

# Audit committee leading practices and trends



The following is a summary of certain leading practices for audit committees. It is not all inclusive, but it can be used to help assess audit committee practices and to discuss agendas and other considerations.

Committee dynamics	Risk oversight
<ul style="list-style-type: none"> <li>• Focus on committee composition, including independence, financial expertise, risk management, broad business or leadership experience, and succession planning.</li> <li>• Limit the number of audit committee members to four or five to optimise effectiveness.</li> <li>• Oversee and respond to enterprise risk management activities.</li> <li>• Conduct an annual committee self-evaluation.</li> <li>• Consider periodically rotating audit committee members, including the chairman.</li> <li>• Encourage discussion, rather than presentation, at meetings.</li> <li>• Participate in audit committee education activities.</li> <li>• Engage independent advisers when needed.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase the focus on risk oversight and assessment.</li> <li>• Avoid becoming overly dependent on forms or tools for monitoring risk.</li> <li>• Periodically reassess the list of top risks, determining who in management and which board committee is responsible for each.</li> <li>• Evaluate information technology (IT) projects, including IT milestones and reporting against them, especially for IT transformation.</li> <li>• Consider post-acquisition reviews, including risks, relevant integration milestones, and return on investment (ROI) analysis to evaluate the reliability of initial acquisition assumptions.</li> <li>• Have appropriate leaders in the business make a presentation at a board or audit committee meeting to enhance the members' understanding of the business and risks and to evaluate the depth of talent.</li> </ul>
Self-assessment and evaluation of effectiveness	Oversight of internal controls, financial reporting and integrated reporting
<ul style="list-style-type: none"> <li>• Perform a self-assessment in a thorough manner rather than as a compliance exercise.</li> <li>• Consider using self-assessment results as a catalyst to re-engineer processes, procedures, and agendas, which should influence where the audit committee spends its time.</li> <li>• Communicate with the board on activities and recommendations.</li> <li>• Align audit committee meeting materials and agendas with priority areas: <ul style="list-style-type: none"> <li>- Put significant areas first in advance materials and on the agenda.</li> <li>- Include matters for review and comment.</li> <li>- Present compliance matters, standard reports, and informational items at the end of advance materials and meetings; they may not need to be discussed at the meeting.</li> <li>- Meetings should be preceded or followed by private and executive sessions, absent members</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Understand key controls and reporting risk areas as assessed by financial management, the internal auditors, and the independent auditor.</li> <li>• Emphasise oversight of corporate taxes, an area where high-risk and big-money decisions are made.</li> <li>• Leverage the value of internal controls beyond compliance.</li> <li>• Consider levels of authority and responsibility in key areas, including pricing and contracts, acceptance of risk, commitments, and expenditures.</li> <li>• Understand complex accounting and reporting areas and how management addresses them.</li> <li>• Understand significant judgments and estimates used by management and their impact on the financial statements, such as fair-value accounting and related assumptions.</li> <li>• Anticipate and understand how regulatory developments and reporting developments in the areas of financial, sustainability reporting and integrated reporting may affect the company, particularly its talent needs.</li> </ul>

<b>Interaction with the independent auditor</b>	<b>Partnership with the CFO and other management</b>
<ul style="list-style-type: none"> <li>• Exercise ownership of the relationship with the independent auditor.</li> <li>• Get to know the lead partners and meet periodically with specialists (e.g., tax, IT, actuarial, regulatory).</li> <li>• Establish expectations regarding the nature and method of communication, as well as the exchange of insights.</li> <li>• Engage in regular dialogue outside the scheduled meetings.</li> <li>• Set an annual agenda with the independent auditor.</li> <li>• Focus on independence, including a preapproval process.</li> <li>• Provide formal evaluations and regular feedback.</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on the tone at the top, culture, ethics, and hotline monitoring.</li> <li>• Conduct annual evaluations.</li> <li>• Engage in the identification of potential issues.</li> <li>• Understand plans to address new accounting and regulatory reporting requirements.</li> <li>• Provide input to management’s goal-setting process.</li> <li>• Discuss succession planning for the CFO and staff.</li> <li>• Conduct pipeline and staff reviews, including identification of high potential personnel.</li> </ul>
<b>Executive (private) sessions</b>	<b>Executive compensation</b>
<ul style="list-style-type: none"> <li>• Schedule regular sessions with the internal auditors, the independent auditor, and management.</li> <li>• Provide clear objectives and expectations for each meeting.</li> <li>• Prepare specific topics and questions.</li> <li>• Understand the response to and resolution of each issue raised.</li> </ul>	<ul style="list-style-type: none"> <li>• Periodically conduct meetings with the remuneration committee regarding management incentives.</li> <li>• Work with the remuneration committee to consider the incentive structure and whether it contributes to increased fraud risk.</li> <li>• Increase focus on the compensation of officers and directors, including the appropriate use of corporate assets such as planes and apartments.</li> </ul>
<b>Interaction with the internal auditors</b>	<b>Orientation and continuing education</b>
<ul style="list-style-type: none"> <li>• Assess whether the internal auditors have a direct reporting line to the audit committee and an indirect line to management for administrative activities.</li> <li>• Be involved with the internal audit risk assessment and audit plans, including activities and objectives regarding internal control over financial reporting.</li> <li>• Conduct annual evaluations.</li> <li>• Understand internal audit staffing and succession planning.</li> </ul>	<ul style="list-style-type: none"> <li>• Address board education in the company’s corporate governance guidelines to be consistent with JSE listing requirements.</li> <li>• Provide orientation of new members that involves company executives, internal audit, and the independent auditor.</li> <li>• Offer on-going one-on-one or committee-level education opportunities.</li> <li>• Consider offering continuing education in specialised or regulated industry matters, reporting, operations, and related topics</li> </ul>

**Queries:**

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