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MIoD Mauritius Institute of Directors
Promoting Corporate Governance across the board

Audit Committee Forum

Celebrating 10 years of working together

100 Best practices for Audit Committees



October 2023

Foreword

The Audit Committee Forum: Celebrating a Decade of Elevating Audit Committees in Mauritius

A decade is a significant milestone in the realm of corporate governance, and as we celebrate the 10th Anniversary of the Audit Committee Forum, there is a profound sense of achievement and pride that envelops us. In a world burgeoning with change and innovation, the Mauritius Institute of Directors (MIoD), in collaboration with KPMG, took the pioneering step ten years ago to set up the Audit Committee Forum ("Forum"). With the help of ten senior Audit Committee Chairpersons, the Forum was designed to be a beacon of guidance, support, and empowerment for Audit Committees in Mauritius by helping them meet the increasing governance demands placed upon them as well as keep abreast of rapidly changing regulatory matters, company law and accounting and auditing issues.

A heartfelt message to all members of the Audit Committee Forum who have been with us over the past ten years: As I reflect on our journey, we've been more than just a support system; we've been partners, collaborators, and at times, pioneers.

Today, we stand tall, celebrating a decade of excellence, transformation, and relentless dedication to our vision. The core of our journey has been our meticulously crafted Position Papers released annually, addressing pivotal areas including risk management, fraud prevention, IT risks, whistleblowing, retirement obligations, data protection, and business continuity. These Position Papers have been more than thought leadership publications - they've been timely reminders of the rapidly evolving roles of Audit Committees in their crucial roles in looking at different business areas, and for ensuring best corporate governance practices.

Our celebratory moments were not confined to the Position Papers alone. The Forum, in all its vibrancy, has been a melting pot of brilliant minds. Through events and webinars, we've brought in industry leaders and key observers both from the local and international spheres, diligently crafting spaces for the exchange of groundbreaking ideas, best practices, and innovative solutions. Witnessing Audit Committee members rally together, share ideas, learn, and grow has been a triumphant spectacle, reaffirming our belief in the power of collaboration.

As a result of our actions, we've been able to place Audit Committees at the forefront of the corporate governance stage. Through the upskilling of Audit Committees members, we've consistently worked with the profound commitment to elevate Mauritius's stature as an International Financial Centre. A fortified corporate governance structure beckons investors, amplifies trust, and heralds sustainable economic growth. As we stand at this ten-year juncture, it's time not just to reflect but to rejoice. Our accomplishments are the fruit of relentless effort, unwavering commitment, and the shared vision of every member, partner, and supporter. The future holds new horizons, and with the collective achievements of our past, we are poised to soar even higher.

Thank you to all our stakeholders, especially the Audit Committee Forum members, who have accompanied us on this journey. We count on your continued support to further elevate our standards and contribute to corporate governance landscape.

Here's to the journey, the achievements, and the many milestones yet to come. Our pride in our past is only eclipsed by our excitement for the future.

With profound pride and gratitude,

Sheila Ujoodha
Chairperson of the Audit Committee Forum

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Disclaimer:

The information contained in this publication disseminated by the Audit Committee Forum is of a general nature, and is not intended to address the circumstances of any particular individual or entity. In this publication, references have been made to the National Code of Corporate Governance for Mauritius (the "Code") issued by the National Committee on Corporate Governance (NCCG) and "Guidance on Audit Committees" issued by the Financial Reporting Council in the UK. The views and opinions of the Forum do not necessarily represent the views and opinions of KPMG, the Mauritius Institute of Directors and/or individual members. These guidelines are for discussion purposes only and in considering the issues, the culture of each entity should be taken into account as must the charter for each entity's Audit Committee. Although every endeavour is made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No reliance should be placed on these guidelines, nor should any action be taken without first obtaining appropriate professional advice. The Audit Committee Forum shall not be liable for any loss or damage, whether direct, indirect, consequential or otherwise which may be suffered, arising from any cause in connection with anything done or not done pursuant to the information presented herein.

This publication does not provide guidance on how to deal with individual situations, nor does it provide a complete description of relevant legislation. Reference may need to be made to the legislation and other pronouncements mentioned in the text and to the organisation's professional advisers for detailed information.

Establishing and operating an effective Audit Committee

Clarity of purpose

'Clarity of purpose' is paramount. The National Code of Corporate Governance for Mauritius alludes to 'clarity of purpose' and sets out that the main roles and responsibilities of the Audit Committee, including the delegated authority by the Board, set out in written terms of reference of the company.

All Public Interest Entities (PIE) should have, at a minimum, an Audit Committee. If not, the reason why should be explained.

A Risk Committee may enable senior management to report regularly to the Audit Committee on risk management. Its role is to regularly advise the Board on the complete process of risk management and risk governance within the company and to support management in the continuous monitoring of risk.

The Board should delegate to the Audit Committee the oversight of the internal audit function and responsibility for receiving internal audit reports.

The appointment or dismissal of the Head of Internal Audit should be with the agreement of the Audit Committee.

A company's Code of Ethics may include a statement that the Audit Committee has been given explicit responsibility for reviewing and approving any conflicts-of-interest and related-party transactions and for working with the auditor on detecting and reporting on related-party transactions.

The Audit Committee should monitor the independence and objectivity of the Internal Audit function and assess its performance against relevant standards (e.g., the Institute of Internal Auditors) and relevant work experience.

The Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the External Auditor.

In considering the use of the External Auditors for non-audit services, the impact on the auditors' independence should be assessed by the Audit Committee.

The Audit Committee should encourage consultation between Internal and External Auditors.

The Audit Committee should have one-to-one session with the Internal Auditor and also with the External Auditor in the absence of management.

Potential considerations:

- At what interval should the Board review the Audit Committee's mandate? (paying particular attention to any change of circumstances, new regulations or leading practices that may affect the Audit Committee's remit).
- Should the Audit Committee mandate be coordinated with the responsibilities of the company's other committees (whether that be Audit, Risk, Governance or Remuneration)?

Getting the 'right' people on the Audit Committee

The Code recommends that Boards should establish committees composed only of Board Members, the majority of whom should be non-executive and where possible independent.

In the case of the Audit Committee, the majority of its members should be independent.

The Chairperson of each of the Board Committees should not normally be the Board Chairperson. The Audit Committee Chairperson should be an independent director. The Chief Executive Officer (the CEO) should not be a member of the Audit Committee.



Potential considerations:

- Should the Audit Committee members have the following profile?
  - independently minded
  - understand the different pressure points within the company
  - think carefully about the judgements that need to be made
  - proactively ask good questions
  - do not just accept the recommended approach
- Do Audit Committee members need only be independent or also be seen to be so?
- Should Audit Committee members be rotated at regular intervals?
- Should the Audit Committee include a range of skills, experience, knowledge and professional qualifications?
- To be truly effective as an Audit Committee, should its members, and especially the Chairperson, have sound enthusiasm and curiosity in and for their job?
- Would you say that listening is the prerequisite to balanced analysis, judgement and challenge, but is often given too little time in our pressured and regulated schedules?
- Would you agree that the Audit Committee members should profile the right balance between formal qualifications, skills and experience with consideration of personal qualities and attributes such as integrity, strong interpersonal skills, sound judgement, the ability and willingness to challenge and probe, and the time and personal commitment to perform effectively?
- Should the Board satisfy itself with at least one member of the Audit Committee has recent and relevant financial experience, and has competence relevant to the sector in which the company operates?
- Would you say that one of the roles of the Board is 'to ask the right questions' and just as important, 'understand the answers'? If yes, would you also agree that there is a role on the Audit Committee for individuals with expertise in some of the specific risks facing the company?

Getting up to speed

The Code does not provide for any specific content concerning the training, skills, expertise and professional development of Audit Committee members specifically. All contents relate to Board Members in general.

Although it is the responsibility of the Chairperson of the Board to ensure the relevance and quality of the programme for the induction and orientation training, it may often be delegated to the Company Secretary. Indicative content for director induction is listed on the NCCG website.

The Chairperson should regularly review and agree with each director on his or her training and development needs. The Chairperson should ensure that the directors continually update their skills and knowledge. The company should provide the necessary resources for developing and updating its Directors' knowledge and capabilities.



Potential considerations:

- Should new members:
  - Be prepared to take responsibility for their own induction programme by working with Management to determine how best to get up to speed and build a strong foundation for informed oversight?
  - Have one-on-one conversations with the key players in the company to gain a better understanding of the culture, strategy, key risks, areas of concern etc., and get to know the leaders outside of the formality of the boardroom?
- Get below the top layer and into the bowels of the company. Build yourself a network of people who can be relied on to feed you information from outside the norm on what is happening in the company, why it is happening and the underlying culture.
- Ask the Secretary to the Audit Committee to ensure appropriate training opportunities are made available to Audit Committee members. A mixture of in-house briefings and externally organised seminars can be both useful and complementary?


75%
10%
15%

Making the most of the Audit Committee's time together

The Audit Committee Chairperson, in consultation with the Company Secretary, decide on the frequency and timing of its meetings. There should be as many meetings as the Audit Committee's role and responsibilities require, although it is recommended there should be no fewer than three meetings during the year, held to coincide with key dates within the financial reporting and audit cycle.



Potential considerations:

- Should the Audit Committee have control of its own agenda by considering the number of meetings that are held during the year, and whether the themes for the meeting are appropriate without being "managed" by the Executive Team?
- Is a detailed agenda not vital for keeping the Audit Committee meetings focused?
- Is it important to make time available for both 'hard' and 'soft' subjects, for decision and reflection, for introspection and evaluation?
- Is it important that the agenda is not so tight overall that it cannot be flexed to include any 'special business' or matters raised by individual Audit Committee members?
- If the only person who seems to be running at light speed is the Audit Committee Chairperson, should the Board allocate oversight duties to each Audit Committee member, rather than relying on the Audit Committee Chairperson to shoulder most of the work?
- Would you agree that one of the challenges for an Audit Committee and its Chairperson is to step back and try to figure out what's most material to the fortunes of the company, and make sure that between the Audit Committee, the financial management team, and the External Auditor, everyone's focusing their efforts on those things?
- Where necessary and relevant, should a sub-committee be established with some of the Audit Committee members to deal with specific critical subject together with experts in that area?

Hearing from the right people is important...

- Should the Audit Committee members hear only from the CEO and CFO or also make sure to hear directly from the person actually responsible for the specific area?
- Should the divisional heads and functional leads be invited to present their results, and risk and control activity, to the Audit Committee, on a rotating basis?

... as are meeting materials...

- Would you agree that the quality and timeliness of pre-meeting materials, an appropriate balance between discussion and listening to presentations, and better prioritisation of issues all help drive the effectiveness and efficiency of Audit Committee meetings?
- Should the Audit Committee try to keep presentations to a minimum by asking for pre-reads that are thorough but focused, so that at the meeting the Chairperson can say, “okay, assume we’ve all read the pre-reads, now help to zero-in on the two or three most critical things that should really be understood better". What issues are of concern? What should be watched? Should the Audit Committee hear their narratives?
- Would you agree that the Audit Committee papers must have the following characteristics?
  - be clear and easily understood
  - specify whether they are for discussion, information or decision
  - set out any options and the merits and disadvantages of each, together with recommendations

... and the dialogue around the Audit Committee table.

- Would you agree that actual face-time is so incredibly precious, anything that happens in the Audit Committee meeting ought to be well thought-out, highly focused and to the point?
- Should the Audit Committee operate the 80-20 rule, that is, focus on those few things with greatest impact?
- Would you agree that, even if it is important for the CEO to attend Audit Committee meetings and for the Audit Committee members to provide feedback to Management and to place emphasis on Management’s responsibility, the CEO should not attend Audit Committee meetings regularly?
- Would you agree that the Audit Committee meetings should not be filled with people who just sit there and do not make a contribution since it is not a good use of one’s time?
- Would you adhere to the following statement: ‘Quorum should ensure sufficient perspectives and expertises – it’s not just a numbers game’?
- Should Audit Committee meet, at least annually, privately only with the Internal and External Auditors?
- Here are a couple of questions that could be asked at an Audit Committee meeting:
  - What else would you like to share with the Audit Committee?
  - What’s bothering you? What’s keeping you up at night?
  - What do you need help on?
  - Where do you think we should be spending our time?

Beyond the formal Audit Committee meetings

While formal meetings are the heart of an Audit Committee's work, they will rarely be sufficient.

Site visits are a useful way for an Audit Committee to develop its understanding of the business, whilst at the same time building constructive relationships and reinforcing the Board's commitment to strong governance.

Between meetings, it is good to sit down with the key people without an agenda. Just visit them in their office and have a conversation about things that are on their radar ... or yours!

Do not allow anyone to script your time out in the business. Ask unconventional people questions about audit-related matters.

Today, the breadth and depth of the Audit Committee's engagement has made oversight a full-time activity. While technically not a full-time job, you need to be constantly engaged and readily available to deal with issues as they come up.

Understanding the context of big decisions is essential. Knowing the business and the capabilities of the people responsible is vital for effective challenge and informed judgement.



Access to the 'right' information

No matter how independent, knowledgeable and diligent Audit Committee members are, the Audit Committee will not be effective unless it has access to the 'right' information. The Audit Committee should actively consider what information and assurance it requires in order to properly carry out its role, where there are gaps and how these should be addressed.



Potential considerations:

- Do you ask for an explanation and persevere until you understand? Do not assume others understand something you cannot fathom.
- Have you built a strong relationship and open lines of communication between the Audit Committee, Executive Management, and the Auditors so as to reduce information deficit?
- Do you get exposure to both third-party and dissenting views as awareness of views from outside the business goes to the heart of being a good Audit Committee member?
- Do you ensure that Audit Committee members take in sufficient information from all available sources – analysts, the media and even the rumour mill, to enable informed and probing discussions?
- Do you ask for help when needed for the benefit of the Audit Committee?

Creating healthy relationships

A strong relationship between the Audit Committee, the Board, Auditors, risk function and management is paramount.

Understand the line between oversight and management. Effective oversight is difficult to achieve where Management views the Audit Committee as nothing more than a necessary corporate governance burden.

Potential considerations:

- As Audit Committee Chairperson, do you ensure a clear one-on-one channel to both the Board Chairperson and the CEO?
- Do you verify information being provided as “Trust is good but trust with verification is better!”
- Does the Audit Committee ensure that the relationship with both Management and the Auditors should be such that any serious concerns are brought to the Audit Committee’s attention promptly, but in a non-adversarial way?



The Audit Committee Chairperson is key

Audit committee effectiveness often hinges on the effectiveness of the Chairperson. The Audit Committee Chairperson should be recognised for his or her leadership and vision, and be perceived by other members and Management as able to set and manage the Audit Committee meetings' agenda. The Chairperson should be acknowledged as having the personal courage to raise and deal with tough issues and support other members to do the same.

Potential considerations:

- Has the Audit Committee Chairperson served on the Audit Committee for at least twelve months before taking up the role?
- Does the Audit Committee Chairperson ensure that everyone understands their responsibilities and feels is able to raise issues they believe are important?
- Is the Audit Committee Chairperson active between meetings and develop awareness of the company through those that have a deeper knowledge of the business?
- Does the Audit Committee Chairperson ensure that everybody has a say, even if they are not the 'financial experts' so that each person contributes to arrive at the right answers?
- As Audit Committee Chairperson, do you use this "special privilege" to go anywhere in the company at any time ... and then make sure the other members are exposed to what you have learned?



Secretariat

The Code sets out that the Audit Committee should be provided with sufficient resources to undertake its duties and have access to the services of the Company Secretariat on all Audit Committee matters.

Potential considerations:

- Does the proposed Company Secretary have significant financial or other senior management responsibilities that might impair, or be seen to impair, their independence?
- Will the Company Secretary be in a position to support the Audit Committee on a range of matters, including supporting the Chair in planning the Audit Committee's work, drawing up meeting agendas, maintaining minutes, drafting material about the Audit Committee's activities for the annual report and co-ordinating the timely circulation of supporting papers?

Keeping the Board informed

The Code recommends that the Audit Committee should report to the Board on how it has discharged its responsibilities, including: the significant issues considered in relation to the financial statements and how they were addressed; those matters that are related to the Board's assessment of whether the company is a going concern; its assessment of the effectiveness of the External Audit process, its recommendation on the appointment or reappointment of the External Auditor; and any other issues on which the Board has requested the Audit Committee's opinion.

Potential considerations:

- Has the Audit Committee's report to the Board summarised both the work carried out by the Audit Committee, explaining its importance and any conclusions drawn or actions taken, and advised the Board on any matter where it should be taking action?
- Has the Audit Committee made sure that all Board members have access to all the information discussed at meetings and considered whether they should be free to attend them in an observatory capacity?
- While certain issues might fall within the remit of a particular committee, has the Audit Committee considered whether they are so material and integral to the business that the proper forum is not the Audit Committee, but the Board itself?
- Is there a robust reporting process between the Audit Committee and the Board and are there any thoughts about what gets discussed where?

Driving improvement through regular assessment

The Code requires that the Board should undertake a formal and rigorous annual evaluation of the Audit Committee's performance.

Potential considerations:

- Are the other Board members who are not part of the Audit Committee, happy with the Audit Committee's work? Do they have confidence that their delegation of Board responsibilities was handled thoroughly and effectively?
- Sometimes the Audit Committee goes through an elaborate checklist which typically shows that everything that should have covered was in fact covered. Whilst this may be a necessary approach, is it a sufficient one?
- Is there a need to request some feedback from the Auditors and the CFO on how the Audit Committee could be more effective?
- Is a good Audit Committee assessment about getting honest feedback from all sides, and then turning that feedback into actionable behaviours?



Roles and Responsibilities Monitoring the reporting process

The Audit Committee must consider whether the company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements. It must review the clarity and completeness of disclosures in the financial statements and consider whether they are set properly in context using the Key Principles of effective reporting as recommended in the Code.

Potential considerations:

- Does quality financial reporting start with the CFO and Finance Department?
- Is it essential that appropriate succession plans are in place not only for the CFO, but for other key Risk, Audit and Finance Executives as well?
- Quarterly earnings pressure is always on the radar. Should the Audit Committee's first priority be the integrity of the financials and therefore be aware of and be on top of any pressure that could affect their integrity?
- Does the Audit Committee need to ensure that the Annual Report can be understood by people who are not trained accountants?
- Is there a recognition that the company's greatest financial reporting risks are often in those areas where Management has to make difficult judgements and estimates?



Risk management and internal control systems

The Board is responsible for risk governance and should ensure that the company develops and executes a comprehensive and robust system of risk management and maintains a sound internal control system.

The precise role for the Audit Committee in reviewing the effectiveness of internal control and risk management systems is for the Board to decide and will depend on a range of factors such as the Board size and composition, the scale, diversity and complexity of the business operations, and the nature of the significant risks facing the company. Whatever the Audit Committee's role, the Board will need to reach its own conclusion on the effectiveness of internal control and risk management systems.

The Board is responsible to determining the nature and extent of the principal risks which the company is willing to take in line with the business model and in achieving its strategic objectives, that is, assessing its risk appetite and tolerance.

The Board should satisfy itself that management systems include appropriate controls.

The Board should apply relevant risk management standards and requirements from the relevant regulator.

The Board should ensure that appropriate culture and reward systems have been embedded throughout the business.

The Board should possess a reasonable knowledge of the risks specific to the entire spectrum of the company's activities and ensure that the processes in place enable complete, timely, relevant, accurate and accessible risk disclosure to shareholders and other stakeholders.

The Audit Committee should consider the level of assurance it is getting from the Management reports on the risk management and internal control systems, including the conclusions of any testing carried out, and whether it is enough to help the Board to be satisfied that the systems are operating effectively.

Potential considerations:

- Has the Board conducted a proper evaluation of the risk appetite of the company?
- Has the Board conducted a proper evaluation of the risks facing the company?
- Is the risk register of the company adapted to its circumstances or is it too difficult to be used?
- Is the Board not becoming too risk averse?
- Are there opportunities to take on more risk in some parts of the business?
- How does Management respond to control failures and inappropriate behaviour? Does that demonstrate ethical behaviour on their part?
- What are the causes of failures or weaknesses in internal control?
- Is the same system of internal control applied at subsidiaries level?
- Is Management or the Board following up on any pending items from last Audit Committee meeting?
- Are there any comments from the Internal or External Auditors, and what is Management's response to them? If no comments, has the Audit Committee enquired on them?
- If risk management and internal control responsibilities are delegated to different committees, the Board should consider the impact of such a split of responsibilities, and whether there is no gap in oversight or duplication of efforts.
- Is there a proper whistle-blowing system in place in the company? Are employees aware of same, and do they consider the whistle-blowing system to be safe?
- Who monitors feedback gathered from whistle-blowing systems, and how queries and remedial actions are taken?

Internal Audit

Companies should consider having an effective and independent Internal Audit function that has the respect, confidence and co-operation of both the Board and the management. The Code sets out that the Audit Committee should approve the Internal Audit function's role and mandate; the annual Internal Audit plan; and monitor and review the effectiveness of its work.

Internal Audit helps accomplish the company's objectives by bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control and governance processes.

An Internal Audit helps the Board and Management maintain and improve the process by which risks are identified and managed and helps the Board discharge its responsibilities for maintaining and strengthening the internal control framework.

The Board of a company without an internal audit function should review, at least annually, the need for one. If the Board decides not to establish an Internal Audit function, the reasons must be fully disclosed in the Annual Report, with an explanation of how assurance over effective internal controls, processes and systems will be obtained.

The Head of Internal Audit should have easy and regular access to the Chairperson of the Board and the Chairperson of the Audit Committee. The Head of Internal Audit should attend and report at all Audit Committee meetings.

Those performing the Internal Audit function must possess the appropriate skills and sufficient resources for the discharge of their duties.

The Audit Committee should ensure Internal Audit has a reporting line which enables it to be independent of the Executives and able to exercise independent judgement.

The Internal Audit function must remain independent of the activities audited and must be objective in its work. The Audit Committee should monitor the independence and objectivity of the Internal Audit function and assess its performance against relevant standards.

The Audit Committee should ensure that the Internal Audit plan is aligned to the key risks of the business. Furthermore, it should ensure the work of the Risk, Compliance, Finance, Internal Audit and External Audit functions are coordinated and operated effectively to avoid duplication.





Potential considerations:

- Is the Internal Audit function of sufficient calibre in terms of size, experience and skills of its members?
- Is the Internal Audit function well respected and credible within the company?
- Are the Internal Audit reports sufficiently detailed, and have the Internal Auditors properly assess the risks and challenges arising from their work?
- Is there clear communication between the Internal Auditors and the Audit Committee in sharing any findings/ observations? Are the Internal Auditors able to talk freely to the Audit Committee members about any issue they feel uncomfortable about?
- Is there effective succession planning for the Head of Internal Audit?
- Is there a proper review of the Internal Audit plan? Are the Internal Auditors focussing on the most significant risks of the company?
- Is the current year Internal Audit plan, a duplicate of work conducted in the preceding year, or are there new areas planned to be covered?
- Are there any particular areas of the company which is not covered in the Internal Audit plan? How else is the Audit Committee obtaining assurance that all controls are working well?
- Are there sufficient level of assurance obtained in relation to all significant risks?
- Is there an adequate system in place to monitor the implementation of agreed audit recommendations? Are there regular updates and monitoring of the same?

External Auditor

The Code emphasises the Audit Committee's primary responsibility for the appointment of the External 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 Auditor.

The External Auditor that exercises independent thought and professional scepticism, combined with an in-depth knowledge of accounting standards and regulations, is the best safeguard a company can have.

The External Auditor should be able to talk candidly about difficult or sensitive issues. It may not be comfortable for the Executives but it is essential to have this kind of dialogue.

The Audit Committee should be responsible for the selection procedure for the appointment of audit firms. It should oversee the selection process of new appointees, and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.

Due to the importance, investors and regulators place on a high quality audit, the audit tender must take priority over all other non-audit activity.

It is healthy to get a fresh pair of eyes from time to time, but we need to look for a balance between the incumbent's in-depth knowledge of the company and the new ideas, audit approach and perspective that a new audit team would provide. Changing the External Auditor is not something a company should undertake lightly.

In terms of the timing of an audit tender process, in order to have a wider choice of audit firms and audit partners, it may be beneficial to tender the audit one audit cycle before the new auditor rotates in.

The conduct of the audit tender sets the tone for the audit relationship, so it is important that the Audit Committee can demonstrate ownership of the tender process.

A review of the audit process, the effectiveness and performance of the audit team and the output, quality and cost effectiveness of the audit is a valid alternative to the tender approach.

Technical challenges provide the Audit Committee with an opportunity to assess the firm's responsiveness, technical capability and even their culture.

The Code stresses the importance of the Audit Committee's role in reviewing and monitoring auditor independence and objectivity; and in developing and implementing an appropriate non-audit services policy.

The Audit Committee should set the right tone around objectivity with the External Auditor. The External Auditor may compete to carry out non-audit functions, but this should not have the unacceptable consequence of impairing effective performance of the audit functions.

At the start of each annual audit cycle, the Audit Committee should ensure that appropriate plans are in place for the audit. It should consider whether the External Auditor's overall work plan, including planned levels of materiality and proposed resources to execute the audit plan, appears consistent with the scope of the audit engagement.

The Audit Committee Chairperson should speak with the External Auditor in advance of each meeting so that the attention of the Audit Committee members can be directed to matters of substance on the agenda. His/ her relationship with the External Auditor should be such that, if there are serious concerns, the External Auditor will bring them to the Audit Committee's attention promptly.

The Audit Committee should assess the effectiveness of the audit process. The assessment of audit quality requires consideration of mind-set and culture; skills, character and knowledge; quality control; and judgment, including the robustness and perceptiveness of the auditors in handling key judgements.

Audit Committee members should have a genuine hunger for insights into the business - both good and not so good.

The Audit Committee Chairperson is in a good position to judge audit quality – especially where if he/ she sits on more than one Audit Committee and therefore can benchmark the External Auditor performance from a variety of different experiences.

The Audit Committee needs to understand the audit firm's system of quality. Audit quality is rooted in the quality of the engagement team – the quality of the Lead Engagement Partner, the sufficiency of the firm's resources, how auditors are trained and their level of expertise, their ability to be sceptical and objective and to push back on Management when needed.

Potential considerations:

- Is there a clear policy / process for the selection and appointment of the external audit firm?
- Has there been a proper evaluation of non-audit services provided in the past or to be provided by the External Auditor? Is there a clear policy for permissible and prohibited services as well as monetary approval thresholds?
- Has the Audit Committee members sufficiently challenged and understood the audit plan set by the External Auditor?
- Has there been considerations of fraud, significant risks, foreign components, valuation of assets?
- Has the Audit Committee members assessed the professional judgement and scepticism of the audit team?
- Has the Audit Committee probe into situation of "no observations" from the External Auditor?
- Has the feedback around the audit process been shared with the External Auditor to help them improve audit quality and efficiency? Has the views of others - such as the Internal Auditor, head office functions and local finance teams been considered?

Communicating with Shareholders

The Board should be responsible for ensuring that an appropriate dialogue takes place with the Company's shareholders and other key stakeholders, whose interests should be respected within the context of its fundamental purpose.

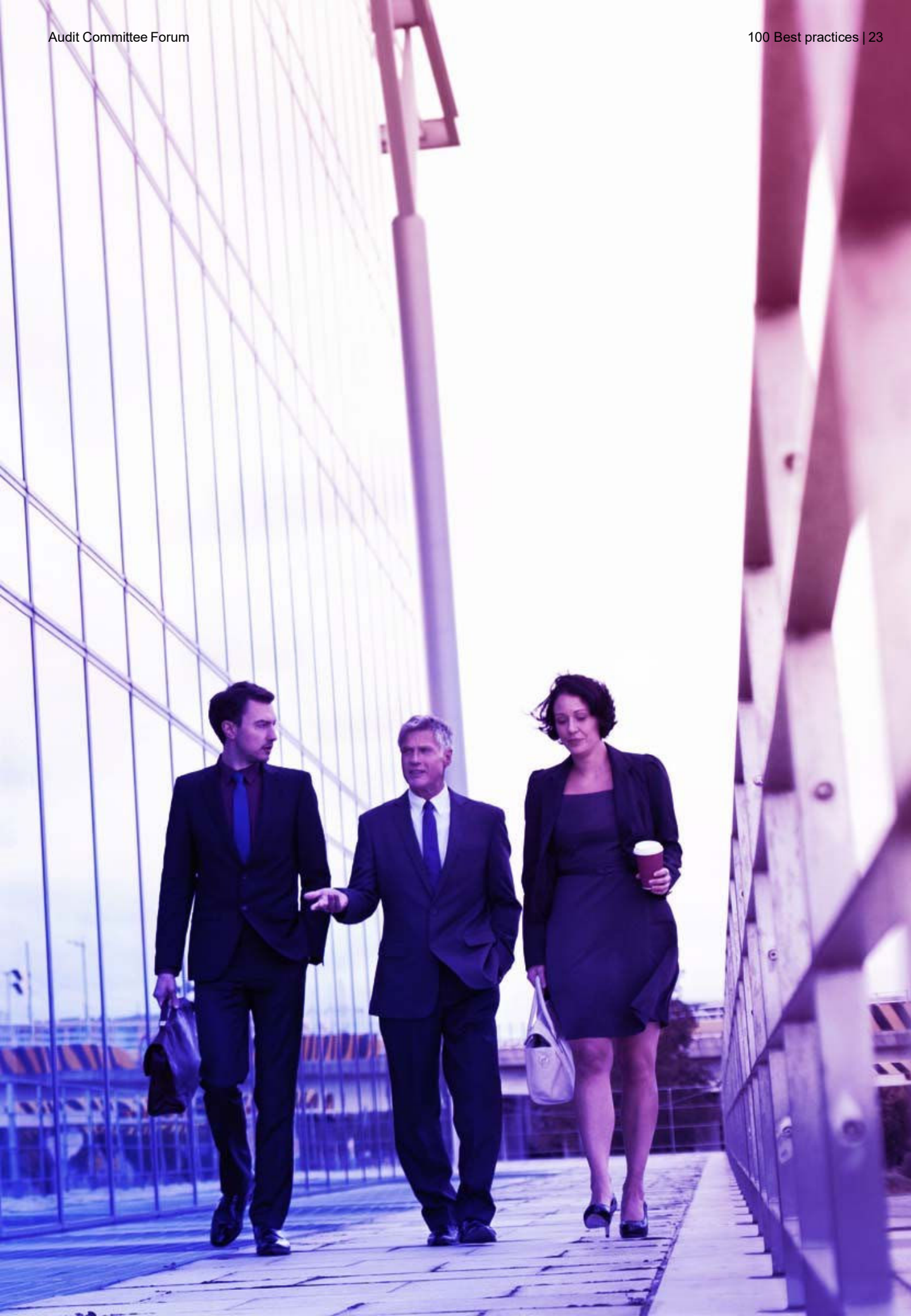
The Audit Committee's role is to help the Board to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control. It should consider the clarity of its reporting and be prepared to meet investors.

Proactively, a dialogue with major investors should be encouraged on matters within the scope of the Audit Committee's responsibilities. This might be achieved through seeking investor views on specific matters, attending meetings where executive remuneration is discussed with the Remuneration Committee Chairperson or the regular briefings with the CEO and Board Chairperson.

Potential considerations:

- Are there any concerns expressed by investors, and how those concerns have been addressed?
- Has there been regular reporting to investors on the business activities of the company?





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