About this booklet
We have produced this booklet to explain the role of audit committees as they can help to improve how an organisation is governed.

What is an audit committee?
In a company, an audit committee is a group of its directors whose main responsibilities are to:

- advise all directors about the quality of the company’s financial statements;
- work with the company’s external auditor; and
- examine the reports of the company’s internal auditor, if it employs one.

The committee may also do other things if the board of directors so decides. However, the board as a whole remains responsible for the work which it gives to the audit committee.

What companies must have an audit committee?
Under the Companies Acts, some important companies, known as ‘public interest entities’, must have audit committees.

What are ‘public interest entities’?
Public interest entities are:

- companies with shares quoted on a stock exchange;
- banks and certain other credit institutions; and
- insurance companies.

Companies and other bodies that are not public interest entities may set up audit committees if they want to.

Who is on the audit committee of a ‘public interest entity’?
The audit committee must contain at least two independent non-executive directors of the company. Non-executive means that they are not company employees. Independent means that they do not have any other significant financial relationship with the company.
One of the independent directors must be competent in accounting or auditing.

**Should other audit committees be formed in the same way?**
Ideally, yes. Audit committees should contain persons who understand accounting or are sufficiently independent to be able to do their work without being influenced by the difficulties which might arise for the company if they see any problems. Most people appointed to the audit committees should be independent directors.

**What does the audit committee do?**

**Public interest entities**
In a public interest entity, the audit committee must:
- examine how the entity produces its financial statements;
- look at the entity’s internal controls, its management of risk and its internal audit arrangements;
- review how the external auditor does their work on the statutory audit; and
- check that the independence of the audit is not affected by any other work the auditor is doing for the entity.

**Generally**
Usually, the audit committee will:
- work with the external auditor to make sure the company’s financial statements reflect its financial position fairly and accurately; and
- work with any internal auditor whose job it is to check if the company’s financial controls and other systems are working properly.

It is useful for each audit committee to have a document (known as its ‘terms of reference’) summarising what the committee is responsible for and how it will do its work.

The boards of directors of companies that are not public interest entities are free to decide what their audit committee will do.
What other things can an audit committee do?

Recommend a new external auditor
Every year, the audit committee may consider if the external auditor should be kept or replaced. If the committee decides that the company needs a new external auditor, it should tell the board of directors. If the board decides not to follow this advice, it would be good practice for them to explain this decision to the company’s owners or shareholders in the company’s annual report.

Review other reports
Depending on the kind of business the company is in, it may have to make reports to other government bodies, for example, regulators. The audit committee may review these reports in draft or final form.

Support whistleblowers
Whistleblowers are people in a company who report when something wrong is happening. If they feel that they cannot report this to their manager, there should be a way to allow them to report to someone independent who can look into what they say. The audit committee can make sure that the company provides a way to do this.

How does the audit committee do its work?
The audit committee normally selects a chairperson from among its members. The chairperson makes sure that the audit committee does what it is supposed to do. They run the committee meetings and arrange that the committee’s decisions are recorded in the minutes of the meeting.

The committee will usually develop a work programme. They may ask the company’s internal auditor to examine different parts of the business and produce a report.

The audit committee usually prepares its own report at the end of each year which says what the committee has done during the year. This report will normally form part of the company’s annual report which is sent to all shareholders.
Does the audit committee get any help to do its work?
The committee will need information from the company, especially before its meetings. This includes the reports and papers that are relevant to the items to be discussed at the meetings. The company secretary usually arranges this. They will also prepare the minutes of each meeting.

The committee may also occasionally need legal, accounting or other advice, and it may require money from the company to cover these costs.

How often should the audit committee meet?
The committee should meet regularly during the year. The chairperson decides when the committee needs to meet. Usually, the committee will meet at least three times a year. These three meetings are usually:
- before the audit starts;
- when the draft financial statements have been prepared; and
- when the audit is finished.

Who attends meetings of the audit committee?
All members of the committee should attend each meeting. The committee may also ask other people to attend and answer questions. These may include the finance director, company secretary, external auditor and head of internal audit.

What should members of the audit committee be paid?
Some companies have voluntary audit committees where none of the directors are paid. If a company chooses to pay its directors, then the amount it pays members of the audit committee should take account of:
- the time and effort that committee members spend preparing for meetings;
- the time and cost of going to meetings; and
- the skills that members bring to the committee.

As the chairperson normally does more work than the other committee members, they are usually paid more.
Should members of the audit committee get training?
On joining the committee, the members should be informed about what the committee does and what risks the company faces in its work. They should also get the chance to meet some of the staff with whom they will work.

Members should get training to keep up to date with changes in the law, accounting and auditing practices that are relevant to their work. Ideally, members will have some experience of finance, but if any members are not confident in reading and understanding financial statements, they should get training in this area.

How often should the people on the audit committee be changed?
It is good for companies when new people offer fresh views within the audit committee. For this to happen, the company should appoint at least one new director to the committee every two years or so.

Where can I find out more about audit committees?
The Irish Auditing and Accounting Supervisory Authority has published information on the law concerning the statutory audit and audit committees. See www.iaasa.ie.

The Financial Reporting Council in the UK has produced a guide on audit committees for companies who have shares listed on the London Stock Exchange. This guide is available at www.frc.org.uk/corporate/auditcommittees.cfm.

The Audit Committee Institute Ireland holds regular meetings and publishes papers of interest to audit committee members. See www.auditcommitteeinstitute.ie.

The National Council for Voluntary Organisations in the UK has a range of useful information on its website, www.ncvo-vol.org.uk. This includes model terms of reference for audit committees involved in the voluntary and community sector. These are available from www.ncvo-vol.org.uk/advice-support/funding-finance/auditing/audit-committee-model.
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Tá leagan Gaeilge den leabhrán seo ar fáil.
An Irish version of this booklet is available.