



## Governance in focus

### Audit Committee effectiveness

2017 Edition – updated for 2018 UK Corporate Governance Code

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# How to use the effectiveness framework



## Foreword from William Touche

Dear Audit Committee Member,

Even in the short time since we issued the first edition of our Audit Committee effectiveness framework in 2015, the profile and the agenda of the audit committee has continued to grow and audit committee activities remain in the spotlight in the various regulatory reviews being undertaken at present. It is likely that further expectations and requirements will be placed on audit committees in due course but, in the meantime, we felt it was important to update our Audit Committee Effectiveness Framework to reflect the 2018 UK Corporate Governance Code (effective for periods commencing on or after 1 January 2019). A full update will be issued once the outcomes of all the reviews are known.

As well as covering all the mandated areas, we have added some key considerations around narrative reporting which audit committees should be watching out for in the current volatile economic and political environment. We have also included considerations on reporting on wider stakeholder engagement to reflect the attention the board pays to s172 of the Companies Act 2006.

This practical guide covers all aspects of the audit committee's remit for companies outside the financial sector. Regulatory requirements are drawn from the UK Corporate Governance Code, the FRC's Guidance on Audit Committees, the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Ethical Standard and the CMA's final order. We have included a number of qualitative considerations which help to differentiate an effective audit committee from one which is just ticking the boxes.

For each good practice statement, you as an audit committee member can decide whether this is an area for further focus, an area where the committee is performing as expected, or a special strength.

The framework encompasses the following areas:

	<b>Set up</b> <ul style="list-style-type: none"> <li>• Establishment, membership and appointment</li> <li>• The audit committee chairman</li> <li>• Skills, experience and training</li> </ul>
	<b>Responsibilities</b> <ul style="list-style-type: none"> <li>• Oversight of business and financial reporting and other company announcements</li> <li>• Culture, values, whistleblowing and fraud</li> <li>• Internal control and risk management systems</li> <li>• Oversight of internal audit</li> <li>• Oversight of the external audit process</li> </ul>
	<b>Making it work</b> <ul style="list-style-type: none"> <li>• Meetings of the committee</li> <li>• Resources</li> <li>• Relationship with the board</li> </ul>
	<b>Reporting</b> <ul style="list-style-type: none"> <li>• Communication with shareholders</li> <li>• Going concern and longer term viability</li> <li>• Consideration of wider stakeholders (s172)</li> </ul>

It is not only an annual Code requirement to review the effectiveness of your audit committee, but it is becoming essential to ensure you are keeping pace with all the new calls on the audit committee's time and attention. That in itself represents a huge challenge for most audit committees, and even the best committees require the support of an excellent company secretary.

We trust you will find this framework helpful and we would be very interested to hear your feedback. If you believe your evaluation could benefit from professional external challenge and facilitation, we would be delighted to help you.

Finally, we hope you will get in touch with your Deloitte partner, the board evaluation specialists named in the contact list or my Deloitte governance team if you would like to discuss any areas in more detail. And don't forget you can join us at the Deloitte Academy where we host live updates to air current issues and enable you to swap notes with your peers.

Yours faithfully,



**William Touche**  
**Vice Chairman**

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# Framework questions

			Evidence, comment or action (130 characters with spaces, max.)
1	2	3	
1 Establishment, membership and appointment			
Code provision			
1.1	The audit committee has at least three, or in the case of smaller companies two, members (24).		
1.2	The audit committee members are all independent under provision B.1.1 of the Code (24).		
1.3	At least one member of the audit committee has recent and relevant financial experience (24). N.B. The Disclosure & Transparency Rules (DTR) place a further requirement in this respect: <ul style="list-style-type: none"><li>• at least one member must have competence in accounting or auditing, or both (DTR 7.1.1A); and</li><li>• this requirement may be satisfied by the same member or by different members (DTR 7.1.2).</li></ul>		
1.4	The audit committee as a whole has competence relevant to the sector in which the company operates (24).		
Guidance on audit committees			
1.5	Appointments to the audit committee are made by the board on the recommendation of the nomination committee, in consultation with the audit committee chairman (13).		
1.6	The level of remuneration paid to members of the audit committee takes into account the level of fees paid to other members of the board. The remuneration of the audit committee chairman reflects the heavier responsibilities and time demands of this role (28).		
Qualitative considerations			
1.7	The committee members have taken steps to understand the culture, values and issues of the business and this is reflected in their behaviour.		
1.8	The personal qualities of the audit committee members generally fit well with the organisation, but are such as to avoid “groupthink”.		
1.9	There is a clear succession plan in place for future membership of the audit committee, allowing the nomination committee adequate time to consider appropriate replacements.		
2 The audit committee chairman			
Qualitative considerations			
2.1	The committee chairman is demonstrably committed to the integrity of all aspects of corporate reporting (both in the annual report and on the company website), internal control, risk management and audit quality.		
2.2	The audit committee chairman inspires confidence. The audit committee values his/her opinion and believes that the chairman demonstrates clear leadership of the committee and acts as a driving force within the committee to ensure all audit committee members are contributing effectively.		
2.3	The personal qualities of the audit committee chairman fit well with the culture of the organisation and the other members of the board.		

		1	2	3	Evidence, comment or action (130 characters with spaces, max.)
2.4	The audit committee chairman demonstrates good knowledge of the company, strong current technical knowledge and professional scepticism, and challenges management, the chief risk officer, the director of internal audit and the external auditors where appropriate.				
2.5	The audit committee chairman performs his/her role with enthusiasm, acts as a catalyst for change and brings ideas and insights to help the organisation to be more successful.				
2.6	The audit committee chairman has the confidence of shareholders and is available for meetings with them if requested.				
2.7	Where applicable, the transition to a new committee chairman was handled efficiently and effectively.				
<b>3</b>	<b>Skills, experience and training</b>				
	<b>Guidance on audit committees</b>				
3.1	The committee members bring an independent mindset to their role (14).				
3.2	[In addition to members who are considered to have recent and relevant financial experience for the purpose of Code provision C.3.1] Other members have a degree of financial literacy and experience of corporate financial matters (15).				
3.3	An induction programme is provided for new audit committee members, covering the role of the audit committee, its terms of reference, expected time commitment and an overview of the company's business model and strategy, identifying the main business and financial dynamics and risks. It could also include meeting some of the company staff (16).				
3.4	Training is provided on an ongoing and timely basis and includes an understanding of the principles of and developments in corporate reporting and regulation (17).				
	<b>Qualitative considerations</b>				
3.5	Induction training provides committee members with adequate knowledge regarding the company's business model, strategy and key stakeholder relationships, including opportunities to visit the business operations, and regarding their role and responsibilities as audit committee members.				
3.6	The ongoing training requirements of committee members are agreed at the start of each year with each board member according to their specific needs and developments arising.				
3.7	Training provided to audit committee members takes account of current regulatory and governance areas of focus as appropriate for the remit of the audit committee, e.g. cyber security, forecasting techniques.				
<b>4</b>	<b>Meeting of the committee</b>				
	<b>Guidance on audit committees</b>				
4.1	The number of audit committee meetings is sufficient to meet the audit committee's role and responsibilities, is not fewer than three per year and the meetings are held to coincide with key dates within the financial reporting and audit cycle. For example, when the audit plans (internal and external) are available for review and when interim statements, preliminary announcements and the full annual report are near completion (18).				

			Evidence, comment or action (130 characters with spaces, max.)
1	2	3	
4.2	No one other than the audit committee chairman and members receive automatic invitations to a meeting of the audit committee. The external audit partner, the finance director and head of internal audit are invited to attend on a regular basis (20).		
4.3	There is sufficient time between audit committee meetings and main board meetings to allow any work arising from the audit committee meeting to be carried out and reported to the board as appropriate (19).		
4.4	At least once a year the audit committee meets the external and internal auditors without management present (21).		
4.5	The audit committee chairman keeps in touch on a continuing basis with the key people involved in the company's governance, including the board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit (22).		
<b>Qualitative considerations</b>			
4.6	The committee's agenda is set in a timely manner and circulated well in advance of meetings to all members with appropriate supporting papers.		
4.7	There is a clear plan for the year to ensure that all matters falling within the remit of the audit committee are covered over the period of the year.		
4.8	Items on the agenda are set with consideration of regulatory requirements and the company's reporting timetable, key issues identified by management, the chief risk officer, the head of internal audit and the external auditors.		
4.9	The agenda gives appropriate focus on the most important issues, key judgements, and risk areas, ensuring that the committee's time and focus is spent on the most critical areas.		
4.10	The agenda allows for flexibility, or further meetings are held where appropriate, should the committee need to spend additional time on issues which cannot be resolved in the allotted time within meetings.		
4.11	Meetings of the committee are of an appropriate length and ensure that all key agenda items are well considered, and allow each member the opportunity to raise any further queries or areas for discussion as necessary.		
4.12	Committee members participate in active discussion and debate, with appropriate contribution from each member, around key agenda items.		
4.13	Minutes of meetings are taken and appropriately circulated to all committee members in a timely manner, with actions arising noted and their resolution tracked from meeting to meeting.		
4.14	Appropriate reference is made to other board committees to follow up on matters where there is overlap in responsibilities, for example a risk or disclosure committee.		
4.15	Meetings are well attended, with the majority of audit committee members present at each meeting and involving other participants (e.g. head of internal audit, external auditors, key members of management, other board members) where appropriate.		

			Evidence, comment or action (130 characters with spaces, max.)
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5 Resources			
Guidance on audit committees			
5.1	The audit committee is provided with sufficient resources to undertake its duties (23).		
5.2	The audit committee has access to the services of the company secretariat on all audit committee matters including: assisting the chairman in planning the audit committee's work, drawing up meeting agendas, taking minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support (24).		
5.3	The company secretary ensures that the audit committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues (25).		
5.4	The board makes funds available to the audit committee to enable it to take independent legal, accounting or other advice when the audit committee reasonably believes it necessary to do so (26).		
Qualitative considerations			
5.5	Members of the audit committee have access to sufficient current knowledge of the organisation's industry, business, performance against peers and technical issues to appropriately fulfil their duties.		
6 Relationship with the board			
Guidance on audit committees			
6.1	The main role and responsibilities of the audit committee are set out in written terms of reference tailored to the particular circumstances of the company (10).		
6.2	The audit committee and board reviews the effectiveness of the audit committee on an annual basis (11).		
6.3	Disagreements between the audit committee and the board are given adequate time for discussion. The audit committee has the right to report unresolved issues to shareholders as part of the report on its activities in the annual report (30).		
6.4	The audit committee discusses what information and assurance it requires in order to properly carry out its roles to review, monitor and provide assurance or recommendations to the board and, where there are gaps, how these should be addressed. The audit committee satisfies itself that these sources of assurance and information are sufficient and objective (31).		
Qualitative considerations			
6.5	There is clarity and agreement around the responsibilities delegated to the audit committee by the board.		
6.6	Sufficient time is allocated on the board agenda to enable a full report to be provided by the audit committee chairman on the work of the audit committee.		
6.7	The audit committee and board have established clear criteria for assessing the effectiveness of the audit committee to inform their annual assessment.		



			Evidence, comment or action (130 characters with spaces, max.)
1	2	3	
<b>7 Oversight of business and financial reporting and other company announcements</b>			
<b>Code provision</b>			
7.1	The audit committee monitors the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance and reviews significant financial reporting judgements (25).		
7.2	Where requested by the board, the audit committee provides advice on whether the annual report and accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy (25).		
<b>Guidance on audit committees</b>			
7.3	The audit committee considers key matters of their own initiative rather than relying solely on the work of the external auditor (31).		
7.4	The audit committee reviews, and reports to the board on, the significant financial reporting issues and judgements made in connection with the preparation of the company's financial statements, interim reports, preliminary announcements and related formal statements (32).		
7.5	The audit committee considers significant accounting policies and any changes to them (33).		
7.6	The audit committee reviews the clarity and completeness of disclosures in the financial statements and considers whether the disclosures made are set properly in context (34).		
7.7	If the audit committee is not satisfied with any aspect of the proposed financial reporting by the company, it reports its views to the board (35).		
7.8	The audit committee reviews related information presented with the financial statements, including the strategic report, and corporate governance statements relating to the audit and to risk management (36).		
7.9	Whenever practicable, statements made by the company containing financial information are reviewed by the audit committee before board approval is given (38).		
7.10	When advising the board on making the 'fair, balanced and understandable' statement, the audit committee assesses whether other information presented in the annual report is consistent with the financial statements (37).		
<b>Qualitative considerations</b>			
7.11	The audit committee has a clear understanding of each of the significant financial reporting issues and judgements in connection with the preparation of the company's financial statements, interim reports, preliminary announcements and related formal statements.		
7.12	The audit committee understands the pervasive nature of management forecasts both for the significant judgements affecting financial reporting and the assessment of longer term viability and is satisfied that the forecasting process is robust.		
7.13	The audit committee at least annually assesses whether the company has adopted appropriate accounting policies, including consideration of any alternative accounting treatments highlighted by the auditor.		

		1	2	3	Evidence, comment or action (130 characters with spaces, max.)
7.14	The audit committee has asked management to explain the reason that misstatements have been identified and requested that all significant adjustments are booked.				
7.15	The audit committee has asked management to explain the reason for any significant disclosure omissions reported by the auditors and where the audit committee agrees these are significant has requested that amendments are made to the annual report.				
7.16	The audit committee receives regular reports on any proposed related-party transactions prior to their consummation.				
7.17	The audit committee reviews all earnings press releases and the financial information and earnings guidance provided to analysts and ratings agencies and recommends their release to the board.				
7.18	The audit committee has considered and is satisfied with the company's tax strategy, state of tax compliance and the reporting of tax arrangements to shareholders and others.				
7.19	When requested by the board to review the annual report to determine whether it is fair, balanced and understandable, the audit committee requests and considers suitable supporting material, for example a report that lists good and bad news during the period, so that the audit committee can assess whether the balance is appropriate.				
7.20	When reviewing the annual report and other company announcements, the audit committee considers the quality of reporting on the following matters:  <i>Brexit</i> – have the consequential risks and uncertainties in the political environment been adequately reflected?  <i>Dividends</i> – is it clear how dividend policies operate in practice and how those policies may be impacted by the risks and capital management decisions facing the company?  <i>Low interest rates and fluctuating exchange rates</i> – have these been taken into consideration in relation to amounts currently reported in the financial statements?  <i>Defined benefit pension scheme reporting</i> – is there adequate explanation of the governance around the pension scheme and of the risks to which the company is exposed?  <i>Alternative performance measures</i> – are these well-defined and explained and are statutory measures given appropriate prominence?  <i>Forthcoming IFRSs</i> – is there clarity around the likely impact of each of the new standards and progress of implementation?				
8	Internal control and risk management systems				
	Code provision				
8.1	The audit committee reviews the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors or by the board itself, the company's internal control and risk management systems (25).				

			Evidence, comment or action (130 characters with spaces, max.)
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<b>Guidance on audit committees</b>			
8.2	Except where the board or a risk committee is expressly responsible for reviewing the effectiveness of the internal control and risk management systems, the audit committee receives reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by internal or external auditors (41).		
8.3	The audit committee considers the level of assurance it is getting on the company's risk management and internal control systems, including internal financial controls, and whether this is enough to help the board in satisfying itself that they are operating effectively (42).		
8.4	The audit committee reviews and recommends to the board the statements included in the annual report in relation to internal control, risk management and the viability statement (44).		
<b>Guidance on risk management, internal control and related financial &amp; business reporting</b>			
8.5	The audit committee ensures that there is broad consideration of, and agreement on, what constitutes a material control including strategic, financial, operational and compliance controls.		
8.6	Where a significant failing or weakness has been identified, the audit committee has reviewed and challenged the disclosures on the failing or weakness in the annual report and accounts to ensure that the disclosures are fair, balanced and understandable.		
<b>Qualitative considerations</b>			
8.7	The audit committee has a good understanding of how the company identifies, assesses, manages and monitors risk and sets risk appetite.		
8.8	The audit committee has a good understanding of how the company develops, operates and monitors the system of internal control.		
8.9	The audit committee is satisfied that an appropriate risk culture has been instilled throughout the company and has considered the impact of reward systems on that risk culture.		
8.10	The frequency and scope of the audit committee and board discussions on strategy, capital and risk is sufficient and appropriate.		
8.11	The nature, source, format and frequency of information on risk management and internal control submitted to the committee and the board is fit for purpose.		
8.12	The audit committee has reviewed the mechanisms management is using to monitor emerging risks and is satisfied that the company's list of principal risks is being periodically reassessed.		
8.13	The audit committee is aware of the company's cyber risk activity, receives regular updates on management and mitigation of cyber risk and has received appropriate training to meet its responsibilities.		
8.14	The audit committee has a high-level understanding of the group's tax planning and tax risk and is satisfied that these risks are being dealt with appropriately by the company's tax department.		
8.15	The audit committee receives regular reports from the company's treasury function on its risk management and internal control systems.		

			Evidence, comment or action (130 characters with spaces, max.)
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8.16	Where any significant failings or weaknesses in internal control or risk management have arisen, the audit committee has received confirmation from an appropriate source that necessary actions have been/are being taken promptly to remedy those failings or weaknesses and seen evidence of those actions or planned actions.		
<b>9 Culture, values, whistleblowing and fraud</b>			
<b>Guidance on risk management, internal control and related financial &amp; business reporting</b>			
9.1	The audit committee has assessed on behalf of the board, in considering communication systems relevant to risk management and internal controls, the company's whistle-blowing procedures.		
<b>Other regulatory considerations</b>			
9.2	The audit committee has reviewed the key controls in place within the company to mitigate the risk of material misstatement in the financial statements due to fraud and has discussed these with the auditors (section 1.2, Audit Quality Thematic Review – Fraud risks and laws and regulations (January 2014)).		
9.3	The audit committee has discussed with the auditors how they have responded to the risks of material misstatement due to fraud [as required by ISA240 para 42]. In particular: <ul style="list-style-type: none"> <li>• whether the auditors have had discussions with management (including management from outside the finance function) and internal audit regarding fraud risks;</li> <li>• the auditors' assessment of the level of risk of management override of controls; and</li> <li>• the audit procedures they have performed in response to the risk of management override; and the auditors' approach to the testing of journal entries and whether computer assisted audit techniques have been used.</li> </ul>		
9.4	The audit committee has reviewed the key controls in place to mitigate the risk of material misstatement due to non-compliance with laws and regulations and has discussed these with the auditors [as required by ISA250 para 22].		
<b>Qualitative considerations</b>			
9.5	The audit committee has good visibility of how corporate culture and behaviours are embedded and has confidence that there is alignment of business purpose, values, strategy and incentives where people at all levels of the company understand the values of the company and act in accordance with those values.		
9.6	The audit committee has reviewed the company's Staff Handbook, Code of Conduct or equivalent and is satisfied that it sets an appropriate tone on ethics and reflects the company values as set by the board.		
9.7	The audit committee is satisfied that the company has robust processes for ensuring compliance with regulatory requests in the industry within which the company operates.		
9.8	The audit committee receives regular reports from the company's compliance officer and is satisfied that compliance failures are being dealt with appropriately.		
9.9	The audit committee has discussed their oversight of management's processes for identifying and responding to risks of fraud.		

			Evidence, comment or action (130 characters with spaces, max.)
1	2	3	
9.10	The audit committee has ensured that the entity has appropriate processes and controls in place in response to the UK Bribery Act 2010.		
10	Oversight of internal audit		
	Code provision		
10.1	The audit committee monitors and reviews the effectiveness of the internal audit function. If there is no internal audit function, the audit committee considers annually whether there is a need for an internal audit function and makes a recommendation to the board (25).		
10.2	If there is no internal audit function, the audit committee can explain how internal assurance is achieved and how this effects the work of external audit (25).		
	Guidance on audit committees		
10.3	In the absence of an internal function, the audit committee assesses whether the other monitoring processes applied by management provide sufficient and objective assurance (47).		
10.4	The audit committee reviews and annually approves the internal audit charter to ensure that it is appropriate for the current needs of the organisation (48).		
10.5	The audit committee reviews and approves internal audit's role and mandate, approves the annual internal audit plan and monitors and reviews the effectiveness of its work (48).		
10.6	The audit committee ensures that the internal audit plan is aligned to the key risks of the business (49).		
10.7	The audit committee pays particular attention to the areas in which work of the risk, compliance, finance, internal audit and external audit functions may be aligned or overlapping and oversee these relationships to ensure they are co-ordinated and operate effectively to avoid duplication (49).		
10.8	The audit committee ensures that there is open communication between the different functions and that the internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its internal audit plan (50).		
10.9	The audit committee ensures that the internal audit function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors (51).		
10.10	The audit committee approves the appointment or termination of appointment of the head of internal audit (52).		
10.11	Internal audit has access to the audit committee and board chairman where necessary and has a reporting line which enables it to be independent of the executive and so able to exercise independent judgement (52).		
10.12	The audit committee is satisfied that the quality, experience and expertise of the internal audit function is appropriate for the business (53).		
10.13	The audit committee considers the actions management has taken to implement the recommendations of internal audit and whether these properly support the effective working of the internal audit function (53).		

			Evidence, comment or action (130 characters with spaces, max.)
1	2	3	
10.14	In assessing the work of the internal audit function the audit committee:		
	<ul style="list-style-type: none"> <li>meets the head of internal audit without the presence of management;</li> <li>reviews and assesses the annual internal audit work plan;</li> <li>receives reports on the results of the internal auditor's work; and</li> <li>monitors and assesses the role and effectiveness of the internal audit function in the overall context of the company's risk management system (54).</li> </ul>		
10.15	The audit committee considers whether an independent third party review of internal audit effectiveness and process is appropriate (55).		
10.16	If the external auditor is being considered to undertake aspects of the internal audit function, the audit committee considers the effect this has on the effectiveness of the company's overall arrangements for internal control, the effect on the objectives and independence of the external audit and investor perceptions in this regard (56).		
<b>Qualitative considerations</b>			
10.17	The audit committee sets a "tone from the top" which promotes acceptance and support for internal audit throughout the company.		
10.18	The audit committee chairman is responsible for appointing and removing the head of internal audit, sets their objectives and performs their appraisals against these objectives.		
10.19	The internal audit plan is sufficiently flexible and dynamic to help identify and address new risks and meet the emerging needs of the audit committee promptly.		
10.20	Communication from the internal audit team to the audit committee is frequent, timely and provides the audit committee with a clear summary of work performed, results from this work, recommendations and any mitigating actions taken.		
10.21	The audit committee reviews all red reports to determine if they arise from significant failings or weaknesses in internal control requiring disclosure in the annual report and accounts.		
<b>11</b>	<b>Oversight of the external audit process</b>		
<b>Code provision</b>			
11.1	The audit committee conducts the tender process and makes recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor (25).		
11.2	The audit committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements (25).		

			Evidence, comment or action (130 characters with spaces, max.)
1	2	3	
11.3	The audit committee develops and implements policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval, considering the impact on independence and taking into account relevant regulations and ethical guidance regarding the provision of non-audit services by the external audit firm and reports to the board on any improvement or action required (25).		
<b>Guidance on audit committees</b>			
11.4	The audit committee has primary responsibility for the appointment of the auditor. This includes negotiating the fee and scope of the audit, initiating a tender process, influencing the appointment of an engagement partner and making formal recommendations to the board on the appointment, reappointment and removal of the external auditors (58).		
11.5	The audit committee is responsible for the selection procedure for the appointment of audit firms, including overseeing the selection process and ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process (59).		
11.6	The audit committee assesses annually the qualification, expertise and resources and independence of the external auditors and the effectiveness of the audit process (60).		
11.7	The audit committee receives a report on the audit firm's own internal quality control procedures and considers the audit firm's annual transparency report (60).		
11.8	Where the external auditor has resigned, the audit committee has investigated the issues giving rise to such resignation and considered whether any action is required (61).		
11.9	The audit committee evaluates the risks to the quality and effectiveness of the financial reporting process, especially in light of the auditor's communication with the audit committee (62).		
11.10	The audit committee approves the terms of engagement and the remuneration to be paid to the external auditor, satisfying itself that the level of fee payable in respect of audit services is appropriate and that an effective, high quality, audit can be conducted for such a fee (63 & 65).		
11.11	The audit committee reviews and agrees the engagement letter issued by the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year (64).		
11.12	The audit committee reviews the scope of the external audit and if the audit committee is not satisfied as to its adequacy, it arranges for additional work to be undertaken (64).		
11.13	The audit committee develops and implements policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval, considering the impact on independence and taking into account relevant regulations and ethical guidance regarding the provision of non-audit services by the external audit firm and reports to the board on any improvement or action required (25).		
11.14	The audit committee monitors the external audit firm's compliance with the Ethical Standard, the level of fees that the company pays in proportion to the overall fee income of the firm, relevant part of it, and other related regulatory requirements (67).		

			Evidence, comment or action (130 characters with spaces, max.)
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11.15	The audit committee develops and recommends to the board the company's policy in relation to the provision of non-audit services by the auditor, taking into account the Ethical Standard and legal requirements, and keeps the policy under review (71).		
11.16	The audit committee has set and applied a formal policy specifying the types of non-audit service for which the use of the external auditor is pre-approved (73).		
11.17	At the start of each annual audit cycle, the audit committee ensures that appropriate plans are in place for the external audit (75).		
11.18	<p>The audit committee reviews with the external auditors, in a timely manner, the findings of their work [ISA260 para 16]. In particular the audit committee:</p> <ul style="list-style-type: none"> <li>discusses major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved;</li> <li>asks the auditor to explain how they addressed the risks to audit quality identified earlier;</li> <li>weighs the evidence they have received in relation to each of the areas of significant judgement;</li> <li>reviews key accounting and audit judgements;</li> <li>asks the auditor for their perception of their interactions with senior management and other members of the finance team; and</li> <li>reviews levels of errors identified during the audit, obtaining explanations from management and where necessary the external auditors, as to why certain errors might remain unadjusted (76).</li> </ul>		
11.19	The audit committee reviews and monitors management's responsiveness to the external auditor's findings and recommendations (77).		
11.20	The audit committee reviews the audit representation letters before signature by management and gives particular consideration to matters where representation has been requested that relate to non-standard issues (77).		
11.21	At the end of the annual audit cycle, the audit committee assesses the effectiveness of the audit process (78).		
The Statutory Audit services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the CMA Order)			



			Evidence, comment or action (130 characters with spaces, max.)
1	2	3	
11.22	Only the audit committee, acting collectively or through the chairman: <ul style="list-style-type: none"> <li>• negotiates and agrees the statutory audit fee;</li> <li>• negotiates and agrees the scope of the audit;</li> <li>• initiates and supervises a competitive tender process;</li> <li>• makes recommendations to the board of directors on the auditor appointment following a competitive tender process;</li> <li>• influences the appointment of the audit engagement partner; and</li> <li>• pre-approves the provision of non-audit services by the incumbent auditor (Part 5 of the CMA Order).</li> </ul>		
<b>Qualitative considerations</b>			
11.23	The audit committee had early discussions with the external auditors to identify significant issues at the earliest opportunity and to develop an appropriate audit response.		
11.24	The audit committee is satisfied that the external audit planning process has involved assessment of accounting policies, feedback on prior year disclosure deficiencies or misstatements and relevant accounting/governance developments.		
11.25	In respect of materiality, the audit committee is satisfied that it has a good understanding of: <ul style="list-style-type: none"> <li>• how materiality levels are expected to affect the level of audit work performed;</li> <li>• the benchmarks used in determining materiality levels and why these are considered to be appropriate, focusing on how they reflect the needs and expectations of users of the financial statements;</li> <li>• how materiality levels affect the extent of audit work undertaken in significant risk areas;</li> <li>• the reasons for and the effect of any increases in materiality levels;</li> <li>• how auditors are ensuring that materiality is being determined appropriately at group and component levels; and</li> <li>• the level at which unadjusted errors are being reported to the audit committee.</li> </ul>		
11.26	The audit committee has asked the auditors to explain the overall scope of work in respect of the company's subsidiaries and to explain the extent of their involvement in the work of component (subsidiary) auditors and is satisfied that this is appropriate.		
11.27	The audit committee plays an active role both in supporting and encouraging a skeptical approach in the audit of areas of key judgement, and in ensuring the auditors have access to all relevant information.		
11.28	The audit committee has established criteria for their review of the effectiveness of the external audit process and considered the role of management and the audit committee in that process.		
11.29	The audit committee has asked the auditors whether their audit has been reviewed by the firm's internal quality monitoring processes and, if so, what the main lessons learnt were; how the findings compare with inspection findings; and what actions they have taken to address any matters identified for improvement.		

			Evidence, comment or action (130 characters with spaces, max.)
1	2	3	
11.30	The audit committee has developed a clear policy on audit tendering, rotation and the provision of non-audit services in light of the latest regulatory requirements and has discussed this with key stakeholders, including shareholders.		
12	Communication with shareholders		
	Code provision		
12.1	<p>The audit committee section of the annual report includes:</p> <ul style="list-style-type: none"><li>the significant issues that the committee considered in relation to the financial statements and how these issues were addressed;</li><li>an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any tendering plans; and</li><li>in the case of a board not accepting the audit committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the audit committee explaining its recommendation and the reasons why the board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment)</li><li>where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit; and</li><li>an explanation of how auditor objectivity and independence is are safeguarded if the external auditor provides non-audit services (26).</li></ul>		
	Guidance on audit committees		
12.2	<p>In addition to the content required by the Code, the audit committee section of the annual report also includes:</p> <ul style="list-style-type: none"><li>a summary of the role of the audit committee;</li><li>how the audit committee composition requirements have been addressed, and the names and qualifications of all members of the audit committee during the period;</li><li>the number of audit committee meetings;</li><li>how the audit committee's performance evaluation has been conducted;</li><li>advance notice of any retendering plans;</li><li>the nature and extent of any interaction with the FRC's Corporate Reporting Review team;</li><li>where a company's audit has been reviewed by the FRC's Audit Quality Review team and significant findings have been raised, the committee should make disclosures about the findings and the actions they and the auditors plan to take. The discussion should not include disclosure of the audit quality category;</li></ul>		

			Evidence, comment or action (130 characters with spaces, max.)
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			<ul style="list-style-type: none"> <li>• an explanation of how the committee has assessed the effectiveness of internal audit and satisfied itself that the quality, experience and expertise of the function is appropriate for the business;</li> <li>• the committee's policy for approval of non-audit services;</li> <li>• the audit fees for the statutory audit of the company's consolidated financial statements paid to the auditor and its network firms for audit related services and other non-audit services, including the ratio of audit to non-audit work; and</li> <li>• for each significant engagement, or category of engagements, an explanation of what the services are and why the audit committee concluded that it was in the interests of the company to purchase those services from the external auditor (81).</li> </ul>
12.3	The audit committee report is signed by the audit committee chairman (80).		
12.4	The audit committee report does not repeat information disclosed elsewhere in the annual report, it provides signposts to that information (84).		
12.5	The chairman of the audit committee is present at the AGM to answer questions on the separate section of the annual report describing the audit committee's activities and matters within the scope of the audit committee's responsibilities (85).		
12.6	The audit committee ensures that where any significant failings or weaknesses in internal control or risk management have arisen, there is a suitable explanation of what actions have been or are being taken to remedy any significant failings or weaknesses (Guidance on Risk Management, 58).		
12.7	The audit committee of a FTSE 350 company includes a statement of compliance with the provisions of the CMA Order in each annual audit committee report, with additional disclosures to explain when a tender is expected to take place and why this is in the interests of the company's members where there has not been a competitive tender for five consecutive financial years (The CMA Order 7.1, 4.1-4.4).		
<b>Qualitative considerations</b>			
12.8	The audit committee acknowledges and embraces its role of protecting the interests of shareholders as regards the integrity of published financial information by the company and the effectiveness of audit.		
12.9	The audit committee chairman demonstrates personal ownership and accountability for the audit committee report by personally authoring or effective tailoring.		
12.10	The audit committee report details specific actions taken by the committee to address any significant risks or key judgement areas, allowing users of the accounts insight into how issues have been addressed rather than simply that they were considered.		
12.11	The audit committee report details specific activities undertaken by the committee during the course of the year to enhance communication with shareholders about the committee's stewardship activities.		

			Evidence, comment or action (130 characters with spaces, max.)
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12.12	Key judgements considered by the committee have been detailed in the audit committee report and a clear conclusion included. The conclusions are supported by an explanation of the matters considered, process undertaken, including sources of evidence and assurance.		
12.13	The audit committee has considered the interaction between the significant issues in their report, critical judgements/estimates in the financial statements, the principal risks and uncertainties in the strategic report and the key risks of material misstatement in the auditor's report, acknowledging that, whilst the requirements for each are different, there may be areas where more work could be done to encourage consistency.		
12.14	The audit committee chairman offers to meet significant investor bodies to discuss committee matters.		
12.15	The audit committee chairman was able to respond effectively to questions raised on audit matters at the AGM.		
<b>13</b>	<b>Going concern and longer term viability</b>		
	<b>Code provision</b>		
13.1	In annual and half-yearly financial statements, the directors should state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements (30).		
13.2	Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary (31).		
	<b>Guidance on risk management, internal control and business and related reporting</b>		
13.3	In performing the going concern assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the directors (Appendix A, para 4).		
13.4	As part of their assessment, the directors determine if there are any material uncertainties relating to events or conditions that might cast significant doubt upon the continuing use of the going concern basis of accounting in future periods (Appendix A, para 5).		
13.5	Uncertainties are considered both individually and in combination with others (Appendix A, para 5).		
13.6	In determining whether there are material uncertainties, the directors consider: <ul style="list-style-type: none"> <li>the magnitude of the potential impacts of the uncertain future events or changes in conditions of the company and the likelihood of their occurrence;</li> </ul>		

			Evidence, comment or action (130 characters with spaces, max.)
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			<ul style="list-style-type: none"> <li>the realistic availability and likely effectiveness of actions that the directors would consider undertaking to avoid, or reduce the impact or likelihood of occurrence, of the uncertain future events or changes in conditions; and</li> <li>whether the uncertain future events or changes in conditions are unusual, rather than occurring with sufficient regularity to make predictions about them with a high degree of confidence (Appendix A, para 6).</li> </ul>
13.7			For the half-yearly financial statements, directors build on their understanding of these matters since the completion of the last annual report, update their conclusions on the basis of accounting and the existence of material uncertainties and revise their disclosures as necessary (Appendix A, para 10).
13.8			For the longer term viability statement, except in rare circumstances the period chosen is significantly longer than 12 months from the approval of the financial statements. The length of period is determined, taking account of a number of factors, including without limitation: the board's stewardship responsibilities; previous statements they have made, especially in raising capital; the nature of the business and its stage of development; and its investment and planning periods (Appendix B, para 3).
13.9			The longer term viability assessment includes sufficient qualitative and quantitative analysis, and is as thorough as is judged necessary to make a soundly based statement. Stress and sensitivity analysis has been used to assist the directors in making their statement (Appendix B, para 4).
13.10			The directors consider the individual circumstances of the company in tailoring appropriate analysis best suited to its position and performance, business model, strategy and principal risks. These are undertaken with an appropriate level of prudence, i.e. weighting downside risks more heavily than upside opportunities. This includes analysis of reverse stress, starting from a presumption of failure and seeking to identify the circumstances in which this occurs (Appendix B, para 5).

			Evidence, comment or action (130 characters with spaces, max.)
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13.11	Any qualifications or assumptions to which the directors consider it necessary to draw attention in their statement are specific to the company's circumstances, rather than so generic that they could apply to any predictions about the future. They only include matters that are significant to the company's prospects and do not include matters that are highly unlikely either to arise or to have a significant impact on the company. Where relevant, disclosures cross-refer to, rather than repeat, disclosures given elsewhere (Appendix B, para 8).		
13.12	The audit committee is satisfied that reporting on going concern and the longer term viability statement gives a fair, balanced and understandable overview of the company's position and prospects (Appendix C).		
14	<b>Consideration of wider stakeholders</b>		
	<b>Qualitative considerations</b>		
14.1	The audit committee is satisfied that there is adequate explanation of how the board has considered the interests of a broader group of stakeholders, as set out in s172 of the Companies Act 2006, in fulfilling its duties. In considering this, the audit committee has included in its assessment:		
	<ul style="list-style-type: none"> <li>the likely consequences of any decision in the long term;</li> <li>the interests of the company's employees;</li> <li>the need to foster the company's business relationships with suppliers, customers and others;</li> <li>the impact of the company's operations on the community and the environment;</li> <li>the desirability of the company maintaining a reputation for high standards of business conduct; and</li> <li>the need to act fairly as between members of the company.</li> </ul>		

# Contacts

## The Deloitte Centre for Corporate Governance

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# Notes

# Notes





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