Agenda Item 9(b) 1 AUASS Meeting IH June 2016

Audit Committees

A GUIDE TO GOOD PRACTICE

SECOND EDITION



Audit Committees

A GUIDE TO GOOD PRACTICE

SECOND EDITION

A joint publication from the Auditing and Assurance Standards Board, Australian Institute of Company Directors and The Institute of Internal Auditors-Australia







Contents

Introduction	1
Who should use this guide?	
Purpose of this guide	
Recent developments regarding audit committees	3
The board and board committees	5
Role of the audit committee	7
Regulatory context	9
Corporations Act 2001	9
ASX Listing Rules and Corporate Governance Guidelines	9
AASB Accounting Standards	11
AUASB Auditing Standards	11
International Professional Practices Framework	12
Accounting Professional and Ethical Standards Board	12
Australian Securities and Investments Commission	13
Australian Prudential Regulatory Authority	13
Standards Australia	14
Responsibilities of the audit committee	15
Financial reporting	15
Annual financial report	16
Other external reporting	19
External audit	20
Internal audit	21
Risk management and internal control	23
Compliance and ethics	25
Fraud	26

elationships	29
Board	29
Role	29
Responsibilities	29
External Auditor	30
Role	30
Responsibilities	31
Promoting effective two-way communication	31
Establishing whether the preconditions for an audit are present	32
Agreeing on the terms of the audit engagement	32
Establishing and maintaining independence	32
Discussing elements of audit planning	32
Discussing significant related party relationships and transactions	33
Enquiring about fraud	33
Communicating significant findings from the audit	33
Responding to questions	34
Internal Auditor	35
Role	35
Responsibilities	35
Discussing elements of internal audit planning	35
Communicating on independence	36
Communicating matters arising from an internal audit	36
Responding to requests	37
Engaging with the audit committee on matters associated with risk management, internal control and other matters	37
eveloping an effective charter	39
embership	43
Audit committee composition	43
Selection of audit committee members	44

Independent and non-executive members	4!
Audit committee chair	46
Induction of new members	47
Ongoing training	48
Rotation	49
Conducting meetings	51
Frequency of meetings	51
Structure of meetings	52
Attendance	54
Reporting by the audit committee	55
To the board	55
To shareholders	57
To other stakeholders	57
Assessing performance	59
Assessing the audit committee's performance	59
Evaluation of individual audit committee members	60
Further reading	61
Appendix 1 Sample audit committee charter	63
Sample audit committee charter	63
Appendix 2 Self-assessment guide for audit committees	73
Assessing audit committee performance	73

Appendix 3 Management representation letter	81
Matters commonly included in a management representation letter	8
Glossary	83
Chief audit executive (CAE)	84
Concise financial report	84
Continuous disclosure obligations	84
External auditor	84
Financial report (as set out in the Corporations Act 2001)	84
Financial statements	85
Internal audit activity	85
Internal auditor	85
International Financial Reporting Standards (IFRS)	85
Risk appetite	86
Risk profile	86
Representation letter	86
Those charged with governance	86
ist of Acronyms	87
Contact details	89
	_