproves all audit and nonaudit services provided by the independent auditor and considers the scope of the nonaudit services provided.	0	1	2	3	4	5
54. The audit committee reviews other professional services that relate to financial reporting (e.g., consulting, legal, and tax strategy services) provided by outside consultants.	0	1	2	3	4	5
55. The audit committee monitors the process to determine that the independent auditor's partners are rotated in accordance with applicable rules.	0	1	2	3	4	5
56. The audit committee has private executive sessions with management and the internal and independent auditor that result in candid discussion of pertinent issues.	0	1	2	3	4	5

<i>Circle one number for each statement</i>	Insufficient knowledge	Strongly disagree	Neither agree nor disagree	Strongly agree		
Ethics and Compliance						
57. Audit committee members oversee the process and are notified of communications received from governmental or regulatory agencies related to alleged violations or areas of noncompliance.	0	1	2	3	4	5
58. The audit committee oversees management's procedures for enforcing the company's code of conduct.	0	1	2	3	4	5
59. The audit committee determines that there is a senior-level person designated to understand relevant legal and regulatory requirements.	0	1	2	3	4	5
60. The audit committee oversees the organization's hotline or whistleblower process, reviews the log of incoming calls that relate to possible fraudulent activity, and understands the procedures to prohibit retaliation against whistleblowers.	0	1	2	3	4	5
Monitoring Activities						
61. An annual performance evaluation of the audit committee is conducted and any matters that require follow-up are resolved and presented to the full board.	0	1	2	3	4	5
62. The company provides the audit committee with sufficient funding to fulfill its objectives and engage external parties for matters requiring external expertise.	0	1	2	3	4	5

For more information

auditcommittee@deloitte.com

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser.

Deloitte is not responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte LLP and its subsidiaries. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Member of Deloitte Touche Tohmatsu Limited

© 2013 Deloitte Development LLC. All rights reserved.