

Audit Committee
performance evaluation
Self-assessment checklist



Foreword

The audit committee has become, in recent years, one of the main pillars of the corporate governance system in British public companies.

With new responsibilities and increasing complexities, being a member of the audit committee has never been more challenging. To help respond to this, and to facilitate the evaluation process, we have developed a document which provides audit committee members with a comprehensive checklist of what the UK Corporate Governance Code requires of them.

The checklist differentiates between the requirements set out in the main body of the UK Corporate Governance Code and the revised FRC Guidance on audit committees (issued in December 2010) and is applicable for periods commencing on or after 29 June 2010. While the Guidance is not mandatory it is recognised as a best practice benchmark for audit committees and so it is worthwhile assessing performance against this as well as against the main body of the Code.

It is hoped that completion of this checklist will help audit committees assess their own performance and identify areas for further attention.

A handwritten signature in black ink, appearing to read 'Ian Krieger', with a stylized flourish at the end.

Ian Krieger

Vice Chairman

The overriding principle in relation to audit committee requirements is set out in Principle C.3 of the UK Corporate Governance Code. The principle states that the board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

Unless otherwise stated references are to the FRC Guidance on audit committees issued in December 2010.

	Response	Evidence/Comment
Membership, procedures and resources		
1. The audit committee has at least three, or in the case of smaller companies two, members (Code Provision C.3.1).	Please select	Please fill in your comments here
2. The audit committee members are all independent under provision B.1.1 of the Code (Code Provision C.3.1).	Please select	Please fill in your comments here
3. Appointments to the audit committee are made by the board on the recommendation of the nomination committee, in consultation with the audit committee chairman (2.4).	Please select	Please fill in your comments here
4. Audit committee membership is for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent (2.5).	Please select	Please fill in your comments here
5. At least one member of the audit committee has recent and relevant financial experience (Code Provision C.3.1).	Please select	Please fill in your comments here
6. The audit committee member deemed to have recent and relevant financial experience has a professional qualification from one of the professional accountancy bodies (2.16).	Please select	Please fill in your comments here
7. Other members have a degree of financial literacy and experience of corporate financial matters (2.16).	Please select	Please fill in your comments here
8. Written terms of reference set out the main role and responsibilities including: <ul style="list-style-type: none"> • reviewing integrity of financial statements and announcements; • internal financial controls; • risk management systems; • effectiveness of internal audit; • independence of external auditor; • policy on non-audit services; and • making recommendations on external auditor's appointment, remuneration and terms of engagement. (Code Provision C.3.2). 	Please select Please select Please select Please select Please select Please select Please select	Please fill in your comments here Please fill in your comments here Please fill in your comments here Please fill in your comments here Please fill in your comments here Please fill in your comments here Please fill in your comments here
9. The number of audit committee meetings is sufficient to meet the role and responsibilities, is not fewer than three per year and the meetings are held to coincide with key dates within the financial reporting and audit cycle (2.6).	Please select	Please fill in your comments here

	Response	Evidence/Comment
10. No one other than the audit committee chairman and members receive automatic invitations to a meeting of the audit committee. The external audit partner and the finance director are invited to attend on a regular basis (2.7).	Please select	Please fill in your comments here
11. Meetings allow sufficient time to enable the audit committee to undertake as full a discussion as may be required (2.8).	Please select	Please fill in your comments here
12. There is sufficient time between audit committee meetings and main board meetings to allow any work arising from the audit committee meeting to be carried out and reported to the board as appropriate (2.8).	Please select	Please fill in your comments here
13. At least once a year the audit committee meets the external and internal auditors without management present (2.9).	Please select	Please fill in your comments here
14. The audit committee chairman keeps in touch on a continuing basis with the key people involved in the company's governance, including the board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit (2.10).	Please select	Please fill in your comments here
15. The company secretary ensures that the audit committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues (2.13).	Please select	Please fill in your comments here
16. An induction programme is provided for new audit committee members, covering the role of the audit committee, its terms of reference, expected time commitment and an overview of the company's business including discussion of the main business and financial dynamics and risks (2.17).	Please select	Please fill in your comments here
17. Training is provided on an ongoing and timely basis and includes an understanding of the principles of and developments in financial reporting and related company law (2.18).	Please select	Please fill in your comments here
18. The terms of reference of the audit committee is made available on request and/or included on the company's website (Code Provision C.3.3).	Please select	Please fill in your comments here
19. The audit committee provides a separate report, within the Annual Report, describing how it has discharged its responsibilities (Code Provision C.3.3).	Please select	Please fill in your comments here

	Response	Evidence/Comment
<p>20. The audit committee section of the annual report includes:</p> <ul style="list-style-type: none"> • a summary of the role of the audit committee; • the names and qualifications of all members of the audit committee during the period; • the number of audit committee meetings; • a report on the way the audit committee has discharged its responsibilities; • an explanation of how the audit committee reached its recommendation to the board on the appointment, re-appointment or removal of the external auditors; and • an explanation of how auditor objectivity and independence is safeguarded. (5.2). 	<p>Please select</p> <p>Please select</p> <p>Please select</p> <p>Please select</p> <p>Please select</p> <p>Please select</p>	<p>Please fill in your comments here</p> <p>Please fill in your comments here</p> <p>Please fill in your comments here</p> <p>Please fill in your comments here</p> <p>Please fill in your comments here</p> <p>Please fill in your comments here</p>
<p>21. The chairman of the audit committee is present at the AGM to answer questions, through the chairman of the board, on the report on the audit committee's activities and matters within the scope of audit committee's responsibilities (5.3).</p>	<p>Please select</p>	<p>Please fill in your comments here</p>
<p>Role and responsibilities</p> <p>22. The audit committee reviews arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters (Code Provision C.3.4).</p>	<p>Please select</p>	<p>Please fill in your comments here</p>
<p>23. The audit committee monitors and reviews the effectiveness of the internal audit activities. If there is no internal audit function, the audit committee considers annually whether there is a need for an internal audit function and makes a recommendation to the board (Code Provision C.3.5).</p>	<p>Please select</p>	<p>Please fill in your comments here</p>
<p>24. The audit committee ensures that the internal audit function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors (4.14).</p>	<p>Please select</p>	<p>Please fill in your comments here</p>
<p>25. The audit committee approves the appointment or termination of appointment of the head of internal audit (4.15).</p>	<p>Please select</p>	<p>Please fill in your comments here</p>
<p>26. In assessing the work of the internal audit function the audit committee considers:</p> <ul style="list-style-type: none"> • access to the board chairman and the audit committee; • the annual internal audit work plan; • reports on the results of the internal auditors' work; • management's responsiveness to the internal auditor's findings and recommendations; • the role and effectiveness of the internal audit function in the overall context of the company's risk management system. (4.16). 	<p>Please select</p> <p>Please select</p> <p>Please select</p> <p>Please select</p> <p>Please select</p>	<p>Please fill in your comments here</p> <p>Please fill in your comments here</p> <p>Please fill in your comments here</p> <p>Please fill in your comments here</p> <p>Please fill in your comments here</p>

	Response	Evidence/Comment
27. The audit committee has primary responsibility for making a recommendation on the appointment, reappointment and removal of external auditors (Code Provision C.3.6).	Please select	Please fill in your comments here
28. The audit committee assesses annually the qualification, expertise and resources and independence of the external auditors and the effectiveness of the audit process (4.20).	Please select	Please fill in your comments here
29. The audit committee receives a report on the audit firm's own internal quality control procedures (Smith 4.20).	Please select	Please fill in your comments here
30. Where appropriate, the audit committee considers whether there might be any benefit in using firms from more than one audit network (4.20).	Please select	Please fill in your comments here
31. Where the external auditor has resigned, the audit committee has investigated the issues giving rise to such resignation and considered whether any action is required (4.21).	Please select	Please fill in your comments here
32. The audit committee considers the need to include the risk of the withdrawal of their auditor from the market in their risk evaluation and planning (4.22).	Please select	Please fill in your comments here
33. The audit committee approves the terms of engagement and the remuneration to be paid to the external auditor, satisfying itself that the level of fee payable in respect of audit services is appropriate and that an effective audit can be conducted for such a fee (4.24 & 4.26).	Please select	Please fill in your comments here
34. The audit committee assesses the independence and objectivity of the external auditor annually, taking into consideration relevant UK law, regulation and professional requirements (4.27 – 4.29).	Please select	Please fill in your comments here
35. The audit committee has set and applied a formal policy specifying the types of non-audit service (if any): <ul style="list-style-type: none"> • for which the use of the external auditor is pre-approved (i.e. approval has been given in advance as a matter of policy, rather than the specific approval of an engagement being sought before it is contracted); • for which specific approval from the audit committee is required before they are contracted; and • from which the external contractor is excluded. (4.30-4.32)	Please select	Please fill in your comments here
36. The audit committee monitors the external audit firm's compliance with relevant Ethical Standards relating to the rotation of audit partners, the level of fees that the company pays in proportion to the overall fee income of the firm, relevant part of it, and other related regulatory requirements (4.33).	Please select	Please fill in your comments here
37. The annual report explains to shareholders how auditor objectivity and independence is safeguarded (Code Provision C.3.7).	Please select	Please fill in your comments here
38. At the start of each annual audit cycle, the audit committee ensures that appropriate plans are in place for the external audit (4.39).	Please select	Please fill in your comments here

	Response	Evidence/Comment
39. The audit committee reviews, with the external auditors, the findings of their work. In particular the audit committee should: <ul style="list-style-type: none"> • discuss major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; • review key accounting and audit judgements; • review levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted. (4.41). 	Please select	Please fill in your comments here
	Please select	Please fill in your comments here
	Please select	Please fill in your comments here
40. The audit committee reviews the audit representation letters before signature by management and gives particular consideration to matters where representation has been requested that relate to non-standard issues (4.42).	Please select	Please fill in your comments here
41. The audit committee reviews the management letter (or equivalent) and monitors management's responsiveness to the external auditor's findings and recommendations (4.43).	Please select	Please fill in your comments here
42. At the end of the annual audit cycle, the audit committee assesses the effectiveness of the audit process (4.44).	Please select	Please fill in your comments here
43. The audit committee reviews the significant financial reporting issues and judgements made in connection with the preparation of the company's financial statements, interim reports, preliminary announcements and related formal statements (4.1).	Please select	Please fill in your comments here
44. The audit committee reviews the clarity and completeness of disclosures in the financial statements and considers whether the disclosures made are set properly in context (4.2).	Please select	Please fill in your comments here
45. The audit committee reviews related information presented with the financial statements, including the operating and financial review, and corporate governance statements relating to the audit and to risk management (4.4).	Please select	Please fill in your comments here
46. Whenever practicable, statements made by the company containing financial information are reviewed by the audit committee before board approval is given (4.4).	Please select	Please fill in your comments here
47. The audit committee reviews the company's internal control and risk management systems (4.5).	Please select	Please fill in your comments here
48. The audit committee reviews and approves the statements included in the annual report in relation to internal control and the management of risk (4.7).	Please select	Please fill in your comments here
Relationship with the board		
49. The audit committee's terms of reference are appropriate for the particular circumstances of the company (3.2).	Please select	Please fill in your comments here

	Response	Evidence/Comment
50. The audit committee reviews its terms of reference and its effectiveness on an annual basis and recommends any necessary changes to the board (3.3).	Please select	Please fill in your comments here
51. The effectiveness of the audit committee is reviewed by the board annually (3.4).	Please select	Please fill in your comments here
52. Disagreements between the audit committee and the board are given adequate time for discussion. The audit committee has the right to report unresolved issues to shareholders as part of the report on its activities in the annual report (3.5).	Please select	Please fill in your comments here
Conclusion 53. [Having considered the responses to the questions above, we are of the opinion that the audit committee has] formal and transparent arrangements for considering corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor (Code Principle C.3).	Please select	Please fill in your comments here

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