

Audit Committee Institute Assessment of audit committees

KPMG's AUDIT COMMITTEE INSTITUTE

In addition to reviewing its terms of reference, audit committee members should also review the effectiveness of the audit committee annually. A suggested framework for such a review – an audit committee self assessment – is set out in this publication.

It is intended that each audit committee member will complete this self-assessment questionnaire independently. The audit committee chairman or an external facilitator should, after collating the responses, lead a discussion on the key points arising from the questionnaire and feedback any matters of interest - focusing on those areas which clearly need improvement or where there is great variation in answers. When using a facilitator, care needs to be taken if the individual is in some way conflicted due to the closeness of their relationship with the audit committee. The assessment exercise could be carried out at a special meeting of the audit committee or at some form of 'away-day'.

The results of the self-assessment and any action plans arising should be reported to the board body after discussion with the chairman of the board.

Audit committee chairmen may wish to tailor this checklist to the specific circumstances of their committee and organisation - giving more weight to some aspects of the self-assessment than others. Appropriate weighting will be influenced by a number of factors including, but not limited to:

- the committee's terms of reference;
- the organisation's strategies and risk assessments;
- its control environment;
- the outcomes of previous self-assessments;
- the stage of maturity of the audit committee;
- the views of stakeholders on the organisation's corporate governance performance; and
- current and emerging trends and factors.

Audit committee chairmen may wish to adapt the questionnaire such that the full questionnaire is carried out on a cyclic basis – say every three to five years. In the intervening years, they may chose to evaluate the committee's effectiveness either by means of a general discussion around the audit committee table, or by use of a shortened form of the questionnaire.

A. Creating an effective audit committee

	More satisfied		Less satisfied			What could the audit committee do better or differently?
	1	2	3	4	5	
1. Are you satisfied that appropriate steps have been taken by the audit committee and board to review and approve the audit committee's terms of reference on a timely basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you satisfied that audit committee members, both individually and collectively, understand what is expected of them and the committee (eg how the committee supports the board in discharging its responsibilities with regard to financial reporting, risk management and control)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you satisfied that all audit committee members are independent of the organisation's management and exercise their own judgement; voice their own opinions; and act freely from any conflicts of interest?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Are you satisfied with the process by which audit committee members are appointed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are you satisfied with the appropriateness of the succession plans in place?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Are you satisfied that audit committee members, as a whole, have sufficient skills, experience, time and resources to undertake their duties?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Are you satisfied that the audit committee includes at least one member with recent and relevant financial experience?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Are you satisfied that the audit committee is not over reliant on any individual member (eg the committee member with recent and relevant financial experience)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Are you satisfied that the audit committee members have a sufficient understanding of the organisation and the sector in which it operates?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are you satisfied that all audit committee members demonstrate the highest level of integrity (including maintaining utmost confidentiality and identifying, disclosing and managing conflicts of interest)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Are you satisfied with the level of 'secretarial support' placed at the audit committee's disposal?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Are you satisfied with the process in place to make funds available to the audit committee to take independent legal, accounting or other advice when it reasonably believes it necessary to do so?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

B. Running an effective audit committee

	More satisfied		Less satisfied			What could the audit committee do better or differently?
	1	2	3	4	5	
1. Are you satisfied with the audit committee chairman's leadership style (eg, are they decisive, open minded and courteous; do they set a good example, allow members to contribute and hold members to high standards; do they relate well to other members/attendees, deal effectively with dissent and work constructively towards consensus)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you satisfied that the audit committee's workload is dealt with effectively?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you satisfied that the audit committee members work together constructively as a team?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Are you satisfied that the audit committee maintains constructive working relationships with those individuals who attend audit committee meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are you satisfied that the relationship between a) the audit committee and b) the CEO, CFO and members of the senior management team strikes the right balance between challenge and mutuality?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Are you satisfied that the audit committee's discussions enhance the quality of management's decision making (eg, does the audit committee engage those reporting to the committee in dialogue that stimulates and enhances their thinking and performance)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Are you satisfied that the audit committee provide effective support to the board in fulfilling its responsibilities and adds value to the organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Are you satisfied that the audit committee's work plan covers the committee's main responsibilities and maps across to any regulatory requirements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Are you satisfied that the committee's meeting arrangements (eg, frequency, timing, duration, venue and format) enhance its effectiveness?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are you satisfied that the committee's meetings allow sufficient time for the discussion of substantive matters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Are you satisfied that the audit committee meeting agendas and related background information are circulated in a timely manner to enable full and proper consideration to be given to the important issues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Are you satisfied with the quality of the audit committee papers (eg, not overly lengthy and clearly explain the key issues and priorities)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

13. Are you satisfied that sufficient time is allowed between audit committee meetings and meetings of the full board to allow any work arising to be carried out and reported to the board as appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14. Are you satisfied that audit committee meetings are free from inappropriate management influence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Are you satisfied that all meeting attendees (eg, audit committee members, executive directors, management and auditors) are appropriately involved in audit committee meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Are you satisfied with the arrangements in place for the audit committee to meet with external and internal auditors during the year without the presence of management? Are the meetings useful?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Are you satisfied that private meetings with the internal auditor are useful?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Are you satisfied that private meetings with the external auditor are useful?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19. Are you satisfied that the audit committee's meeting minutes are clear, accurate, consistent, complete and timely? Are you satisfied that they include key elements of debates and appropriate details of recommendations and any follow up action?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20. Are you satisfied that outstanding actions arising from audit committee meetings are properly followed up?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
21. Are you satisfied that the audit committee has taken appropriate steps to ensure internal and external audit cooperate appropriately to ensure the completeness of assurance coverage?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
22. Are you satisfied that there is an appropriate dialogue between internal and external auditors and management? Is 'bad news' communicated to the audit committee in a timely manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
22. Are you satisfied that the processes in place for ensuring the audit committee is kept fully informed on all material matters between meetings (including appropriate external information eg emerging risks and material regulatory changes) is working effectively?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
23. Are you satisfied that the audit committee reports to the board on a timely and accurate basis and that such communications are comprehensive, meaningful and focused?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

C. Professional development

	More satisfied			Less satisfied		What could the committee do better or differently?
	1	2	3	4	5	
1. Are you satisfied that new audit committee members are given an appropriate induction programme covering issues like: the role of the audit committee; its terms of reference; members' expected time commitment; an overview of the organisation; and the main operational and financial dynamics and risks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you satisfied with timeliness and appropriateness of ongoing professional development received by the audit committee (eg, regulatory matters, accounting and financial reporting, audit and risk)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you satisfied that audit committee members are afforded appropriate opportunities to attend formal courses and conferences, internal talks and seminars, and briefings by external advisers such as the organisation's auditors and lawyers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Are you satisfied that any induction and professional development programmes adequately equip audit committee members to understand the business environment in which organisation operates?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

D. Overseeing financial reporting

	More satisfied			Less satisfied		What could the committee do better or differently?
	1	2	3	4	5	
1. Are you satisfied that effective processes are in place to enable audit committee members to understand:						
• the appropriateness of the organisation's critical accounting policies, estimates and judgements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• the clarity and completeness of disclosures in the financial statements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• the impact on the financial statements of any developments in accounting standards or generally accepted accounting practice?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you satisfied that the audit committee robustly challenges the proposed financial reporting and seeks appropriate changes where necessary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you satisfied that the audit committee understands and approves of the degree of management bias inherent within the financial statements and other documents within its remit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

E. Overseeing risk management and internal control

	More satisfied			Less satisfied		What could the audit committee do better or differently?
	1	2	3	4	5	
1. Are you satisfied with the clarity around the role of the audit committee in providing oversight over internal financial controls; the wider aspects of internal control; and risk management systems?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you satisfied that the audit committee understands the organisation's risk appetite for each material category of risk falling within the audit committee's remit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• 3. Are you satisfied that the audit committee has an appropriate understanding of the processes in place to identify, evaluate and monitor the key risks facing the organisation [including where appropriate] financial, strategic and operational risks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Are you satisfied that appropriate processes are in place to enable the audit committee to understand how each material risk may impact the organisation's operations and financial condition?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are you satisfied that appropriate processes are in place to monitor changes in the organisation's risk profile?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Are you satisfied that appropriate processes are in place to provide the audit committee with suitable reports on the effectiveness of the systems of internal control?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Are you satisfied that appropriate processes are in place to ensure the system of key controls are fit for purpose and working as intended?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Are you satisfied with the quality, content and timeliness of the reports presented to the audit committee? Is there enough focus on risk trends and management action to address these?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Are you satisfied that the audit committee splits its time appropriately between focusing on risk identification and assessment, and time spent focused on the effectiveness of the risk management framework itself? (eg, time spent on reports and risk content v time on whether executives are taking the right approach.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

F. Overseeing external audit

	More satisfied			Less satisfied		What could the audit committee do better or differently?
	1	2	3	4	5	
1. Where applicable, are you satisfied that the audit committee plays an appropriate role in recommending the appointment of the external auditor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you satisfied that the external auditor dedicates appropriately qualified and experienced staff and resources to the organisation's audit, taking into account the skills and the breadth and depth of experience necessary to cover the organisation's business operations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you satisfied that the audit committee takes appropriate steps to ensure the head of internal audit has direct access to the audit committee and makes appropriate use of that access through informal as well as formal meetings? Should this not be the external auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Are you satisfied that the audit committee has taken the appropriate steps to ensure the independence and objectivity of the external auditor is not compromised in any way – including where the external audit provides non-audit services?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are you satisfied with the process by which the audit committee reviews and assesses the external auditors work plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Are you satisfied that the external audit work plan focuses on the organisation's key audit risks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Are you satisfied with the quality of the internal audit reports (and other documents/presentations) presented to the audit committee? Should this not be external audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Are you satisfied that the audit committee has an appropriate dialogue with the external auditor regarding the major issues that arose during the course of the audit; the key accounting and audit judgements; and the levels of errors identified during the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Are you satisfied that the audit committee takes appropriate steps to ensure management respond to the external auditor's enquiries and recommendations in a timely and fitting manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are you satisfied with both the timeliness and rigor of the process by which the audit committee reviews the effectiveness of the external auditor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

G. Overseeing internal audit

	More satisfied		Less satisfied			What could the audit committee do better or differently?
	1	2	3	4	5	
1. Where applicable, are you satisfied that the audit committee plays an appropriate role in approving the appointment or termination of the head of internal audit (or internal audit provider as applicable)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you satisfied that the internal audit function is appropriately resourced (whether it is in-house, co-sourced or outsourced) taking into account the skills and the breadth and depth of experience necessary to cover the organisation's business operations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you satisfied that the audit committee takes appropriate steps to ensure the head of internal audit has direct access to the audit committee and makes appropriate use of that access through informal as well as formal meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Are you satisfied with the process by which the audit committee reviews and approves the internal audit function's remit or terms of reference?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are you satisfied that the independence and objectivity of internal audit is not compromised in any way?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Are you satisfied with the process by which the audit committee reviews and assesses the internal audit work plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Are you satisfied that the internal audit work plan focuses on the organisation's key risks and controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Are you satisfied with the quality of the internal audit reports (and other documents/presentations) presented to the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Are you satisfied that the audit committee takes appropriate steps to ensure management respond to internal audit's recommendations in a timely and fitting manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are you satisfied with the both the timeliness and rigor of the process by which the audit committee reviews the effectiveness of the internal audit function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

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KPMG's Audit Committee Institute (ACI)

KPMG's ACI helps to enhance the awareness of effective Audit Committee processes, and provides timely information about relevant corporate governance issues and challenges in many countries and regions around the world. KPMG is the only firm in the Big Four with such a dedicated institute to provide help to Audit Committee members worldwide.

ACI worldwide

Our ACI ensures we have open discussions and up-to-date information for Audit Committee members:

- in 25 countries
- for 1000s of ACI members
- through 100s of workshops, presentations and meetings.

More information: www.kpmg.com/aci

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