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For full details please see our website at  
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The information in this leaflet is a general description only and specific advice should always be obtained before taking any action.

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**Henderson Black & Co**

CHARTERED ACCOUNTANTS

THE AUDIT

COMMITTEE

ANSTRUTHER  
CUPAR  
PITTENWEEM  
ST. ANDREWS



## THE AUDIT COMMITTEE

### Background

Following various financial scandals the area of corporate governance is the subject of ongoing reform. From early 2003 rules for listed companies have been increased and various committee reports are being applied to specify the function of Audit Committees.

### Requirements

The Combined Code was issued in July 2003 and details the requirements for listed companies. The Board is required to maintain a sound system of internal control to safeguard shareholder investment in the company's assets. The Board should establish formal arrangements to apply the financial reporting and internal control principles and maintain an appropriate relationship with the external auditor.

### Membership

The Board should establish an Audit Committee of two or more independent non-executive directors with at least one having recent and relevant financial experience. Audit Committee members must work to a high standard and should maintain a checklist of questions they should be asking on all aspects of the financial and reporting systems.

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## THE AUDIT COMMITTEE KEY POINTS

### BACKGROUND

### REQUIREMENTS

### MEMBERSHIP

### COMMITTEE ROLE

### THE ANNUAL REPORT

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## THE AUDIT COMMITTEE

### Committee Role

The terms of reference of the Audit Committee should be set out in writing and should include:

- a) monitoring integrity of financial statements and other announcements.
- b) review of internal financial controls.
- c) review of internal audit function.
- d) make recommendations to board for company meetings relating to relations with, appointment of and remuneration of external auditors.
- e) monitor independence, objectivity and effectiveness of external auditors.
- f) develop policy of engagement of external auditors for non-audit work.
- g) assess the risk appraisal and risk management systems and procedures unless done by a separate committee.

### The Annual Report

The responsibilities and work of the Audit Committee should be described in a separate section of the annual report for listed companies. For other entities it may be appropriate to consider some form of disclosure and this may be separately addressed by any applicable Statement of Recommended Practice.

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