

Roles and responsibilities of audit committees

As set out by the Capital Market Authority

Board Leadership Centre



The issuance of the new Companies Law changed the roles and responsibilities of board directors, while for audit committees, the Corporate Governance Regulations, as they set out by the Capital Market Authority (CMA), remain the foundation for their roles and responsibilities. These regulations, first published on 13 February 2017 and amended on 18 January 2023, are the basis for paper in which we highlight some of the critical aspects of audit committee members to consider while carrying out their responsibilities based on these regulations.



Establishing an audit committee

The board of directors resolves to form an audit committee comprising of at least three members capped at five members, with at least one independent member with accounting or finance background. Members should not have worked for the company's finance department, executive management, or external auditor in the preceding two years. No member should be on audit committees of more than five listed joint stock companies at the same time.

The audit committee shall convene periodically, at least four times per financial year, including meetings with the company's external auditor and internal auditor. The internal and external auditors may call for meetings with the audit committee at any time as needed.

Upon finding or making a decision, the committee must inform the board of directors transparently and present its minutes, which contain the results of its work and any reports the committee has issued, to the board of directors on a regular basis for decision-making purposes. To ensure that the committee practices the work entrusted to it as it should be, the board of directors must follow up regularly with it.

The duties of the audit committee, whether it was internal audit, external audit, or when it comes to financial reports, ensuring compliance or other matters shall include the following:

Financial reports:

- Review and evaluate the company's interim and annual financial statements to ensure that they are accurate, complete, and fairly presented in accordance with generally accepted accounting principles (GAAP).
- Provide the audit committee's opinion on the fairness and accuracy of the financial statements to the board of directors.
- Assess the effectiveness of the company's internal controls over financial reporting and make recommendations to the board for improvement.
- Review and analyze significant accounting estimates and accounting policies in the financial statements and provide its view and recommendations to the board.
- Investigate any issues raised by the company's chief financial officer, compliance officer, or external auditor regarding the financial statements or internal controls.



The duties of an audit committee

As stated by CMA, the audit committee assists the board of directors in performing its duties and fulfilling its responsibilities related to the functions, tasks and responsibilities assigned to it. The audit committee is responsible for ensuring the effectiveness and efficiency of the internal control system as well as submitting recommendations relating to the activation and development of the internal control system to the board of directors.

Internal audit:

- Oversee the company's internal audit function and ensure that it is adequately resourced and effective.
- Review and approve the internal audit charter and audit plan.
- Receive and review internal audit reports and follow up on the corrective actions taken.
- Meet regularly with the internal auditor to discuss audit findings and recommendations.

External auditor:

- Recommend to the board the appointment, compensation, and dismissal of the external auditor.
- Assess the independence, objectivity, and qualifications of the external auditor.
- Review and approve the external audit plan and scope of work.
- Receive and review the external auditor's reports and discuss them with the external auditor.
- Resolve any disagreements with the external auditor.

Ensuring compliance:

- Oversee the company's compliance with all applicable laws and regulations.
- Review and approve the company's code of conduct and other policies and procedures related to compliance.
- Investigate any allegations of misconduct or violations of the company's code of conduct or policies and procedures.
- Report to the board on any compliance issues that the committee deems necessary.
- Review the contracts and proposals with related parties and provide recommendations to the board.



Conflict resolution

In the event of a conflict between the audit committee's recommendations and the board of directors' resolutions, or if the board does not act on the committee's recommendations, the board's report shall include the following:

- The audit committee's recommendations and the justifications for those recommendations.
- The board's reasons for not following the audit committee's recommendations.

Examples of a conflict could be linked to appointing or dismissing the company's external auditor, determining external auditor's remuneration, assessing external auditor's performance, and appointing the internal auditor.



Confidential reporting

The audit committee may develop a process to enable the company's employees to report confidentially any inaccuracies in the financial statements or any other matter(s) of concern to the audit committee. Any matter reported, shall be investigated independently by the audit committee and appropriate follow-up actions taken.

Principle rights of the audit committee

In order to perform its duties, the audit committee may:

- Inspect the company's records and documents as deemed necessary.
- Request any clarification or statements from the board members or the executive management.
- Request the board to call for a general assembly meeting if the audit committee's activities have been hindered by the board or if the company has suffered significant loss or damage.

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Board Leadership Centre

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