

Audit Committees

A quick guide



Oifig an Stiúirthóra um
Fhorfheidhmiú Corparáideach
Office of the Director
of Corporate Enforcement

Plain 
English

Approved by NALA

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About this guide

We have produced this quick guide to explain the role of audit committees under the Companies Act.

What is an audit committee?

A company's audit committee is a group whose main responsibilities are to:

- monitor the company's financial reporting process;
- monitor the effectiveness of the company's systems of internal control, internal audit and risk management;
- monitor the company's statutory financial statements; and
- monitor and review the independence of the statutory auditor for other services provided to the company.

Most members of the audit committee should be independent directors of the company.

How does the audit committee do its work?

Usually, the audit committee will:

- work with the **external auditor** to make sure the company's financial statements fairly present the position of the company; and
- work with any **internal auditor** whose job it is to check if the company's financial controls and other systems are working properly.

The audit committee normally selects a **chairperson** from among its members. The chairperson makes sure that the audit committee does what it is supposed to do. They run the committee meetings and arrange that the committee's decisions are recorded in the minutes of the meeting.

The committee will usually develop a work programme and may ask the company's internal auditor to examine different parts of the business and produce a report.

The audit committee usually prepares its own report at the end of each year which says what the committee has done during the year. This report is normally part of the company's annual report which is sent to all shareholders.

Who are the members of the audit committee?

Members of audit committees should include people who understand accounting. All members must be independent enough to be able to report any problems they might see, without being influenced by difficulties which might arise for the company.

Where an audit committee is required under company law, the committee must include at least one independent non-executive director of the company. Where there is more than one independent director, one of the directors must be competent in accounting or auditing.

Most people appointed to audit committees should be independent directors.

Independent means the director had over the previous three years, and still has, no other significant financial relationship with the company. **Non-executive** means that the director is not involved in the daily management of the company.

What companies must have audit committees?

All Public Limited Companies (PLCs) as well as ‘public interest entities’, must set up audit committees.

Public interest entities are:

- companies with shares quoted on a stock exchange;
- banks and certain other credit institutions; and
- insurance companies.

The directors of other large companies can decide whether or not to establish an audit committee. However, they must report their decision and their reasons for it in the company’s financial statements.

Does the audit committee get any help to do its work?

The committee will need information from the company, especially before its meetings. This includes any reports and papers relevant to the items to be discussed at the meetings. The company secretary usually arranges this and also writes the minutes of each meeting.

The committee may sometimes need legal, accounting or other advice and may need money from the company to cover these costs.

How often should the audit committee meet?

The committee should meet regularly during the year. The chairperson decides when the committee needs to meet. Usually, the committee will meet at least three times a year. These three meetings usually take place:

- before the audit;
- when the draft financial statements have been prepared; and
- when the audit is finished.

Who attends meetings of the audit committee?

All members of the committee should attend each meeting. The committee may also ask other people to attend and answer questions. These may include the finance director, company secretary, external auditor and head of internal audit.

What should members of the audit committee be paid?

Some companies have voluntary audit committees where none of the members are paid. If a company chooses to pay the members of the audit committee, it should take account of:

- the time and effort that committee members spend preparing for meetings;
- the time and cost of going to meetings; and
- the skills that members bring to the committee.

As the chairperson normally does more work than the other committee members, they are usually paid more.

Should members of the audit committee get training?

Yes, members of the audit committee should get training.

On joining the committee, the members should be informed about what the committee does and any potential risks or challenges to the company. They should also get the chance to meet some of the staff with whom they will work.

The training delivered should also inform members of relevant changes in the law and in accounting and auditing practices. Ideally, members will have some experience of finance. However, if needed by some members, the company should provide training in reading and understanding financial statements.

When should the audit committee members be changed?

It is good for companies when new people offer fresh views within the audit committee. For this to happen, the company should appoint at least one new director to the committee every two years or so.

What other things can an audit committee do?

Recommend a new external auditor

Every year, the audit committee may consider if the external auditor should be kept or replaced. If the committee decides that the company needs a new external auditor, it should tell the board of directors. If the board decides not to follow this advice, it should explain this decision to the owners or shareholders in the company's annual report.

Review other reports

Depending on the kind of business the company is in, it may have to make reports to other government bodies, for example, regulators. The audit committee may review these reports in draft or final form.

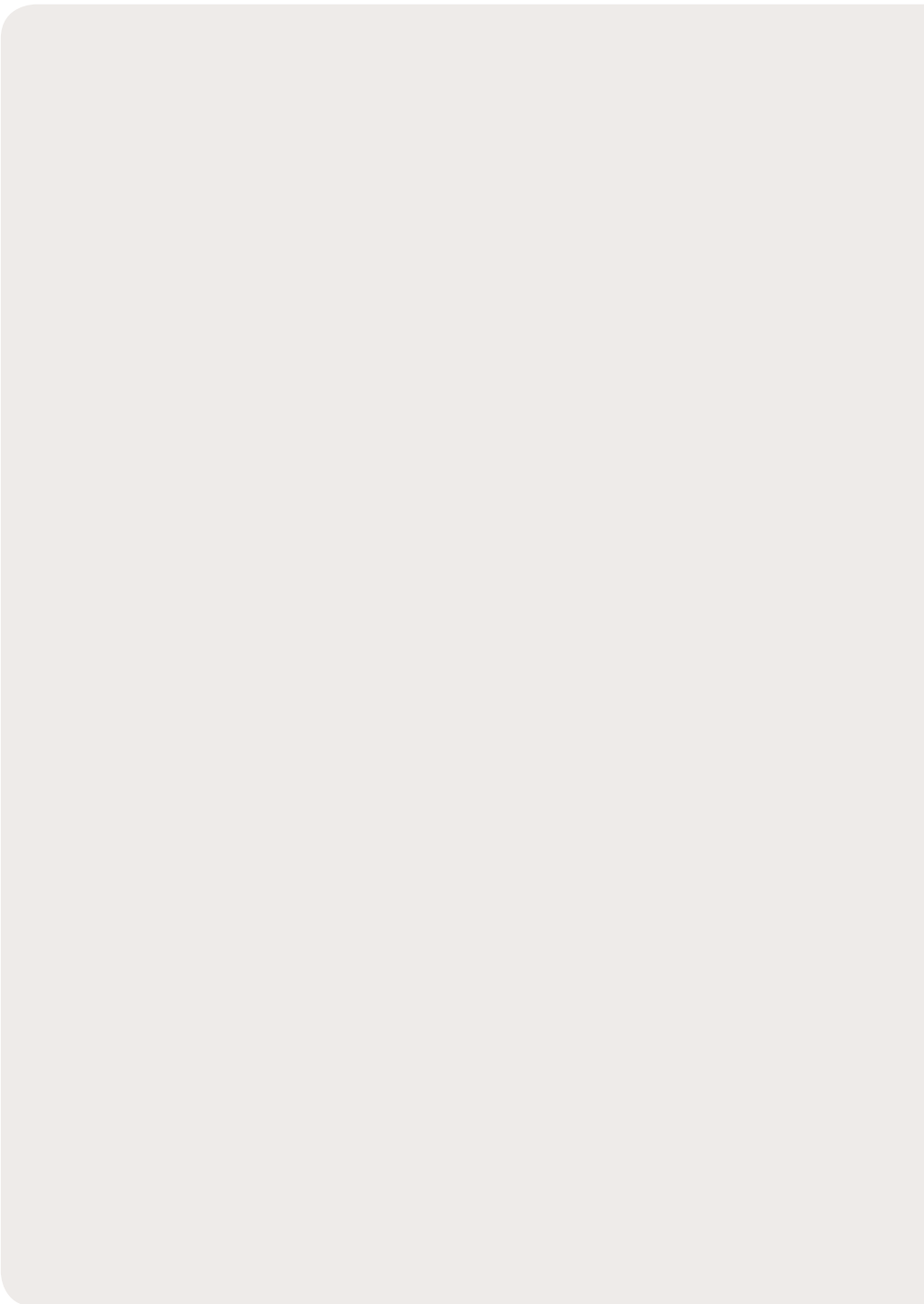
Support whistleblowers

Whistleblowers are people in a company who report when something wrong is happening. If they feel that they cannot report a wrongdoing to their manager, there should be a way to allow them to report it to someone independent who can look into what they say. The audit committee can make sure that the company provides a way to do this.

Where can I find out more about audit committees?

The Audit Committee Institute Ireland holds regular meetings and publishes papers of interest to audit committee members. See www.auditcommitteeinstitute.ie.

The Financial Reporting Council in the UK has produced a guide on audit committees for companies who have shares listed on the London Stock Exchange. This guide is available at www.frc.org.uk.



Disclaimer

This Quick Guide sets out some of the basic legal duties of companies in relation to Audit Committees. It is not a legal interpretation of any part of the Companies Act. The Director of Corporate Enforcement accepts no responsibility or liability for any errors, inaccuracies or omissions in this guide.



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*Tá leagan Gaeilge den leabhrán seo ar fáil
An Irish version of this booklet is available*