APPENDIX A.

Audit Committee Guidance Questions

Annual Audit Assessment

		No Issue	Issue to be Addressed
Independence and Objectivity			
1.	Has the audit committee received documented reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the company?	☐	☐
2.	Has the audit committee received from the audit firm on an annual basis, in writing where appropriate, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, to enable it to monitor the group's auditors' compliance with professional ethical guidance and in particular has this covered the following:		
	a) the rotation of audit partners and staff?	☐	☐
	b) the level of fees that the company pays in proportion to the overall fee income of the firm, office and partner?	☐	☐
	c) the nature of other services provided to the company?	☐	☐
	d) any relationships between the audit firm and its staff and the company?	☐	☐
	e) office and business procedures including partner and senior manager incentive arrangements?	☐	☐
	f) overall confirmation of the auditors' independence and objectivity?	☐	☐
3.	Have the auditors met with the audit committee and discussed their objectivity and independence in an appropriately open and straightforward manner?	☐	☐
4.	Have the auditors provided information, including the number of former employees currently employed in senior positions in the company, to enable the audit committee:		
	a) to monitor application of the company policy on employment of former employees of the audit firm?	☐	☐
	b) to consider whether there has been any impairment, or appearance of impairment, of the auditors' judgement or independence in respect of the audit?	☐	☐
	c) to ensure compliance with the board approved company policy for the employment of former employees of the audit firm, who were part of the audit team and moved directly to the company?	☐	☐
5.	Has the audit committee taken into account best practice regarding the provision of non-audit services by the auditors and satisfied itself that:		
	a) the auditor does not audit its own firm's work?	☐	☐
	b) the auditor does not make management decisions for the company?	☐	☐
	c) no joint interest between the company and the auditors is created?	☐	☐
	d) the auditor is not put in the role of advocate for the company?	☐	☐
6.	Notwithstanding the above, does the audit committee regard the relationship between auditors and management as too close, such that the auditors may lack, or appear to lack, the required degree of objectivity?	☐	☐
7.	Have any other matters arisen or been notified to the audit committee which cast doubt on the independence of the auditors or individual members of the audit team?	☐	☐

	No Issue	Issue to be Addressed
Financial Stability and Risk Profile of the Firm		
8. By reference to the auditor's litigation record, financial assets, the structure of the firm and its professional indemnity insurance cover, has the audit committee considered the firm's financial stability and whether it has the ability to meet any claims which might arise from the audit engagement?	☐	☐
Audit Strategy		
9. Did the auditors communicate their strategy for the audit to the audit committee, and did that communication include the undernoted, where relevant:		
a) terms of reference including an engagement letter or letters covering the statutory audit and corporate governance, and an independence letter?	☐	☐
b) a relationship chart summarising the key auditor -company/group relationships by division and function?	☐	☐
c) relationship to any other auditor in the UK or overseas?	☐	☐
d) the appointment of an independent review partner who has not had any prior involvement with the company or group?	☐	☐
e) the audit approach and scope?	☐	☐
f) audit arrangements for other group companies and divisions?	☐	☐
g) audit arrangements in relation to service organisations supplying outsourced functions?	☐	☐
h) the auditors' assessment of company or group treasury operations and the proposed audit arrangements?	☐	☐
i) the level of audit materiality adopted for the audit, and justification for this amount?	☐	☐
j) the timetable for the audit and for verbal and written communication to the audit committee?	☐	☐
k) the role and scope of internal audit and the extent of any reliance to be placed by the auditors on the internal audit function?	☐	☐
l) the auditors' understanding of the company's IT strategy and their approach to the audit of IT systems?	☐	☐
m) accounting developments and financial reporting?	☐	☐
n) an assessment of group accounting and business risks, both qualitative and quantitative, and how they will be addressed as part of the audit approach, including use of experts in specialist or complex areas?	☐	☐
o) additional assurance services and the nature of any reports required in addition to the statutory audit report, eg on corporate governance matters, the business review or on environmental or ethical policies and procedures?	☐	☐
p) outline of fee proposal including reasons for major changes from prior year and fee analysis by scope and hours?	☐	☐
q) key aspects of the auditors approach to ensuring continuous audit quality?	☐	☐

	No Issue	Issue to be Addressed
10. In determining their audit strategy, did the auditors state that they would ensure that:		
a) they would evaluate the key risks of misstatement in the financial statements and allocate resources and focus their work accordingly?	☐	☐
b) they would maintain an open and regular dialogue with management so that issues are identified and dealt with early?	☐	☐
c) where the company's own internal controls are considered effective, they would test and place reliance on them where appropriate to maximise the cost/benefit of the audit?	☐	☐
d) there is a good working relationship with the company's internal audit function and, where relevant, other assurance functions?	☐	☐
e) they would maintain an appropriate level of continuity of all key personnel worldwide and would manage the audit on a basis that mirrors the company's or group's own structure?	☐	☐
f) they remain independent and objective in their assessment of the company or group financial statements and the issues which arise?	☐	☐
g) previously identified issues were followed through to a satisfactory conclusion?	☐	☐
11. Was the audit approach at each group company or division agreed in advance with the divisional controllers and determined by materiality of the company or division to the group, local legislative requirements or an assessment of the audit risks inherent in and specific to that company or division?	☐	☐
12. Where a significant part of the group's operations is audited by a firm other than the parent company auditors, has the audit committee satisfied itself that:		
a) The parent company auditors are satisfied with the existing audit arrangements as a basis for their audit opinion on the consolidated group accounts?	☐	☐
b) The audit arrangements do not contravene the rules of any relevant regulatory body (such as the US Securities and Exchange Commission, in relation to US listings)?	☐	☐
13. Was the scope of the audit work at each entity categorised under broad headings such as full scope, limited scope and high level visit, with appropriate category description?	☐	☐
14. Was the timing of the auditors' procedures and their communication with the audit committee tailored to the annual reporting cycle?	☐	☐
15. Did the auditors explain what would be communicated to the audit committee and when, eg the audit strategy, any half year review report, adverse and unexpected findings, and the final report to the audit committee?	☐	☐
Communication of Adverse or Unexpected Findings		
16. Were issues, including adverse or unexpected findings, communicated on a timely basis?	☐	☐
17. Did the auditors identify the extent to which anticipated audit and accounting issues might have an impact on the year-end process?	☐	☐
18. Was the actual or potential resolution of significant audit and accounting issues discussed and agreed with division, company and group management and documented for audit committee consideration and, if necessary, what follow up has there been?	☐	☐
19. Did the auditors report on the companies or divisions where there were either new concerns regarding the control environment or update the position where there had been historic concerns?	☐	☐
20. Did the auditors provide an update on new exposure drafts and financial reporting developments and identify those which were applicable to the company?	☐	☐

		No Issue	Issue to be Addressed
Finalisation of the Audit			
21.	Did the auditors provide the audit committee with a final report on the full year audit in advance of the board meeting to approve the annual accounts?	☐	☐
22.	Did the audit scope and fees change from that reported at the previous audit committee meetings and have such changes been satisfactorily explained in the report?	☐	☐
23.	Has a schedule of fees for non-audit services been provided in the report, and has this been approved by the audit committee?	☐	☐
24.	Did the report summarise the key features of the final phase of the audit cycle?	☐	☐
25.	Did the report provide an overview of results and report upon significant audit and accounting issues; particularly those of a subjective or judgemental nature?	☐	☐
26.	Did the auditors provide details of adjustments, misstatements or errors?	☐	☐
27.	Did the auditors ask for written representations as to the reasons why these errors were not adjusted?	☐	☐
28.	Did the auditors provide details of any occurrences of material fraud or errors and discuss these with the audit committee?	☐	☐
29.	Did the auditors request from the management, board of directors or audit committee details of any suspected or actual non-compliance with laws and regulations, and were any material matters discussed with the audit committee and appropriately taken forward?	☐	☐
30.	Did the auditors properly address the issue of going concern with the audit committee?	☐	☐
31.	Did the auditors provide their views on the qualitative aspects of the company's accounting practices and financial reporting?	☐	☐
32.	Did the auditors identify significant issues relating to accounting treatments where management's view of the preferred treatment differed from their own?	☐	☐
33.	Did the auditors confirm to the audit committee that they were satisfied that the procedures adopted by the company were sufficient to meet the relevant corporate governance requirements, including the provisions of the latest applicable code(s) and guidance, and were any recommendations for improvement considered to be practical and effective?	☐	☐
34.	Did the final phase of the audit reveal any significant audit and accounting issues which had not been identified in earlier communications to the audit committee?	☐	☐
35.	Did the auditors carry out a thorough and robust subsequent events review, including enquiry of, and discussion as appropriate with, management or the audit committee?	☐	☐
36.	Did the auditors request details of related parties and controlling parties, including enquiry of, and discussion as appropriate with, management or the audit committee?	☐	☐
37.	Did the auditors identify any areas for improvement in their audit approach and discuss these with the audit committee?	☐	☐
38.	Did the auditors make constructive recommendations on improving the company's control environment?	☐	☐

		No Issue	Issue to be Addressed
39.	Did the auditors provide details of significant weaknesses in the accounting and internal control systems found during the audit, and were any recommendations for improvement considered to be practical and effective?	☐	☐
40.	Did the auditors consider the appropriateness and effectiveness of the company's broader risk management processes, and were any recommendations for improvement considered to be practical and effective?	☐	☐
41.	Did the letter of representation address appropriate issues, and had due consideration been given by the auditors to the appropriateness of their reliance on management representations?	☐	☐
42.	Did the auditors confirm that their independence had continued throughout the audit?	☐	☐
43.	Did the auditors issue a standard unqualified audit opinion on the financial statements or, if the opinion was non-standard (qualified or subject to a significant/material uncertainty), was the issue of concern and the impact on the audit report identified at a sufficiently early stage in the audit and discussed with the audit committee?	☐	☐

Concluding Matters

		No Issue	Issue to be Addressed
44.	Did the audit team comprise audit partner(s) and staff at appropriate levels of seniority, experience and expertise?	☐	☐
45.	Has there been a good working relationship between the members of the audit engagement team and the company, in particular, its key executives, its finance department and the chairman of its audit committee?	☐	☐
46.	Has the finance director, head of internal audit and other members of senior management provided positive feedback on the quality of the audit work?	☐	☐
47.	Has the auditor been sufficiently robust in dealings with the finance director and other company management?	☐	☐
48.	Has the auditor attended meetings with the audit committee without management present, and been sufficiently transparent and incisive?	☐	☐
49.	Has the auditor notified and discussed with the audit committee any problems arising in dealings with the finance and other directors and other company or group management, including concerns as to the competence and integrity of these individuals?	☐	☐
50.	Does the audit committee consider that the audit was effective?	☐	☐
51.	Does the audit committee recommend to the board the reappointment of the incumbent auditors?	☐	☐
52.	Has the audit committee properly documented its conclusions?	☐	☐
53.	Has the audit firm requested a liability limitation agreement be put in place, and are the proposed terms reasonable and likely to be accepted by the shareholders?	☐	☐

Point to note

In undertaking the annual audit assessment the audit committee will require to engage support from various internal control functions as well as seeking input from the chief executive, the finance director and the company secretary. They will also need to discuss matters with the external auditors. In conducting this review wisdom, objectivity, and judgement will be required by the audit committee in formulating their assessment and conclusions.