

Getting the right information

Audit Committee Questions
Audit Committee Institute

For audit committees to be truly effective, it is imperative to have both timely access to, and an understanding of, all the relevant information they need to carry out their responsibilities.



Audit committee oversight essentials ...

Despite being vigorously independent, diligent and knowledgeable, audit committee members will never be fully effective unless they have both access to, and an understanding of, all information relevant to their role.

It is paramount for the audit committee to consider what it should expect to see from management, when it should see it and how it might best be communicated.

The audit committee should insist on receiving high-quality information sufficiently in advance so that there can be thorough consideration of the issues prior to, and informed debate and challenge at, the formal meetings.

High-quality information is that which is appropriate for making decisions on the issue at hand – it should be accurate, clear, comprehensive, up-to-date and timely; contain a summary of the contents of any paper; and inform the director of what is expected of him or her on that issue.

Ultimately the chair is responsible for ensuring that audit committee members receive accurate, timely and clear information. As such, they must have open and candid conversations with management regarding the specific types of information the audit committee members require to perform their duties, with the understanding that this information needs constant refinement. Directors and management also need to be mindful that too much information can be as bad as too little information.

Apart from receiving reports and papers from management and others, the audit committee should also keep in touch with all the audit committee's stakeholders. In many companies, the audit committee regularly engages in informal meetings with the board chair, CEO and CFO and auditors to stay up to date at all fronts. Site visits are another important means of receiving the information needed for the committee to be able to effectively probe and challenge management.

Key questions for audit committees to consider:

Financial and operational performance

- Does the information obtained provide a clear view of underlying performance of all parts of the business?
- Is the committee receiving clear financial analysis that matches the current operating model of the business, highlights one-off events/distortions versus recurring business, adapts to developing issues and is consistent with the company's external financial information?
- Are the key operational challenges being recognised and addressed? Is all information received relevant, forward looking and focused?
- Do the financial reports received reflect management's best views on past and future performance?
- Does the information provide clear enough picture of performance and operations to challenge management effectively?
- Do you have a clear understanding of all significant current and expected operational matters and their anticipated financial consequences?

Governance

- Is the committee consulted on, and have access to, information relating to financial and business reporting, risk management, internal controls and audit relationships?
- Are fraud, ethics and whistle-blowing policies being assessed and does the committee see the outputs of these assessments to include governance and tone; risk assessment detection and investigation; training and awareness; monitoring and oversight?
- Does the company's IT structure match business needs?
- Are the business critical risks being managed effectively and is the information provided to the committee relevant and understandable?

Financial management

- Does the committee receive the information it needs on future funding needs, committed funding arrangements and projected debt covenant compliance?
- Is the committee made aware of downside risk and relevant contingency plans for any significant non-recurring transactions?
- What information is provided on how profits are converted into cash? Is cash generation given sufficient priority?
- Does the committee have sufficient sight on how significant financial risks are being managed? Are you satisfied with the internal controls in place and the information received over such significant risks?
- Can management demonstrate the right balance between risks and commitments, and delivery against targets?
- Does the committee have effective insight into contractual commitments?
- How do you know that tax obligations are being effectively managed and do you have the opportunity to challenge around this?
- Are you satisfied that internal and external auditors are addressing issues that are relevant? Is the committee satisfied with their audit scope, resourcing and independence?
- Do you receive consistent and reliable information from the company's finance teams? Can you see they are providing constructive challenge and working effectively with the business?
- Do investors receive a fair view of the information they need – going beyond key accounting judgments and including disclosures and management commentary?
- Does the audit committee receive relevant and understandable information on the company's IT systems and their relevance and / or vulnerabilities in terms of financial reporting?