

Audit Committee Self-assessment Guide

The following guide summarizes leading audit committee practices discussed in the "Audit Committee Effectiveness- What Works Best" report. You may use it to help assess your audit committee's performance and identify changes to consider in your processes. Audit committees may also find it beneficial to obtain feedback from management, the internal audit director, general counsel, and the external auditors on committee performance.

Summary of Self-assessment Guide

Characteristics of Effective Audit Committees	Discussed
Financial Reporting and Disclosures	
<p>Your committee: Reviews with management transactions that are <i>unusual, complex</i>, or have increased volume near period ends and their <i>accounting treatment</i>, evaluating <i>appropriateness</i> and <i>consistency</i> with members' <i>knowledge</i> of the company</p>	<input type="checkbox"/>
Risk Management and the System of Internal Control	
<p>Your committee: Clearly <i>understands</i> and agrees with the board on <i>which</i> of the <i>key risks</i> - likely those covering financial reporting and compliance with laws and regulations – it <i>oversees</i> on behalf of the board. Agrees with the board on the <i>specific scope</i> of the committee's oversight responsibilities for <i>monitoring risks</i>.</p>	<input type="checkbox"/>
Reviews the <i>approach</i> to and <i>extent</i> of <i>internal control testing by management, internal audit, and external auditors</i> and how the testing supports any related <i>reporting</i> the company does	<input type="checkbox"/>
Discusses with management, internal audit, and external auditors their <i>observations, issues, and findings</i> on <i>internal control effectiveness</i> . Understands any <i>significant</i> or <i>material control weaknesses</i> as well as management's plans to <i>remediate</i> any <i>control deficiencies</i> .	<input type="checkbox"/>
Culture and Compliance	
<p>Your committee: Evaluates the <i>"tone at the top"</i> and the <i>company's culture</i>, understanding their relevance to financial reporting and compliance</p>	<input type="checkbox"/>
<i>Understands</i> the effectiveness of the company's <i>programs</i> for ensuring <i>compliance with laws and regulations</i> , considers any <i>significant compliance issues</i> identified, and is satisfied with management's <i>actions</i>	<input type="checkbox"/>
Ensures management has an <i>appropriate code of conduct</i> . Makes sure that management provides the code, along with <i>related training</i> , to employees and periodically requires employees to <i>certify</i> their <i>compliance</i> .	<input type="checkbox"/>
Is satisfied that the company's <i>ethics</i> and <i>conduct policies</i> properly address <i>culturally</i> or <i>regionally sensitive</i> issues.	<input type="checkbox"/>
Sees that appropriate <i>support channels</i> are <i>available</i> to help employees address <i>compliance</i> and <i>ethics issues</i> .	<input type="checkbox"/>
Ensures procedures are in place to <i>receive, retain, and address complaints</i> regarding accounting, internal controls, or auditing matters. Considers the potential impact and resolution of any significant issues raised	<input type="checkbox"/>

Characteristics of Effective Audit Committees	Discussed
through the <i>whistleblower</i> program.	
<i>Oversight of Management and Internal Audit</i>	
<i>Your committee:</i> Strikes the <i>right balance</i> between <i>advising</i> management and <i>monitoring</i> management and is ready to <i>increase</i> its <i>engagement</i> if changes in circumstances warrant.	<input type="checkbox"/>
<i>Meets privately</i> with management on a <i>regular</i> basis.	<input type="checkbox"/>
Builds a <i>trusting relationship</i> with <i>internal audit</i> that includes <i>candid</i> and <i>continual communication</i> between meetings, facilitating ability to raise sensitive issues.	<input type="checkbox"/>
Ensures the role internal audit plays <i>meets</i> the <i>committee's needs</i> for assurance and provides <i>value</i> to <i>management</i> .	<input type="checkbox"/>
Approves internal audit's <i>charter</i> and reviews <i>annual plans</i> and any <i>significant changes</i> – ensuring appropriate coverage of risks and coordination of work with external auditors.	<input type="checkbox"/>
Ensures internal audit has <i>adequate resources</i> and <i>budget</i> , including quality and continuity of <i>staff</i> , with ability to supplement skills as needed.	<input type="checkbox"/>
Discusses <i>significant</i> internal audit <i>findings</i> , reported to the committee at an appropriately <i>summarized</i> level, as well as the <i>status</i> of management's remediation actions.	<input type="checkbox"/>
Ensures internal audit <i>reports directly</i> to the <i>committee</i> , as well as to an appropriately <i>senior position</i> within the company, promoting internal audit's stature and <i>objectivity</i> .	<input type="checkbox"/>
<i>Relationship with External Auditors</i>	
<i>Your committee:</i> <i>Meets privately</i> with external auditors on a <i>regular</i> basis	<input type="checkbox"/>
<i>Meetings</i>	
<i>Your committee:</i> Holds a <i>sufficient number</i> of meetings, <i>scheduled</i> at <i>appropriate points</i> , to address its responsibilities on a timely basis	<input type="checkbox"/>
Ensures meetings are of <i>adequate length</i> to allow the committee to accomplish its agenda, with <i>time</i> to <i>fully discuss</i> issues	<input type="checkbox"/>
Is satisfied it receives appropriate <i>advance material</i> for agenda topics, providing the <i>right</i> information and <i>insight</i> , and that material is received in a <i>timely</i> manner and <i>reviewed</i> by <i>members</i> before meetings	<input type="checkbox"/>
Ensures <i>minutes</i> provide <i>accurate descriptions</i> of meetings, at the <i>right level</i> of <i>detail</i> , and reviews and approves them in a timely manner	<input type="checkbox"/>
<i>Supporting Committee Effectiveness</i>	

Characteristics of Effective Audit Committees	Discussed
<p>Your committee: Has a <i>written charter</i>, which has been <i>approved</i> by the <i>board</i> of directors, that it <i>assesses</i> annually for any <i>updates</i></p>	<input type="checkbox"/>
Ensures annually that it has <i>carried out all</i> the <i>responsibilities</i> outlined in its charter	<input type="checkbox"/>
Ensures <i>new members</i> receive <i>robust orientation</i> to enable them to understand their role and get up to speed quickly	<input type="checkbox"/>
Ensures that <i>all members</i> have access to <i>continuing education</i> on business and accounting developments and other matters relevant to new responsibilities or changes in the business	<input type="checkbox"/>
Strategy and Implementation	
<p>Your committee: Reviews <i>competitive and market landscape</i> when developing strategy.</p>	<input type="checkbox"/>
Debates proposed strategy considering <i>key assumptions, major risks, required resources, strategic acquisitions</i> and <i>alternatives</i> .	<input type="checkbox"/>
Considers <i>strategic role of IT</i> in generating innovation to enhance competitiveness in the market.	<input type="checkbox"/>
Requires management to provide a <i>forecast</i> and appropriate <i>targets for measuring</i> implementation plans.	<input type="checkbox"/>

Characteristics of Effective Audit Committees	Comments and Follow-up Actions (including any personal plans)
<i>Financial Reporting and Disclosures</i>	
<p><i>Your committee:</i> Adequately understands the company's <i>business</i> and the <i>industry</i> in which it operates</p>	
<p>Invests sufficient time with a "<i>deep dive</i>" into more complex and riskier areas of accounting</p>	
<p>Understands your company's accounting policies and how they are the same as, or different from, your competitors</p>	
<p>Understands areas that involve highest level of judgment, estimation, or assumption in developing recorded estimates</p>	
<p>Receives financial reports that highlight unusual or infrequent items and their earnings impact, and significant changes from prior period</p>	
<p>Is satisfied the company adequately <i>addresses</i> the <i>risk</i> that the financial statements may be <i>materially misstated</i>, intentionally or unintentionally</p>	
<p>Understands how management and the external auditors <i>evaluate materiality</i>, both <i>quantitatively</i> and <i>qualitatively</i>, for financial reporting purposes</p>	
<p>Assesses <i>reasonableness</i> and <i>appropriateness</i> of <i>critical accounting policies</i> the company follows, discussing with management and external auditors</p>	
<p>Reviews the <i>reasons</i> for and <i>implications</i> of <i>changes</i> in <i>accounting principles</i> made at <i>management's discretion</i>, understanding stakeholders' potential reaction before approving</p>	
<p><i>Scrutinizes</i> areas involving <i>management estimates</i> that have a material impact on the financial statements and understands the reasonableness of the <i>underlying assumptions</i> and whether the amount recorded is closer to the <i>conservative or aggressive</i> end of the spectrum</p>	
<p>Discusses with management <i>substantive reasons</i> for <i>significant changes</i> in the financial statements – between reporting periods and from budget – ensuring <i>explanations</i> are <i>consistent</i> with <i>understanding</i> of the company's <i>performance</i></p>	

Characteristics of Effective Audit Committees	Comments and Follow-up Actions (including any personal plans)
Understands management's process to identify any significant <i>related party transactions</i> that occur during a reporting period and is satisfied with the related disclosures	
Reads <i>annual financial statements</i> , assessing their <i>completeness and consistency</i> with operational and other information known to members and discussing also with management and the external auditors	
Reviews <i>interim financial statements</i> and related disclosures, understanding consistency with annual reporting, <i>before filing</i> with regulators	
Understands and is comfortable with <i>press releases</i> and other <i>financial information</i> (e.g., earnings guidance, forward-looking information, information for rating agencies) routinely <i>disclosed</i> by the company, including separate reporting of <i>special items</i> or <i>non-GAAP</i> disclosures	
Reads, before publication, <i>narrative reporting</i> and related information, ensuring <i>consistency</i> with <i>financial statements, completeness</i> , and appropriate <i>transparency</i> for issues such as <i>liquidity and financing needs</i>	
Discusses <i>audit results</i> with <i>external auditors</i> , considering management's handling of corrected or <i>uncorrected misstatements</i>	
Meets periodically with <i>counsel</i> to discuss <i>litigation, claims, contingencies</i> , or other <i>significant issues</i> and their <i>impact</i> on the financial statements	
Understands how management captures <i>all relevant information</i> in the financial statements, including how the <i>management disclosure committee</i> functions	
Reviews any correspondence between the company and <i>regulators</i> regarding financial statement filings and disclosures	
Considers the impact of any identified <i>subsequent events</i> on financial disclosures	
<i>Risk Management and the System of Internal Control</i>	
<i>Your committee:</i> Is comfortable with the <i>effectiveness</i> of the company's <i>risk management</i> process	

Characteristics of Effective Audit Committees	Comments and Follow-up Actions (including any personal plans)
Has a clear understanding of how the oversight of risk management is allocated among the board	
Understands how management has a comfort that the company's key risks have been identified, and how they address the risks associated with incentive	
Takes under consideration a management ERM committee and determines level of interaction with committee	
Considers how to protect the company from actions of brokers/agents, providers and other entities with delegated responsibilities	
Understands whether <i>compensation incentives</i> could create <i>risk</i> for financial reporting	
Understands any factors that <i>increase financial reporting fraud</i> risk and how management addresses the risk	
Understands the risks of <i>bribery</i> and <i>corruption</i> and how management is minimizing those risks	
<i>Oversight of Management and Internal Audit</i>	
<i>Your committee:</i> Ensures management obtains the <i>audit committee's input</i> before making <i>key decisions</i>	
Assesses senior finance management's <i>performance</i> and <i>competence</i> , obtaining feedback from internal audit and external auditors	
Monitors <i>succession plans</i> for the <i>CFO</i> and senior finance team members	
Involves management appropriately in <i>meetings</i> and ensures <i>emphasis</i> on <i>discussion</i> , not presentation	
Plays a <i>central role</i> in <i>appointing</i> or replacing the <i>internal audit director</i> , <i>evaluating</i> his or her <i>performance</i> and <i>determining compensation</i>	
Evaluates internal audit's <i>performance</i> and operational <i>independence</i> by weighing results of any quality control reviews as well as feedback from management and external auditors	
Is aware of any key suppliers or customers experiencing	

Characteristics of Effective Audit Committees	Comments and Follow-up Actions (including any personal plans)
financial or operational difficulties	
Understands which areas present recurring challenges or problems and take the most time	
Evaluates if management look to internal audit when issues arise and is responsive to internal audit findings and recommendations	
Considers if internal audit properly leveraging technology	
Relationship with External Auditors	
Your committee: Builds a <i>trusting</i> and <i>professional relationship</i> with external auditors, ensuring <i>open</i> lines of <i>communication</i>	
Drives the <i>selection, oversight, and evaluation</i> of external auditors, obtaining management's and internal audit's input and considering replacement when appropriate	
Ensures external auditors' <i>independence</i> by <i>pre-approving</i> audit and non-audit <i>services</i> , understanding impact of fees, and evaluating type of <i>non-audit services</i>	
Reviews the <i>external audit scope</i> , understanding <i>risk coverage</i> and significant plan changes	
Receives <i>information required</i> to be <i>communicated</i> under <i>auditing</i> and <i>regulatory standards</i> and seeks insight on how the company's practices compare to those of peers	
Reviews <i>management's representation letters</i> to the auditors and inquires about any nonstandard representations	
Understands any <i>disagreements</i> between the auditors and management and determines whether <i>outside advice</i> is needed for <i>resolution</i>	
Understands management's rationale for <i>using other audit firms</i> for audit work or other services	
What to Do When Things Go Wrong	
Your committee: Understands any significant <i>identified errors</i> in previously issued financial statements and agrees with management conclusions regarding the need for <i>restatement</i>	

Characteristics of Effective Audit Committees	Comments and Follow-up Actions (including any personal plans)
Ensures management conducts a <i>thorough investigation</i> to identify and resolve all errors	
Understands its <i>role</i> and key considerations in overseeing <i>investigations</i> (for possible fraud or illegal acts) and is prepared to <i>take charge</i> when needed	
Has <i>authority</i> and makes the appropriate decision on whether to engage <i>outside advisors</i>	
Actively <i>monitors</i> investigation progress and ensures management captures <i>lessons learned</i> and applies them in future investigations	
Is satisfied a <i>crisis management plan</i> exists and enables the company to <i>respond quickly</i> and appropriately to an emerging crisis	
Committee Composition	
Your committee: Has its <i>new members</i> selected by the <i>nominating committee</i> based on <i>skills</i> and <i>attributes</i> the committee needs	
Considers, with the nominating committee, a need for <i>balancing continuity</i> with <i>fresh perspective</i> when addressing member turnover	
Has a <i>succession plan</i> for its members and chair	
Has a <i>chair</i> who possesses <i>strong leadership</i> qualities, ability to promote effective discussion and working relationships, and <i>time</i> and <i>financial expertise</i> to direct the committee appropriately	
Has <i>members</i> who <i>possess</i> critical <i>characteristics</i> such as integrity, courage, skepticism, independent judgment, and industry knowledge and have the available <i>time</i>	
Has members who are <i>independent</i> and possess requisite levels of <i>financial literacy</i> and financial <i>expertise</i>	
Is the <i>right size</i> , bringing requisite knowledge, abilities, and skills to the table, yet <i>small enough to act cohesively</i>	
Meetings	
Your committee:	

Characteristics of Effective Audit Committees	Comments and Follow-up Actions (including any personal plans)
Uses a <i>scheduling calendar</i> to ensure it <i>addresses all</i> its <i>responsibilities</i> over the course of a year, while balancing its workload	
Plans meetings properly – with the <i>chair driving</i> the <i>agenda</i> and members providing input	
Requires meeting attendance by the <i>right individuals</i> , those with <i>meaningful input</i> on agenda items, and <i>limits</i> the number of <i>observers</i> whose presence may hinder discussion	
Meets in separate <i>private sessions regularly</i> with the <i>CFO</i> , <i>internal audit director</i> , and <i>external auditors</i> and periodically with <i>general counsel</i> , <i>compliance officer</i> , <i>chief risk officer</i> , and other management - allowing <i>full</i> and <i>frank discussion</i> of potentially sensitive matters	
Has members meet <i>regularly</i> in <i>private session</i> , allowing <i>confidential discussion</i> of management's and auditors' performance and reflection on other issues	
Communicates effectively with management about issues that arise between meetings, thereby avoiding surprises	
Allows time at meetings for dialogue, with the discussion focusing on relevant topics	
Reports regularly to the <i>board</i> to discuss <i>activities</i> , key <i>issues</i> , <i>major recommendations</i> , and action plans	
Supporting Committee Effectiveness	
Your committee: Assesses <i>performance</i> of the <i>committee</i> as a <i>whole</i> annually, taking decisive corrective action and considering improvements	
Evaluates individual members' performance regularly, considering training and other needed support	
Has proper <i>administrative support</i> on an ongoing basis and the <i>authority</i> to engage <i>additional resources</i> when needed	
Strategy and Implementation	
Your committee: Reviews <i>competitive and market landscape</i> when developing strategy.	Require information on industry trends, competitors, market and financial position, customers, suppliers, economic environment — to enable sufficient insight.

Characteristics of Effective Audit Committees	Comments and Follow-up Actions (including any personal plans)
Debates proposed strategy considering <i>key assumptions, major risks, required resources, strategic acquisitions</i> and <i>alternatives</i> .	
Considers <i>strategic role of IT</i> in generating innovation to enhance competitiveness in the market.	Through use of social media tools, and cloud computing.
Requires management to provide a <i>forecast</i> and appropriate <i>targets for measuring</i> implementation plans.	
Questions to consider regarding IT and strategy risks	
What emerging technologies are in place today or planned for in the future? What are the goals of these technologies?	
Are tradeoffs involved in these new technologies (i.e. write-offs) and how are we integrating them with previous technologies (i.e., interfaces, networks)?	
Are we measuring IT risk before making IT budget decisions? How are budgeted IT dollars allocated? How will we monitor performance?	
What is the rationale for the specific vendor choice and how viable is the vendor long term? Are we using an experienced integration partner to assist us?	
How are we communicating changes, policies impacted, and training employees on these new technologies?	
In what capacity are we currently leveraging social networking and what is our potential additional use and opportunity? Do we understand what our competitors are doing?	
How are we working across functions (IA, CIO, IT) to address inherent risks, such as negative brand image, data loss, privacy and security risks, viruses and decreased productivity?	
How are we educating employees on risks and company policies? Are they adequately focused on protecting the brand?	
How do we monitor what is "out there" regarding the company and its reputation?	