

Audit Committee Institute Report on the Audit Committee's activities – a framework

KPMG's AUDIT COMMITTEE INSTITUTE

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As a result of the financial crisis, many boards are reassessing the adequacy and effectiveness of the company's governance processes including the disclosure of the audit committee's activities. Although there are no detailed guidelines on reporting audit committee's activities of listed companies in mainland China, the China Securities Regulatory Commission (CSRC) and State Economic and Trade Commission (SETC) jointly issued Corporate Governance Rules for Listed Companies in 2002, which set out the primary role and responsibilities of the audit committee covering its oversight responsibilities of external audit, internal audit, financial information and disclosures, and evaluation of internal control system. Recently the five Chinese government authorities and regulatory bodies i.e. Ministry of Finance (MOF), CSRC, National Audit Office (NAO), China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC), jointly issued the Basic Standard of Enterprise Internal Control (Basic Standard) in June 2008 for the listed companies on the Shanghai and Shenzhen stock exchanges to perform self-evaluation of the effectiveness of its internal controls and issue control self-assessment. The Basic Standard specifies that the audit committee is responsible for the monitoring of effective implementation of internal controls as well as the issuer's control self-assessment.

The Hong Kong Listing Rules set out the principal guidelines and disclosure requirements in relation to audit committee's activities in listed companies, which have been developed with reference to international standards such as the Combined Code in the UK. Such disclosure requirements, while intended primarily for the issuers listed on the Hong Kong Stock Exchange, can also serve as a useful guide to listed companies in mainland China on current leading practices.

A suggested outline for such a report on audit committee's activities is set out below.

Role of the audit committee

- Set out the main responsibilities of the audit committee and, if possible, the web addresses where detailed terms of references can be found.
- Details of non-compliance on establishing an audit committee and an explanation of the remedial steps taken by the listed issuer to address such non-compliance.

Composition of the audit committee

- Names and appointment/ resignation dates of the chairman, members and secretary.
- Details of the appointment process including relevant qualifications and specific skills of the members. Why are these people appropriate members of the audit committee?
- Resources available to committee members including the availability of company secretary and training/ assistance provided during the year. Were external advisors used during the period?

Meetings

- Set out the frequency of meetings and attendance record of each audit committee member, on a named basis.

Remuneration of the members of the audit committee

- Cross reference to the remuneration report any specific policies in relation to the members of the audit committee.

Financial statements

- Describe the activities carried out by the audit committee during the financial year in order to monitor the integrity of the issuer's financial statements.

Financial reporting system and internal control

- Describe the work performed by the audit committee during the year in discharging its responsibilities in its review of the issuer's financial reporting, internal control, risk management systems and other duties required.

External auditors

- Provide an analysis of remuneration in respect of audit and non-audit services provided by the external auditors, which must include details of the nature of the services and fees paid of each significant non-audit service assignment.
- If the board does not accept the audit committee's recommendation in relation to the selection, appointment and removal of external auditors, explain its recommendation and the reasons why the board has taken a different view from the audit committee.

Contact us

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- in 25 countries
- for 1000s of ACI members
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