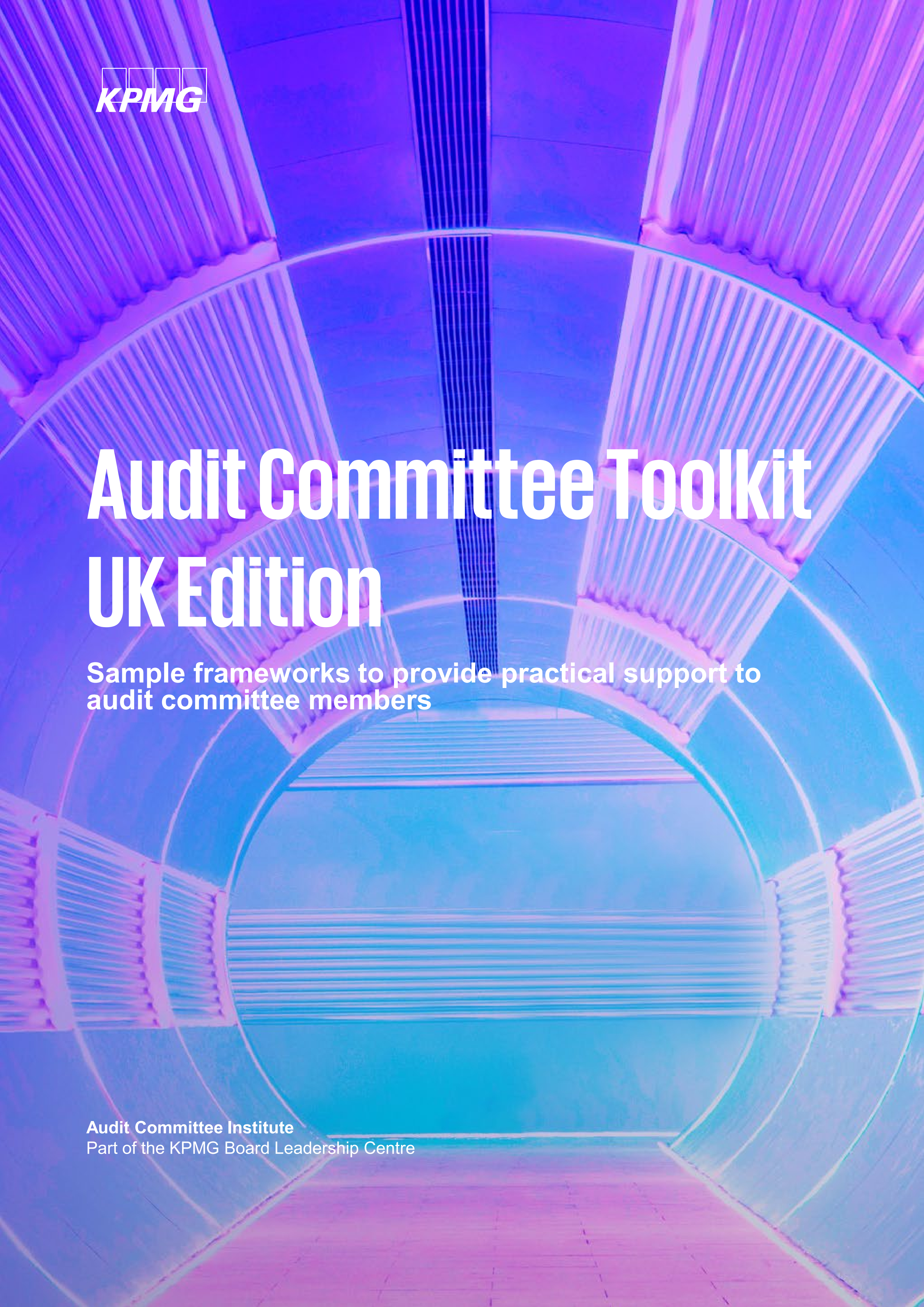


Audit Committee Toolkit UK Edition

Sample frameworks to provide practical support to audit committee members

Audit Committee Institute
Part of the KPMG Board Leadership Centre

About the KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

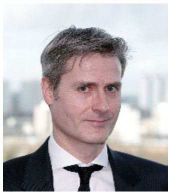
Learn more at www.kpmg.com/uk/blc.

Contents

Introduction

As a follow-up to the 'Audit Committee Guide – UK Edition', this Toolkit is an expanded collection of practical and useful frameworks providing audit committee members with examples they can consult and tailor when carrying out certain tasks as part of their audit committee oversight duties.

The appendices supplied within the guide and this supplementary toolkit are intended to provide practical support and are not a prescriptive or definitive list of frameworks available to audit committee members.



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APPENDIX 1

Audit committee Terms of Reference

The Chartered Governance Institute UK & Ireland have prepared model terms of reference for the audit committee of a company seeking to comply fully with the requirements of the UK Corporate Governance Code, published in July 2018 (the Code) and reflects the FRC Guidance on Audit Committees (FRC Guidance), published in April 2016.

The model Terms of Reference draw on the experience of company secretaries and is based on good practice as carried out in some of the UK's largest listed companies. The model terms of reference are intended as a guide for companies to adapt to their needs. In particular:

— Companies with additional primary listing(s) may need to amend the terms of reference in light of additional requirements in the relevant country, in particular, the US Sarbanes-Oxley Act 2002.

— Some responsibilities that are relevant to certain companies or sectors only are shown in square brackets.

— There are a number of responsibilities that may be carried out by the audit committee, which, alternatively, may be carried out by another board committee or at board level and these have been mentioned in footnotes.

Download the Model Terms of Reference here

APPENDIX 2

In-camera session with the auditor

Most audit committees want to meet the external auditor in a private session where management is not present.

Typically, there should be few items to discuss. All key matters related to financial reporting should have been reviewed in a candid and robust manner with management, the audit committee and the auditor during the audit committee meeting. The audit committee can use the private session as a follow-up for answers given at the audit committee meeting or for more open-ended questions such as those listed below. The in-camera session can focus on areas where the auditor can provide additional, candid, and often confidential, comments to the audit committee on other matters. The in-camera session gives the audit committee an opportunity to explore such matters in a frank and open forum. In addition, the audit committee may have more knowledge than the auditor on other matters, and this session allows the audit committee an opportunity to talk to the auditor about them.

Overall, in-camera sessions play an important role in the development of a trusting and respectful relationship between the audit committee and the auditor. Questions often focus on one or more of the following areas:

— Attitudes: Management's attitude toward financial reporting, internal controls and the external auditor.

— Resources: The adequacy of people and other resources in the financial reporting team and the internal audit function.; and potentially other key executives in the UK and at significant components of the organisation.

— Relationships: The nature of the relationship between the auditor, management and the internal auditor.

— Other issues: Other issues of concern to the audit committee or the auditor.

The following is a list of illustrative questions. It is not an exhaustive list but is intended to stimulate thought as to the type of issues that could be raised with the auditor.

Attitudes

— What is your assessment of the tone from the top?

— What do you believe are the reasons management did not adjust for the uncorrected audit differences?

— Does management have plans to correct these audit differences in the future?

— Was management fully supportive of the corrected audit differences?

— What is your assessment of the quality of the company’s financial reporting, narrative reporting, and press releases?

— How does this company’s approach to financial reporting and internal controls compare to other companies in the industry?

— Is there excessive pressure on management or operating personnel to meet financial targets including sales or profitability incentive goals?

— Is there excessive pressure to meet unrealistic or aggressive profitability expectations by investment analysts or others?

— What is your assessment of management’s approach to disclosure controls and internal control over financial reporting?

— What is your assessment of managements approach to internal audit and other recommendations

Resources

— Do the finance and internal audit functions have the appropriate number of people?

— Do they have a sufficiently broad range of knowledge and experience to be able to deal with the types of transactions faced by the company?

— Has management adequately responded to any int?

— Are there other areas where internal audit should focus its activities?

— If the company does not have an internal audit function, what is your assessment of the need to have one?

— Do you consider that the executive leadership have relevant capability and sufficient capacity to deliver their roles effectively

Relationships

— Did you receive full cooperation during the audit and did you get full, candid answers to all questions that were asked?

— Was management forthcoming, open and candid in discussions with you?

— How are your relationships with financial management personnel? Internal audit? CEO? CFO?

— What was the nature of any consultations that were held with other accountants or auditors?

Other issues

— Did you receive everything you requested on a timely basis?

— Did you have adequate time to carry out all your audit procedures?

— Is the audit fee at an appropriate level?

— On what issues was the most amount of audit time spent?

— What is the most complex issue that was encountered during the audit that has not been discussed at the audit committee meeting?

— What were the two or three issues that you spent the most amount of time discussing with management?

APPENDIX 3

Specimen year-end timetable

Year-end reporting timetables will vary for a number of reasons. The timetable illustrated below is typical for a company with a December year-end.

Year-end	31 December
Proforma annual report and financial statements	November or December
Management prepares draft financial statements	January
Financial statements audited by external auditor (fieldwork)	January to February
Meeting with CFO to discuss audit findings and draft audit findings report for the audit committee	End of 2nd week in February
Audit committee papers circulated (including the draft financial statements and management and auditors comments thereon)	Beginning of 3rd week in February
Meeting between audit committee chair and audit partner to discuss findings in advance of the meeting	End of 3rd week in February
Audit committee meeting to: Review and recommend approval of the annual report (including the financial statements) and preliminary announcement (and analyst presentation) Review representation letters from CEO, CFO, etc.	Beginning of 4th week in February
Board meeting to approve the annual report (including the financial statements), preliminary announcement and analyst presentation	Beginning of 4th week in February

Meeting agenda

A detailed agenda is vital for keeping the committee focused. Effective agendas are set with input from the CEO, CFO, CRO and the internal and external auditors. The audit committee chair however, should maintain accountability for the agenda and should not allow management to dictate the content.

Meeting agendas ultimately drive the work the audit committee does. For this reason audit committee agendas should be closely linked to the committee's terms of reference. The audit committee agenda for the year should ideally originate from a detailed work plan. A wide ranging work plan helps members focus on their job. However, the nature of audit committee responsibilities and the ever-changing environment in which companies operate make it difficult to determine a fixed agenda of topics for each meeting. The committee should assess what is currently important and develop its agenda accordingly. The detailed work plan should be based on the committee's terms of reference.

The following pro-forma audit committee meeting planner can be used to plan what gets addressed at each audit committee meeting. It should be tailored to suit the needs of each organisation.

	Frequency			Scheduled meetings			
	Annually	Quarterly	When necessary	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Constitution							
Review audit committee's terms of reference	☐	☐	☐	☐	☐	☐	☐
Review code of conduct	☐	☐	☐	☐	☐	☐	☐
Assess independence, financial literacy skills and experience of members	☐	☐	☐	☐	☐	☐	☐
Establish number of meetings for the forthcoming year	☐	☐	☐	☐	☐	☐	☐
Audit committee chair to establish meeting agenda and attendees required	☐	☐	☐	☐	☐	☐	☐
Enhance skills and experience – professional development	☐	☐	☐	☐	☐	☐	☐
Corporate reporting (discuss with management and external auditors where applicable)							
Hold in-camera session with management	☐	☐	☐	☐	☐	☐	☐
Review both corrected and uncorrected audit differences	☐	☐	☐	☐	☐	☐	☐
Review new accounting and reporting developments	☐	☐	☐	☐	☐	☐	☐
Review critical accounting policies and alternative accounting treatments	☐	☐	☐	☐	☐	☐	☐
Review significant accounting judgements and estimates	☐	☐	☐	☐	☐	☐	☐
Review large, unusual and complex transactions	☐	☐	☐	☐	☐	☐	☐
Review and recommend approval of annual financial statements	☐	☐	☐	☐	☐	☐	☐
Review the narrative sections of the annual report	☐	☐	☐	☐	☐	☐	☐
Review and recommend approval of half year financial statements	☐	☐	☐	☐	☐	☐	☐
Review and recommend approval of quarterly financial information	☐	☐	☐	☐	☐	☐	☐

	Frequency			Scheduled meetings			
	Annually	Quarterly	When necessary	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Corporate reporting (continued)							
Review and recommend approval of any earnings releases	☐	☐	☐	☐	☐	☐	☐
Review and recommend approval of any analyst briefings or investor presentations	☐	☐	☐	☐	☐	☐	☐
Risk management and controls (discuss with management and external auditors where applicable)							
Evaluate the corporate culture and the 'tone from the top'	☐	☐	☐	☐	☐	☐	☐
Review the process by which risk strategy and appetite is determined	☐	☐	☐	☐	☐	☐	☐
Review and assess the risk management and internal control systems	☐	☐	☐	☐	☐	☐	☐
Review weaknesses in internal control and management's remediation plan	☐	☐	☐	☐	☐	☐	☐
Review anti-fraud and bribery programmes and the risk of management override	☐	☐	☐	☐	☐	☐	☐
Review whistle blowing arrangements	☐	☐	☐	☐	☐	☐	☐
Assess crisis management and business continuity plans	☐	☐	☐	☐	☐	☐	☐
Understand management remuneration structures and the drivers of bias	☐	☐	☐	☐	☐	☐	☐
Meet with the 'marzipan layer' (i.e., those below the executive tier)	☐	☐	☐	☐	☐	☐	☐
Review reports from regulators and management's response	☐	☐	☐	☐	☐	☐	☐
External auditors							
Recommend appointment and review performance	☐	☐	☐	☐	☐	☐	☐
Determine audit fees and terms of engagement	☐	☐	☐	☐	☐	☐	☐
Consider policy in relation to non-audit services	☐	☐	☐	☐	☐	☐	☐

	Frequency			Scheduled meetings			
	Annually	Quarterly	When necessary	Quarter 1	Quarter 2	Quarter 3	Quarter 4
External auditors (continued)							
Consider hiring policy for former employees of the auditor	☐	☐	☐	☐	☐	☐	☐
Consider objectivity/ independence and obtain confirmation from auditor	☐	☐	☐	☐	☐	☐	☐
Review audit plan and scope of audit work	☐	☐	☐	☐	☐	☐	☐
Review external audit findings	☐	☐	☐	☐	☐	☐	☐
Discuss appropriateness of accounting policies, estimates and judgements	☐	☐	☐	☐	☐	☐	☐
Discuss external auditors views on control environment	☐	☐	☐	☐	☐	☐	☐
Discuss issues with auditor in absence of executives and management	☐	☐	☐	☐	☐	☐	☐
Ongoing communication (written/oral) of external auditor with audit committee	☐	☐	☐	☐	☐	☐	☐
Consider audit partner succession	☐	☐	☐	☐	☐	☐	☐
Consider need for audit tender	☐		☐	☐	☐	☐	☐
Internal auditors							
Where no internal audit function, consider the need for an internal audit function	☐	☐	☐	☐	☐	☐	☐
Recommend appointment and review performance	☐	☐	☐	☐	☐	☐	☐
Review internal audit plan	☐	☐	☐	☐	☐	☐	☐
Review significant internal audit reports and findings	☐	☐	☐	☐	☐	☐	☐
Review progress on actions taken in response to internal audit's recommendations	☐	☐	☐	☐	☐	☐	☐
Discuss issues with auditor in absence of executives and management	☐	☐	☐	☐	☐	☐	☐

	Frequency			Scheduled meetings			
	Annually	Quarterly	When necessary	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Other responsibilities							
Review progress on actions taken in response to the representations of the auditors	☐	☐	☐	☐	☐	☐	☐
Review legal and compliance developments	☐	☐	☐	☐	☐	☐	☐
Review report to shareholders on role and responsibilities of the committee	☐	☐	☐	☐	☐	☐	☐
Perform self-assessment of audit committee performance	☐	☐	☐	☐	☐	☐	☐
Assess the CFO and finance function	☐	☐	☐	☐	☐	☐	☐
Review CFO and financial personnel succession planning	☐	☐	☐	☐	☐	☐	☐
Work with the nomination committee to develop an audit committee succession plan	☐	☐	☐	☐	☐	☐	☐
Review director and officer expenses and related party transactions	☐	☐	☐	☐	☐	☐	☐
Conduct special investigations and perform other activities as appropriate	☐	☐	☐	☐	☐	☐	☐
Provide appropriate induction for new members	☐	☐	☐	☐	☐	☐	☐
Maintain minutes and report to board	☐	☐	☐	☐	☐	☐	☐

APPENDIX 5

Assessing the effectiveness of the audit committee

Self assessment is a crucial annual activity for the audit committee, and in light of the FRC's recent Minimum Standard for audit committees, investor focus on how this obligation is discharged is set to increase.

Our tool – which can be downloaded here - is designed to assist the audit committee in carrying out this assessment, guiding them through the key topics for consideration and facilitating a survey across the business to add depth and breadth to the committee's conclusions.

APPENDIX 6

Example questions around identifying and assessing risk

It is important that there is an unambiguous understanding of what the board of directors, other board committees and the audit committee are responsible for in respect of risk management and the control framework. There are a number of different approaches boards may take in assigning these responsibilities to the audit committee. Where responsibilities have been assigned to the audit committee, they should be reflected in its Terms of Reference.

To meet its responsibilities under its terms of reference, the audit committee needs to assess whether it is getting appropriate risk management information regularly enough and in a format that meets the needs of members. It needs to evaluate at least annually the adequacy and timeliness of management reporting to the committee on financial, non-financial, current and emerging risk trends. The audit committee also needs to discuss risk management with senior executives, internal and external audit. The scope of those discussions should have reference to the audit committee Terms of Reference.

The following are high-level questions the audit committee may like to consider in framing discussions with management. The list is not exhaustive and will require tailoring based on the audit committee's terms of reference as well as the particular circumstances of the organisation.

Risk management framework	Evaluation of risk management framework
Risk strategy The approach for associating and managing risks based on the organisation’s strategies and objectives.	— What are the risks inherent in our business strategies and objectives? — How is our risk strategy linked to our business strategy? — Is our risk management policy clearly articulated and communicated to the organisation? If not, why not? If yes, how has this been achieved? — Is our risk appetite (the amount of risk the organisation is willing to take) appropriate and understood? How is it linked to our objectives? — How has the board’s perspective on risk permeated the organisation and culture?
Risk structure The approach for supporting and embedding the risk strategy and accountability.	— Is there a common risk management language/terminology across the organisation? If not, why not? — Is accountability for risk management well defined and transparent at the management level? If not, why not? If yes, describe how this has been achieved. — Are risk management activities/responsibilities included in job descriptions? — How do our performance management and incentive systems link to our risk management practices?
Measuring and monitoring The establishment of Key Performance Indicators (KPIs) and continuous measuring and improving of performance.	— Are risk owners clearly identified? If not, why not. If yes, how? — Are there systems in place for measuring and monitoring risk? — Is it clear where the organisation is acting outside of risk appetite? How is this escalated? — How are risks, including suspected improprieties, escalated to the appropriate levels within the organisation? — How is the risk management framework linked to the organisation’s overall assurance framework? — Have KPIs been clearly defined, and do they drive the right behaviours?
Portfolio The process for identifying, assessing and categorising risks across the organisation.	**Risk Profile** — Does a comprehensive risk profile exist for the organisation? If not, why not? — Does the risk profile evidence identification and evaluation of non-traditional risk exposures? — Are the interrelationships of risks clearly identified and understood? **Operational Risk** — What are the risks inherent in the processes chosen to implement the strategies? — How does the organisation identify, quantify and manage these risks given its appetite for risk? — How does the organisation adapt its activities as strategies and processes change? — How would material operational losses be identified? **Reputation Risk** — What are the risks to brand and reputation inherent in the way the organisation executes its strategies?

Risk management framework	Evaluation of risk management framework
Portfolio The process for identifying, assessing and categorising risks across the organisation.	**Strategic risk** — Has the organisation succeeded in meeting measurable business objectives? **Regulatory or Contractual Risk** — Which financial and non financial risks are related to compliance with regulations or contractual arrangements? — How does the organisation adapt to changes in regulation or contractual arrangements? **Financial Risk** — Have operating processes put financial resources at undue risk? — Has the organisation incurred unreasonable liabilities to support operating processes? **Information Technology Risk** — Is our data/information and knowledge reliable, relevant and timely? — Are our information systems reliable? — Does the complexity of our information systems expose the organisation to unmanageable risk levels? — Do our security systems reflect our reliance on technology? — Is there adequate cyber security for the size and complexity of our organisation? **ESG Risks** — Are risks to achieving our ESG goals identified and monitored? — Is ESG risk management integrated throughout our business processes? — What are the responsibilities for ESG risk identification and management? **New Risks** — In a business environment that is constantly changing, are there processes in place to identify emerging risks? If not, why not? If yes, describe. — What risks have yet to develop? These might include risks from new competitors or emerging business models, geopolitical risks, technology (including AI) risks, recession risks, relationship risks, outsourcing risks, political or criminal risks, financial risk disasters such as rogue traders, and other crisis and disaster risks including climate and pandemic risk.
Optimisation Balancing potential risks and opportunities based on the appetite to accept risk.	— Does the risk approach include a regular search for new markets, partnering opportunities and other risk optimisation strategies? If not, why not? If yes, how is this achieved? — Is risk a priority consideration whenever business processes are improved? If not, why not? If yes, describe how this is achieved.

APPENDIX 7

Internal control and risk management

Audit committees should critically review the company's risk management and internal control framework (unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself) at least annually, including the relevant documentation and disclosures. The checklist provided below aims to assist audit committees to fulfil this role.

The information below is largely extracted from the Internal Control - Integrated Framework 2013, published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). It includes the framework's principles for effective internal control and the information that is expected to be provided as part of the board of directors' description of internal control and risk management systems related to financial reporting to the extent that it is relevant. In all instances, the description provided should be adapted to the nature and complexity of the entity, its operations and its risk profile.

The COSO framework contains three categories of objectives:

Operations objectives – related to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals and safeguarding assets against loss.

Reporting objectives – related to internal and external financial and non-financial reporting to stakeholders, which would encompass reliability, timeliness, transparency or other terms as established by regulators, standard setters or the entity's policies.

Compliance objectives – related to adhering to laws and regulations that the entity must follow.

CONTROL ENVIRONMENT

Principles

1. The organisation demonstrates a commitment to integrity and ethical values.
2. The board of directors and the audit committee demonstrate independence from management and exercise oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organisation holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Integrity and ethical values

Background

Areas that relate directly to reliability of financial statement preparation include the following:

— Management's attitude toward bypassing established control procedures aimed principally at achieving financial reporting objectives.

— Management's interactions with internal and external auditors and outside counsel on financial reporting matters, such as the extent to which management provides full disclosure of information on matters that may have an adverse impact on the financial statements.

— Management's integrity in preparing financial statements (addressed further under 'Management's Philosophy and Operating Style').

Information expected

— Existence and implementation of codes of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards of ethical and moral behaviour.

— Remedial action taken in response to departures from approved policies and procedures or violations of the code of conduct.

— Extent to which remedial action is communicated or otherwise becomes known throughout the entity.

— Management's attitude towards intervention or overriding established controls.

— Approach to balancing performance-based compensation and short-term vs. long-term performance targets and extent to which compensation is based on achieving short term results.

Commitment to competence

Background

Reliability of an enterprise's financial statements can be compromised if incompetent or unassertive people are involved in the financial reporting process. Directly affecting reliability of financial statements are the knowledge and skills of personnel involved in the preparation process relative to the nature and scope of operating and financial reporting issues, and whether such knowledge and skills are sufficient to properly account for any new activities, products and services, or existing ones in the face of downsizing.

Information expected

— Formal or informal job descriptions or other means of defining tasks that comprise particular jobs; announcements of job descriptions within the company.

— Process to analyse the knowledge and skills needed to perform jobs adequately.

— Hiring and performance evaluation policies and procedures.

— Process to determine segregation of responsibilities between the board and executive management.

Managements philosophy and operating style and ethical values

Background

The delegation of authority for financial reporting is important in achieving the entity's financial reporting objectives, in particular for making the accounting judgements and estimates that enter into financial reporting. Related issues include reasonableness of accounting policies and estimates in connection with preparation of financial statements, especially whether management's estimates and policies are conservative or aggressive (that is, on the boundary of 'reasonableness'). Management's attitude toward financial reporting also affects the entity's ability to achieve its financial reporting objectives.

Information expected

- Nature of business risks accepted, e.g. whether management often enters into particularly high-risk ventures, or is extremely conservative in accepting risks.
- Process to establish values and strategy of the organisation.
- Frequency of interaction between senior management and operating management, including geographically removed locations.
- Roles and responsibilities in the selection of accounting principles including management attitude towards financial reporting e.g. selection of conservative versus liberal accounting policies.
- Establishment of a financial accounting principles and procedures manual (including e.g. time tables, execution and control of financial tasks).
- Adequate resources to implement the financial and accounting function(s) in view of adequate financial reporting process.

Organisational structure

Background

Aspects of an entity's organisational structure that are specifically related to financial reporting objectives include factors related to accounting personnel, such as:

- Appropriateness of reporting lines;
- Adequacy of staffing and experience levels;
- Clarity of delegation of authority and duties;
- Extent to which the organisational structure allows accounting personnel to interact with other departments and activities in the organisation, to have access to key data and to properly account for resulting conclusions.

Information expected

- Organisational structure, flows of information to manage activities.
- Reporting relationships.
- Process to define key managers' responsibilities, and their understanding of these responsibilities.
- Process to ensure adequacy of knowledge and experience of key managers in light of responsibilities.

Assignment of authority and responsibility

Background

Deficiencies in the way that authority and responsibility are assigned to employees in accounting, custodial and asset management functions may affect the entity's ability to achieve its financial reporting objectives. Matters to consider include the adequacy of the work force and whether employees are deployed to promote segregation of incompatible duties.

Assignment of authority and responsibility (continued)

Information expected

- Process to assign responsibility and delegate authority to deal with organisational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorisations for changes.
- Existence of control-related standards and procedures, including employee job descriptions.

Human resource policies and practices

Background

An entity's ability to achieve its financial reporting objectives may reflect its recruiting, training, promotion, retention and compensation policies and procedures insofar as they affect performance of accounting personnel and employees outside of the accounting function who administer controls over financial reporting.

Information expected

- Appropriate number of people, particularly with respect to data processing and accounting functions, with the requisite skill levels relative to the size of the entity and nature and complexity of activities and systems.
- Extent to which people are made aware of their responsibilities and expectations of them.
- Appropriateness of remedial action taken in response to departures from approved policies and procedures.
- Extent to which personnel policies address adherence to appropriate ethical and moral standards.
- Adequacy of employee retention and promotion criteria and information-gathering techniques (e.g. performance evaluations) and relation to the code of conduct or other behavioural guidelines.

Board of directors and audit committee

Background

Key aspects of the control environment are the composition and independence of the board and its audit committee and how its members fulfil responsibilities related to the financial reporting process. Of particular interest for controls over financial reporting is the involvement of the board or audit committee in overseeing the financial reporting process, including assessing the reasonableness of management's accounting judgements and estimates and reviewing key filings with regulatory agencies. Other committees of the board often are not a key part of controls over financial reporting.

Information expected

- Independence from management.
- Knowledge and experience of directors.
- Process to establish and publish the terms of reference of the Board and committees.
- Process to establish an audit committee and an internal function (or determine the need of).
- Frequency with which meetings are held with chief financial and/or accounting officers, internal auditors and external auditors.
- Process for informing the board of significant issues timely.
- Process to inform the board or audit committee of sensitive information, investigations and improper acts timely.
- Oversight in determining the compensation of executive officers and head of internal audit, and the appointment and termination of those individuals.

Board of directors and audit committee (continued)

— Role in establishing the appropriate ‘tone at the top.’

— Actions the board or committee takes as a result of its findings, including special investigations as needed.

RISK ASSESSMENT

Principles

1. The organisation specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
2. The organisation identifies risks to the achievement of its objectives across the entity and analyses risks as a basis for determining how the risks should be managed.
3. The organisation considers the potential for fraud in assessing risks to the achievement of objectives.
4. The organisation identifies and assesses changes that could significantly impact the system of internal control.

Background

Are entity-wide objectives and supporting activity-level objectives established and linked? Are the internal and external risks that influence the success or failure of the achievement of the objectives identified and assessed? Are mechanisms in place to identify changes affecting the entity’s ability to achieve its objectives? Are policies and procedures modified as needed?

Information expected

— Process to develop entity-wide objectives, that provide sufficient guidance on what the entity desires to achieve including the identification of objectives that are important (critical success factors) to achievement of entity-wide objectives.

— Establishment of formal risk management procedures.

— Process to communicate the entity-wide objectives and risk policy to employees and board of directors.

— Process to identify and mobilise adequate resources relative to objectives and risk management.

— Mechanisms to identify risks (e.g. strategic, reputation, compliance, financial, IT and HR risks) arising from external and internal sources.

— Establishment of a risk map or chart for all external and internal risks.

— Risk analysis process, including estimating the significance of risks, assessing the likelihood of their occurring and determining needed actions.

— Mechanisms to anticipate, identify and react to routine events or activities that affect achievement of entity or activity-level objectives and related risks.

— Mechanisms to identify and react to changes that can have a more dramatic and pervasive effect on the entity, and may demand the attention of top management

— Process to implement the same risk management language and culture through the company.

— Process to communicate risk analyses results amongst Board, audit committee and risk responsible and external parties (e.g. financial reporting compliance).

— Setting of acceptable risk appetite and tolerance level.

— Implementation of a crisis management plan.

— Process to ensure changes, if required, to the existing risk management procedures.

— Process to evaluate and continuously improve the risk management system.

CONTROL ACTIVITIES

Principles

1. The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
2. The organisation selects and develops general control activities over technology to support the achievement of objectives.
3. The organisation deploys control activities through policies that establish what is expected and procedures that put policies into action.

Background

Are control activities in place to ensure adherence to established policy and the carrying out of actions to address the related risks? Are there appropriate control activities for each of the entity's activities?

Information expected

— Existence of appropriate policies and procedures necessary with respect to each of the entity's activities.

— Process in place to ensure that identified control activities in place are being applied properly.

— Existence of appropriate policies and procedures necessary with respect to the implementation and follow up of the financial manual.

— Process in place to ensure that identified key control activities are in place related to the financial and accounting process (including consolidation topics).

INFORMATION AND COMMUNICATION

Principles

1. The organisation obtains or generates and uses relevant, quality information to support the functioning of internal control.
2. The organisation internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
3. The organisation communicates with external parties regarding matters affecting the functioning of internal control.

Background

Are information systems in place to identify and capture pertinent information--financial and nonfinancial, relating to external and internal events – and bring it to personnel in a form that enables them to carry out their responsibilities? Does communication of relevant information take place? Is it clear with respect to expectations and responsibilities of individuals and groups, and reporting of results? And does communication occur down, across and upward in the entity, as well as between the entity and other parties?

Information expected

— Process to obtain external and internal information, and provide management with necessary reports on the entity's performance relative to established objectives.

— Process and allocation of responsibilities for the development of a strategic plan for information systems that is linked to the entity's overall strategy and responsive to achieving the entity-wide and activity-level objectives.

— Approach to ensuring completeness, sufficiency and timeliness of information to enable people to discharge their responsibilities effectively.

— Process to communicate employees' duties and control responsibilities.

— Existence of channels of communication for people to report suspected improprieties.

— Process in place for a timely and appropriate follow-up by management resulting from communications received from customers, vendors, regulators or other external parties.

— Existence of a whistle-blowing policy and procedure.

— Existence of information systems and procedures in order to meet the criteria for relevant, timely and adequate financial information and reporting.

MONITORING

Principles

1. The organisation selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
2. The organisation evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Background

Are appropriate procedures in place to monitor on an ongoing basis, or to periodically evaluate the functioning of the other components of internal control? Are deficiencies reported to the right people? Are policies and procedures modified as needed?

Information expected

— Existence of a mechanism by which communications from external parties is used to corroborate internally generated information, or indicate problems.

— Existence of a process to compare amounts recorded by the accounting system with physical assets.

— Scope and frequency of evaluation of the internal control system.

— Process for capturing and reporting identified internal control deficiencies and ensuring appropriate follow-up actions including reporting to the Audit Committee if significant.

— Existence of procedures with respect to periodic publication of financial information.

— Existence of a process for management and/or employees to confirm compliance with the entity’s code of conduct regularly.

— Key characteristics of the internal audit department:

- Competence and experience;
- Position within the organisation;
- Access to the board of directors or audit committee;
- Process to define scope, responsibilities and audit plans in function of the organisation’s needs.

APPENDIX 8

Specimen whistleblowing policy

Source: Osler, Hoskin & Harcourt LLP

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I. PURPOSE AND APPLICATION

The **[Code of Conduct and Business Ethics]** (the **"Code"**) for **[Corporation]** and its subsidiaries (collectively the **"Company"**) requires directors, officers, employees and independent contractors and agents that represent the Company (**"Company Personnel"**) to observe high standards of business and personal ethics in the conduct of their duties and responsibilities, and to carry them out honestly, with integrity and in accordance with all applicable laws and regulations. However, it is still possible that intentional and unintentional violations of the Code, applicable laws and applicable audit practices and accounting standards and practices may occur. When these violations do occur, the Company has a responsibility to investigate and, where appropriate, to report, these violations and the actions that the Company has taken to address them.

This policy sets out the procedures for Company Personnel to report violations, or potential or suspected violations, of the Code, applicable laws and applicable audit practices and accounting standards and practices and other matters, as outlined below.

Company Personnel are expected to talk to managers, department or business heads or other appropriate personnel about their concerns involving illegal or unethical behaviour and the best course of action to take. Company Personnel can also submit confidential and/or anonymous reports or complaints of Code violations as set out below.

II. WHAT IS REPORTABLE CONDUCT?

Company Personnel may make reports (**“Reports”**) under this Policy relating to good faith concerns about any actual, potential or suspected violation of the Code or applicable laws, including any accounting or auditing matter which is believed to be in violation of the Code or applicable law, including:

— fraud or deliberate error in the preparation, evaluation, review or audit of any financial statements of the Company;

— fraud or deliberate error in the recording or maintaining of financial records of the Company;

— deficiencies in, or non-compliance with, the Company’s system of internal controls;

— misrepresentations or false statements to or by a senior officer or accountant regarding a matter contained in the financial records, financial reports or audit reports of the Company;

— deviations from full and fair reporting of the Company’s financial condition;

— any matter that involves a significant threat to the health and safe of other Company Personnel and/or the general public;

— any other actual, potential or suspected violations of the Code or applicable laws;

— any circumstance where Company Personnel believes that he or she is being asked to commit a wrongdoing. (together, **“Reportable Matters”**).

III. HOW DO I MAKE A REPORT?

A. General

Reports made under this Policy must be made truthfully and in good faith and they should describe the Reportable Matter in as much detail as possible, including dates, individuals or witnesses involved and any supporting material or evidence that may be relevant to the Reportable Matter.

Company Personnel may make Reports to the General Counsel of **[Corporation]** (the “**Confidential Designee**”). Reports should be addressed to the General Counsel at **[Address]** and marked “Confidential”. Reports may also be submitted by email at •.

Prior to making any Report, Company Personnel should, wherever possible, discuss the Reportable Matter with their manager, department or business head or other appropriate personnel who may be able to help resolve the matter. However, where the Reportable Matter continues to be unresolved following such discussion, where it is not possible for Company Personnel with their manager, department or business head or other appropriate personnel or where Company Personnel are uncomfortable doing so, or where the Reportable Matter is time sensitive, Company Personnel should submit a Report to the Confidential Designee.

B. Anonymous Reports

Reports may be made on an anonymous basis to the Confidential Designee or as described below. Although all reasonable steps will be taken by the Company to maintain anonymity of a person who makes a Report on an anonymous basis, the source or nature of the Report, or the steps required to be taken to investigate the Report, may as a practical matter make it difficult or impossible to maintain such anonymity.

This Policy also allows Company Personnel to submit anonymous Reports through **[Hotline Provider]**, a confidential third party reporting service retained by the Company, by any of the methods set forth below:

By Phone: [phone number] A qualified agent will be available 365 days-a-year, 24 hours-a-day. This person will take the information without asking for the name or personal information of the Company Personnel making the Report.

In Writing Online: [email address] which is a secure web application that asks general questions about the Reportable Matter, also without asking for the name or personal information of the Company Personnel making the Report.

In both cases, the confidential report, not including any names, will be forwarded to a designate in the Company's legal department in a secure environment for further action.

IV. RECEIPT OF REPORTS BY OTHERS

All Reports received by the Confidential Designee will be reviewed promptly and if the Report relates to a questionable accounting or audit matter or if the Confidential Designee otherwise determines that it is required by the nature of the Report, the Report will immediately be brought to the attention, and reviewed under the direction, of the Chair of the Audit Committee and, if appropriate, the Chief Executive Officer and the Chief Financial Officer (the **"Executive Leadership Team"**). The General Counsel will ensure that the appropriate Audit Committee members and the Executive Leadership Team are kept informed on all situations involving actual or suspected fraudulent activity unless the subject matter of the Report requires otherwise.

The General Counsel will maintain a log of all complaints or reports that are received, tracking their receipt, investigation and resolution. The General Counsel will also report complaints received and investigated under this Policy to the Audit Committee on a quarterly basis. Records pertaining to a Report about a Reportable Matter are the property of the Company and will be retained in accordance with the Company's record retention policies.

V. TREATMENT AND INVESTIGATION OF REPORTS

A. Confidentiality

All Reports will be treated as confidential, whether or not made anonymously, and Reports will only be accessible to people that the Confidential Designee, the Executive Leadership Team or the Chair of the Audit Committee determine have a "need to know". Ordinarily, a need to know arises from an obligation to investigate or to take remedial or disciplinary action on the basis of the information contained in the Report. For clarity, sharing information about a Report in a manner required by this Policy will not be considered a breach of confidentiality.

The Confidential Designee may delegate the responsibilities under this Policy to another member of the legal team and for the purpose of this Policy the reference to Confidential Designee means the General Counsel or his/her delegate.

Unless the Report has been made on an anonymous basis, the Confidential Designee will advise the person who made the Report when the Report has been received by the Confidential Designee and when the investigation (if any) has been completed.

The Confidential Designee is responsible for assessing and evaluating Reports and for conducting or coordinating the conduct of investigations. In determining whether a Report should be investigated and the extent of investigation to be made in respect of a Report, the Confidential Designee, in consultation with the Executive Leadership Team and the Chair of the Audit Committee if the Confidential Designee determines it is appropriate, will consider whether the facts asserted allege a violation of the Code, applicable law or other Company policy together with the following factors, among others:

- Who is the alleged wrongdoer?
- What is the nature of the alleged wrongdoing?
- How serious is the alleged wrongdoing?

Reports relating to questionable accounting or audit matters, fraud or those of a criminal nature shall be brought by the Confidential Designee to the Executive Leadership Team and the Audit Committee to determine the appropriate investigation process and participants in the investigation.

In certain cases, the Confidential Designee, in consultation with the legal group, may determine that a report should be made to the police or other law enforcement or regulatory agency where it appears that illegal activity or a regulatory breach has or may have occurred.

At any time during the investigation of a Report, the Confidential Designee in consultation with the legal group may determine that it is appropriate to notify the Company's outside auditors about the submission of the Report or about the progress of the investigation, and may provide sufficient detail to allow for appropriate consideration by such parties without compromising the confidential or anonymous nature of the Report.

During the investigation of a Report, the Company Personnel who are the subject of an investigation may be placed on an administrative leave when determined by the legal group to be appropriate and such a leave is not to be interpreted as an accusation or a conclusion of guilt or innocence of any individual, including the person on leave. Company Personnel who are informed that they are the subject of an investigation or inquiry relating to a Report will be informed of the completion of the investigation or inquiry. Any Company Personnel who are investigated will be given an opportunity to be heard prior to the taking of any disciplinary action against them.

At the conclusion of any investigation or inquiry relating to a Report, the Confidential Designee, in consultation with the legal group shall promptly inform the Chair of the Audit Committee of any proposed remedial action in a written letter. The Chair of the Audit Committee will make a recommendation to the Board of Directors if appropriate in the circumstances.

The Company Personnel who made the Report will not be advised of the results of the investigation or inquiry (if any) unless the General Counsel, the Executive Leadership Team or the Audit Committee determines otherwise.

Records pertaining to a Report about a Reportable Matter are the property of the Company and will be retained in accordance with the Company's record retention policies.

All Company Personnel have an obligation to cooperate and comply with any investigation or inquiry initiated by the Confidential Designee pursuant to this Policy as set out in the Code.

VI. PROTECTION OF WHISTLEBLOWERS

The Company will not permit any form of reprisals (including discharge, demotion, suspension, threats, harassment or any other form of discrimination) by any person or group, directly or indirectly, against any Company Personnel who, truthfully and in good faith:

— reported a Reportable Matter;

— lawfully provided information or assistance in an investigation regarding any conduct which the Company Personnel reasonably believes constitutes a violation of applicable securities laws or applicable federal laws relating to fraud against the Company's securityholders;

— filed, caused to be filed, testified, participate d in or otherwise assisted in a proceeding related to a violation of applicable securities laws or applicable federal laws relating to fraud against the Company's securityholders;

— provided a law enforcement officer with truthful information regarding the commission or possible commission of an offence, unless the individual reporting is one of the violators; or

— provided assistance to the Confidential Designee, the Audit Committee, management or any other person or group in the investigation of a Report.

Any retaliation against a Company Personnel who has, truthfully and in good faith, made a Report about a Reportable Matter in accordance with this Policy or taken such an action is subject to disciplinary action, which may include dismissal.

Company Personnel should never have any fears about raising concerns truthfully and in good faith based on their reasonable beliefs, even if they are later found to be mistaken. Speaking up is a behaviour to be encouraged. However, the Company believes it is also important to make sure that representatives are protected from accusations that are frivolous or malicious, such as allegations made in bad faith or to pursue a personal grudge, and making any such accusations is a violation of the Code.

The Confidential Designee, the Audit Committee and any persons involved in or retained to assist in an investigation of a Report must take all reasonable steps to not reveal the identity of any person who reports a Reportable Matter anonymously, unless required to do so by law.

VII. QUESTIONS

Any questions concerning this Policy should be directed to the Legal & Compliance Department.

Dated this • day of •, 20 •

APPENDIX 9

Internal audit sourcing options

The relative strengths and weaknesses of different sourcing models are captured below.

Sourcing model	Pros	Cons
In-house function	Continuity of staff	May not be fully employed effectively and efficiently
	Certain and controllable cost	Difficult to acquire necessary/maintain all skills and experience to meet the risk profile of the business
	Full control of the function	Need to continually invest in training and development
	A resource pool for the business	Recruitment hassles
	Training ground for employees	Ineffective/inefficient start up
	Greater cultural alignment	Retention and development strategies required
	Greater understanding of the business and its operations	Reduces opportunity to provide fresh perspective/risk of complacency or familiarity
		Decrease in perceived independence of the function

Sourcing model	Pros	Cons
Co-source	Long term permanent onsite presence through Heads of Internal Audit	Time taken to recruit Heads of Internal Audit (HIA)
	Access to broad range of skills through the partner	Possible cost impact
	Draw on specialist skills as and when, and only when needed	Management resource needed in recruitment and relationship development
	Continuity through HIA	Dependency on third party
	Pull in up to date skills and experience as needed	Possible lack of staff continuity
	Quick to implement	Other challenges for in house resource as above
	Skills transfer to in house team	
	Flexible approach, clearly defined service level and KPI measures	
	Credibility to third parties	
	No or reduced training cost	

Sourcing model	Pros	Cons
Full outsource	Established methodologies & benefit of refreshment based on experiences across different organisations	No permanent on-site resource to help other areas of the business
	Up to date, skilled staff	Potential cost impact
	Ability to draw on a wide range of skills as and when required	Possible lack of staff continuity
	No time taken up by managing service and resources	Remote from business developments, the culture and politics
	Clearly defined service level and performance measures	Management time to establish and maintain relationships
	Easily established and quickly effective	Other challenges for in house resource as above
	Credibility to third parties	
	Ability to manage costs by avoiding non-productive periods	
	Increase in perceived independence of the function?	

APPENDIX 10

Sample internal audit plan

Internal audit provides independent, objective assurance over an organisation's risk management, internal control, governance and the processes in place for ensuring the effectiveness and efficiency of operations and compliance.

Each audit plan will be different and tailored to the organisation's needs. However, there are common elements that the audit committee should expect to see when reviewing the audit plan, although in practice these elements might be presented in many different ways. These elements are discussed below.

Overview of the audit approach

The audit committee should expect the audit planning document to set out that the audit plan has been developed by:

— taking account of the risks identified by the organisation in its risk register and other documents such as strategic and business plans, key projects and past years' audit plans and results;

— using the internal auditor's experience of the organisation and the sector more generally to identify other areas of risk which may warrant attention;

— discussing all identified risks and other relevant issues with the organisation's management to identify the potential scope of internal audit; and

— discussing and obtaining input from the audit committee.

Risk-based internal audit coverage

Where the organisation's risk management program allocates each risk a likelihood and impact rating between 'high' and 'low', the audit plan might for example focus on 'high' and 'medium' priority risks over , for example, a one or two-year period and low priority risks over a longer term period. The audit committee should be fully informed of:

— which areas are being addressed;

— how many audit hours have been allocated to each area;

— when the fieldwork is being undertaken; and

— when the internal auditors will report their findings.

Exhibit 1 (below) illustrates which risks identified by the organisation in the risk register are addressed by the internal audit plan. Exhibit 2 puts these risks in the context of a three-year audit plan. It is also useful to keep the audit committee apprised of the risks that are not addressed by the internal audit plan – see Exhibit 3.

Other reviews

The internal audit strategy may address some ad hoc areas that do not feature as risks. These are nevertheless areas where the organisation would benefit from an internal audit review, or they are being reviewed to provide assurance to the audit committee and external auditors regarding operation of the key financial and management information systems. The audit days, fieldwork and reporting expectations for these areas should also be identified in the audit plan.

Contingencies

It is important to adopt a flexible approach in allocating internal audit resources, in order to accommodate any unforeseen audit needs or “hot spot” audits. The audit plan should give an indication as to how many hours have been allowed for contingencies.

Follow-up

For internal audit to be as effective as possible, its recommendations need to be implemented. Specific resources should be included within the plan to provide assurance to the organisation and the audit committee that agreed audit recommendations have been actioned effectively and on a timely basis. A “follow up” program should be built into the annual audit plan.

Planning, reporting and liaison

The audit committee should expect the internal audit plan to identify activities relating to the following:

— quality control review by manager;

— production of reports, including the strategic plan and annual internal audit report;

— attendance at audit committee meetings;

— regular contact with the organisation’s management;

— liaison with external audit; and

— internal quality assurance reviews.

The internal audit team

The audit plan should identify the organisational structure of internal audit as well as total head count with a year over year comparison and identification of specialist resources. Where internal audit has outsourcing, the audit committee (and management) should expect a brief introduction to the key individuals working on the audit. This might include partners, managers and any specialist advisers.

Timing

The audit plan should set out the timing of the fieldwork and confirm the form and timeliness of reports to management and the audit committee. For example:

— a report for each area of work undertaken within X days of finishing the fieldwork;

— a progress report for each audit committee meeting; and

— an annual report on internal audit coverage to the audit committee (reporting to fit in with the committee meeting dates).

Exhibit 4 outlines how the timing might be presented for an internal audit carried out in three phases to coincide with the audit committee timetable.

Internal audit performance indicators

The internal auditor might propose a series of performance indicators against which management and the audit committee can benchmark the function's performance. An example of proposed indicators is included as Exhibit 5.

Exhibit 1: Internal audit plan – focused on the organisation's key risks

Risk identified in the risk register	Ranking	Internal audit reviews over a three year period
Failure of the new finance system	High	Finance system implementation
Missed ESG goals or inaccurate measures	High	ESG and related departments
Cyber security breaches not prevented	High	IT
Ineffective project assessment procedures	Medium	Contract management
Non-performance of contracts	Medium	Contract management/departmental reviews
Poor procurement of projects	Medium	Asset management
Failure to protect intellectual property	Medium	Intellectual property management
Statutory non-compliance (H&S)	Medium	Health and safety
Non-prevention of foreseeable accidents	Medium	Health and safety
Failure to adequately manage occupational stress	Medium	Human resources
Failure to attract and retain high-quality staff	Medium	Human resources
Non-financial control failure	Medium	Key financial systems/department reviews
Fraud, theft and misuse of assets	Medium	Key financial systems/department reviews
Reputation unclear or fragmented	Medium	Strategic planning
Ineffective business planning	Medium	Strategic planning/department reviews
Failure to consider future strategies	Medium	Strategic planning
Claw back of project funding	Low	Contract management/departmental reviews
Unsatisfactory procurement procedures	Low	Key financial systems – purchasing

Exhibit 2: Three-year rolling plan

Internal audit reviews	Current year (days)	Year 2 (days)	Year 3 (days)	Total days
Risk based reviews				
Contract management	-	-	15	15
ESG	30	30	30	90
Cyber security	-	25	20	45
Asset management	-	-	15	15
Finance system implementation	50	-	-	50
Key financial systems	-	25	25	50
Health and safety	15	-	-	15
Human resources	15	-	-	15
Intellectual property management	15	-	-	15
IT Systems	20	15	15	50
Strategic planning	20	-	-	20
Total risk based days	165	95	120	380
Other reviews				
Risk management	10	8	8	26
Corporate governance	-	7	-	7
Corporate structures	-	-	22	22
Costing processes	-	15	-	15
Total other review days	10	30	30	70
Other				
Contingency/hot spot audits	8	8	8	24
Follow-up program	8	8	8	24
Planning, reporting and meetings	34	9	9	52
Total other days	50	25	25	100
Total days	**225**	**150**	**175**	**550**

Exhibit 3: Annual plan

Internal audit reviews	Current year (hours)	Phase	Fieldwork	Report to audit committee
Risk based reviews				
ESG	240	Phase 1	w/c 02.04.20XX	May meeting
Finance system implementation	400	All phases	All audit visits	Feb/May/Oct meeting
Health and safety	120	Phase 2	w/c 26.02.20XX	31.05.20XX
Human resources	120	Phase 1	w/c 20.11.20XX	08.02.20XX
Intellectual property	120	Phase 2	w/c 26.02.20XX	31.05.20XX
IT Systems	160	Phase 1	w/c 20.11.20XX	08.02.20XX
Strategic planning	160	Phase 1	w/c 20.11.20XX	08.02.20XX
Total risk based hours	**1320**			
Other reviews				
Risk management	80	Phase 2	w/c 26.02.20XX	31.05.20XX
Total other review hours	**80**			
Other				
Contingency	64			
Follow-up program	64	Phase 3	w/c 14.05.20XX	09.10.20XX
Planning, reporting & meetings	272			
Total other hours	**400**			
Total hours	**2280**			

Exhibit 4: Risks not subject to internal audit review

Risk	Ranking
Defamation/professional negligence	Medium
Necessity for redundancies	Medium
Fire/explosion	Medium
Reputational risk	Medium
Failure to prevent a major incident	Medium
Failure to adopt equal pay provisions	Medium
Failure to prevent dismissals	Medium
Missed commercial opportunities	Low
Failure to adequately manage change	Low
Failure to prevent major health incident	Low
Statutory non-compliance – services	Low
Failure to prevent outbreak of food poisoning	Low
Building collapse	Low
Exposure to higher interest rates	Low

Exhibit 5: Performance indicators

Key performance indicators	Target
Percentage of audit work delivered by subject matter specialists	60%
Operational plan to be submitted by September each year	September of each year
Follow-ups to be performed within 1 year of the audit taking place	Within 1 year of assignments
Issue of draft reports within 30 days of work being completed	30 working days
Issue of final report within 10 working days of receipt of management responses	10 working days
Internal audit attendance at audit committee meetings	100%
Issue of internal audit annual report	September of each year

APPENDIX 11

Internal audit activities – key steps in the audit cycle

The key steps in an annual cycle include:

Produce the annual work plan

- Create an annual internal audit plan for approval by the audit committee, typically as part of an indicative 3 or 5 year plan linked to a wider risk/audit universe
- Identify resource requirements, including relevant subject matter and industry experience to add value to the process, and associated budgets
- Agree the timeline for performing individual assignments in the agreed plan
- Additional reviews may be required: the approach needs to be dynamic to respond to the needs of the audit committee and the executive team
- Consideration should also be given at this stage to the interaction with risk management activities and the specific linkage of risk and assurance
- Discuss with the external auditor to get insights and alignment where possible

Plan individual assignments

- For each allocated audit assignment, terms of reference should be agreed in advance
- Staff requirements should be confirmed and communicated to the team reasonably far in advance of the work to help continuity
- Planning meetings with the nominated business sponsor and business process owners, information gathering and briefing of team members prior to each assignment

Perform fieldwork

- Fieldwork should commence with an opening meeting involving all relevant team members so that:
  - expectations are understood; and
  - the objectives, scope, techniques and emphasis of the review are clear
- A 'no surprises' approach is fundamental. The nominated business sponsor should be informed of issues as they arise
- Ways of working should be defined and consistently applied and measured (including the business responsibilities)
- Variations to timelines or budgets should be monitored and flagged as soon as they are identified to key sponsors

Exit meeting

- Prior to formal reporting, an exit meeting should be held with the relevant business sponsor and other employees as agreed
- The purpose of the meeting is to:
  - confirm that expectations have been met;
  - highlight and re-confirm the findings of the review;
  - validate the findings; and
  - where appropriate, obtain management's acceptance and support for the recommendations made, including their commitment to actions with clear dates for implementation

Reporting

- Prepare a draft report to be issued to management within an agreed number of working days of completion of each audit and finalise the report, again within an agreed timeframe of receipt of management responses
- Report in accordance with standard template
- Determine who should attend and present at stakeholder and audit committee meetings

Issue resolution tracking

- Following the issue of final reports, monitor agreed upon management action plans and subsequent reporting to senior management and the audit committee
- Clear protocols for follow up work as and when needed

Overall considerations

- Defined audit charter
- Defined strategy
- An ongoing awareness of key business risks and how this drives audit
- Clear role defined on related activities e.g. investigations/ad hoc assignments
- Agreed communication protocols
- Clear business case/cost analysis and monitoring
- Ways of working protocols
- KPIs to track progress and delivery
- Stakeholder satisfaction surveys

APPENDIX 12

Evaluation of the internal audit function

Periodically, the internal audit function should be assessed to evaluate its perception and value within the organisation. This document provides an example internal evaluation approach.

This example assessment process focuses on your personal perception of the internal audit function as a whole – it does not seek to evaluate individuals and their personalities. The audit committee chair should determine who is asked to complete the questionnaire. It is not unusual for it to be completed by audit committee members, (prior to feedback from other areas of the organisation); the heads of major business units/subsidiaries and the CFO; and the head of the internal audit function (i.e. self assessment). The external auditor may also be asked to comment.

The questionnaire takes about 10 minutes to complete.

Using a scale of **1** (low) to **10** (high), complete each question by placing your score in the two boxes beside the question. **'Actual'** is your view of the current position of the internal audit function on that issue. **'Ideal'** is the score that you would like to see. The difference can be used to determine the relative priority of each issue.

You may wonder why there is a choice of score on the **Ideal** position as you may think it should always be a ten (the maximum). This may often be the case; however, there may be occasions where you feel an area is of less importance and therefore may merit an Ideal score lower than ten. We would stress that the main reason for asking for the two scores is to see where the biggest gaps are between **Actual** and **Ideal** as this identifies where any development priorities lie.

— There is a space for comments beside each question. You are not obliged to make comments; however, comments do improve the quality of the review and therefore are to be encouraged.

— 'N/A' can be used where you don't have a view on the matter in question.

— All responses will be treated as anonymous unless the individual completing the questionnaire wishes otherwise.

Typical answers will look like this:

	Actual	Ideal	N/A	Comments
1. Internal audit has a comprehensive strategic plan, developed in collaboration with the audit committee, executive management and principal stakeholders; and aligned to the organisation's own strategy and risk profile.	6	10		While the internal audit plan is comprehensive, more timely, up-front involvement could improve the process.
2. Internal audit harnesses technology throughout its audit and administrative processes to maximise efficiencies and improve audit effectiveness.	7	7		The technology used is appropriate for the current size of our organisation, however more would be required as we grow.

A. POSITIONING

Mandate and strategy	Actual	Ideal	N/A	Comments
1. Internal audit has a comprehensive strategic plan, developed in collaboration with the audit committee, executive management and principal stakeholders; and aligned to the organisation's own strategy and risk profile.				
2. Internal audit is recognised by business leaders as a function providing quality challenge (for example by telling them things they did not already know, identifying root causes of control breakdowns and opportunities for improving control design, and trends in risks and controls).				
3. Internal audit has a sound understanding of business strategy and the associated risks, and is able and willing to challenge the control environment and infrastructure supporting the strategy and is able to read across from one part of the organisation to another?				
4. Internal audit has an integral role in the governance structure (as the 'third line of defence') which is clearly aligned with its stakeholders, clearly articulated in its mandate and widely understood throughout the organisation.				

Organisation and structure	Actual	Ideal	N/A	Comments
5. Internal audit is independent from the business and has clear and unfettered reporting into the audit committee and direct access to the chair of the board.				
6. Internal audit is structured to enable both independence and objectivity on the one hand, and proximity to the business (so as to establish and maintain relationships with and comprehensive understanding of the business) on the other.				
7. Internal audit consults and collaborates with risk control functions to ensure an appropriate allocation of responsibility within the organisation.				
8. Internal audit has a presence in major governance and control forums throughout the organisation, for example, any other committee.				

Stakeholders	Actual	Ideal	N/A	Comments
9. Internal audit is characterised by strong relationships at the highest levels (for example, does the head of internal audit and senior colleagues have direct and strong relationships with board members, business heads and senior management)?				
10. Internal audit regularly attends executive meetings to present audit findings, trends and current views (of the control environment).				
11. Internal audit regularly attends audit committee meetings to present audit findings, trends and current views (of the control environment).				
12. Through its activities, internal audit can articulate to senior management the risks of their actions in a structured and balanced manner, and provide credible recommendations to mitigate the risks.				
13. Internal audit has strong relationships with key external stakeholders (in particular, external auditors and any relevant regulators).				
14. Internal audit proactively manages relationships with its key stakeholder population.				

Funding	Actual	Ideal	N/A	Comments
15. Internal audit has no unreasonable budgetary constraints which limit its ability to deliver on its mandate, given the risk appetite of the organisation.				
16. Internal audit manages its resources effectively to maximise the value of its service to the business.				

B. PEOPLE

Leadership	Actual	Ideal	N/A	Comments
1. Internal audit has the standing, credibility and impact to present its views in audit (and risk) committees and influence the organisation.				
2. Internal audit includes sufficient individuals who are senior and experienced, with sufficient business understanding, to apply judgement and challenge the business on a broad array of topics.				
Competencies	**Actual**	**Ideal**	**N/A**	**Comments**
3. Internal audit comprises a diverse talent pool with a broad mix of skills and experience gained within internal audit and in business.				
4. Internal audit includes individuals recognised (by the business) as experts in governance, control and risk mitigation.				
5. There is an appropriate mechanism for identifying the skills and competencies required to deliver its annual plan, identifying and relieving gaps and being responsive to the changing risk profile of the organisation.				
Staffing strategy	**Actual**	**Ideal**	**N/A**	**Comments**
6. Internal audit is forward thinking in its medium to longer term staffing strategy (for example, by considering growth areas in the business, new and emerging risk areas, and both internal and external factors affecting the function's ability to attract talent).				

Staffing strategy (continued)	Actual	Ideal	N/A	Comments
7. Internal audit is able to attract resources by providing a value added career development opportunity to the organization’s top talent.				
8. Internal audit is able to develop its personnel through comprehensive training and development.				

Culture	Actual	Ideal	N/A	Comments
9. Internal audit is characterised by a culture balancing collaboration and effective challenge.				
10. Internal audit is characterised by a culture of continuous improvement in the internal audit process.				
11. Internal audit acts as a role model and adheres to high ethical standards and values.				

Reward and appraisal	Actual	Ideal	N/A	Comments
12. Internal audit has competitive remuneration polices based on the achievement of defined performance metrics (for example, based on quality of work and impact upon the business, and not simply delivery against plan and business performance).				

C. PROCESSES

Risk assessment and planning	Actual	Ideal	N/A	Comments
1. Internal audit has a risk based audit plan based on a risk assessment accepted and approved by the board.				
2. Internal audit is forward looking when determining the audit plan and is nimble enough to adapt its planned activities, sometimes rapidly, in the case of new and emerging risks.				
3. Internal audit submits its plan to the audit committee for approval on a timely basis (at least annually) and as appropriate when updates are required.				

Execution	Actual	Ideal	N/A	Comments
4. Internal audit reflects on and adapts its methodology to ensure that it remains fresh and relevant, through integrated (not post hoc) quality assurance and learning programs.				
5. Internal audit conducts end- to-end/ corporate wide audit activities which enable it to obtain a holistic view (for example, within and across business units, functions, processes, and jurisdictions) as to whether the primary risks facing the organisation are appropriately mitigated.				
6. Internal audit harnesses technology throughout its audit and administrative processes to maximise efficiencies and improve audit effectiveness.				
7. Internal audit maintains and promotes comprehensive knowledge management systems, widely used by its staff.				
Reporting	**Actual**	**Ideal**	**N/A**	**Comments**
8. Internal audit produces reports for individual audits with a clear rating scale which identify both root causes and consequences of issues and which are delivered on a timely basis with clarity and impact, and include credible recommendations to management.				
9. Internal audit produce reports for the audit committee which present information in a clear, concise and impactful manner, including the identification of themes and trends, and their consequences for the organisation as a whole.				
10. Internal audit has rapid and effective mechanisms in place for the escalation of issues requiring senior management attention.				
Overall	**Actual**	**Ideal**	**N/A**	**Comments**
11. Internal audit has added value to the organisation. Provide examples.				

D. COMPARISON OF XYZ's INTENAL AUDIT FUNCTION WITH OTHER INTERNAL AUDIT FUNCTIONS YOU MAY HAVE EXPERIENCE OF

Comments

APPENDIX 13

Getting value from the external audit tender process

Choosing the right auditor for your organisation is essential – it'll help to make sure you get the best out of the process and allow you to reap the material benefits of an audit for your business.

Our short guide on getting real value from the audit tender process is available here.

APPENDIX 14

Specimen statutory report on the audit tender process

The Companies Act 2006 requires that audit committees of Public Interest Entities be responsible for the auditor selection procedure and, by reference to the EC Audit Regulation, that (unless the company qualifies as a small or medium-sized company) the audit committee shall ensure that a report on the conclusions of the selection procedure is prepared and validated by the audit committee. Similar requirements exist for non-corporate PIEs governed by the FCA and/or PRA rules.

Furthermore, the audit committee must ensure that the company is able to demonstrate to the competent authorities, upon request, that the selection procedure was conducted in a fair manner. The written report on the selection procedure will be a key document should such circumstances arise. There is no requirement for it to be made available to investors or the general public, however, some companies have put summaries of their audit selection procedure into the public domain and these have generally been well received.

The remainder of this appendix includes a potential structure and a number of questions that might help preparers when producing their report on the selection procedure.

Statutory report on the audit tender process

Background

— Discuss the reasons for tendering the audit and why it is in the best interests of shareholders.

— Provide context by addressing the legislative requirements.

— Identify the firms who participated in the tender process.

— Discuss the scope of the audit. (Is it for all group companies or are some subsidiaries excluded?) Disclose the rationale for excluding certain subsidiaries? Were other services tendered at the same time?

— Discuss when the tender process started (the Request for Proposal (RFP)), the conclusion of the process and the date from which the audit firm will take office.

— Discuss the approach to understanding any shareholder concerns.

Governance

— Confirm that that only the audit committee, acting collectively or through its chair, was responsible for:

- initiating and supervising the competitive tender process;
- making the recommendation to the board of directors as to its first and second choice candidates for appointment pursuant to a competitive tender process;
- influencing the appointment of the audit engagement partner; and
- negotiating and agreeing the statutory audit fee and the scope of the statutory audit.

— Discuss how the tender process was managed and supported and any particular features designed to ensure the tender process was transparent, fair and effective e.g., data rooms, feedback loops, transparent selection criteria, etc.

— Identify who was involved internally and at what stage of the process e.g., approve the design of the tender process, conduct detailed assessment, etc.

— Explain how any conflicts of interest were managed e.g., the exclusion from the decision making process of individuals who had a recent senior relationship with any of the audit firms.

— Explain any procedures to manage compliance with the group's gifts and hospitality policy and any additional actions such as declining hospitality invitations from the competing firms during the duration of the tender.

Participation

Note: The Regulations require that audit committees must ensure that "the tender process does not in any way preclude the participation in the selection procedure of firms which received less than 15% of the total audit fees from PIEs in the previous calendar year".

— Discuss the steps taken to ensure that, in a UK context, non-Big 4 firms were not precluded from participation in the selection procedure.

— Discuss whether any non-Big 4 firms were approached and whether they actively participated in the tender process.

— Discuss any advance notice of any tendering plans put in the public domain either through disclosure in the annual report, disclosure on the company website or via the Regulatory News Service (RNS).

— Confirm that there were no clauses restricting the choice of audit firms.

— Discuss whether the audit committee considered a choice of potential audit partners from each firm so they could choose the partner who is the best fit.

Note: The Regulations require that tender documents are prepared that allow the invited auditors to understand the business of the audited entity.

— Discuss the steps taken to ensure the tender documents included sufficient information to enable the invited auditors to understand the business and the type of audit that is to be carried out.

— Discuss the steps taken to create a 'level playing field' recognising that each invited auditor will have different experiences and existing relationships with the company.

— Summarise the information provided to auditors and the mechanism by which it was shared e.g., data rooms etc.

Evaluation process

Note: The Regulations require that the tender documents contain transparent and non discriminatory selection criteria that shall be used to evaluate the proposals made by the auditor; and that the audit proposals are evaluated in accordance with the predefined selection criteria.

- Summarise the pre-defined non-discriminatory selection criteria e.g., audit approach, proactivity, organisational fit, commitment, etc.
- Discuss whether the process was 'fee-blind' or not; and why.
- Discuss any 'disqualifying' criteria i.e., criteria which if met would mean the firm in question would be eliminated from the tender process. For example: the inability to achieve independence before a given date; no experience in the given sector or geography; or evidence of persistent serious regulatory breaches. Care should be taken to ensure the criteria are non-discriminatory in substance and in form.
- Discuss the due diligence activities carried out to assess the firms and inform the evaluation against each of the pre-defined selection criteria. For example:
  - Request for Proposal (RFP) covering the firms' experience, proposed solution, independence and transition.
  - Audit quality workshops to assess the firms' knowledge, experience and approach to auditing key accounting judgements, information technology and other matters.
  - Review of regulatory reports on the audit firms from the FRC (and other regulators) over the past 5 years.
  - Reference checks with Board members, audit committee members and management at comparable companies.
  - Site visits to allow assessment of the proposed teams.
  - Try before you buy – assessing the performance of the tendering firms against a technical question or test.
- Discuss how any findings or conclusions of any inspection report on the potential auditors was factored into the selection process.
- Discuss the evaluation approach (scorecards, etc.), who the evaluators were and any 'weighting' applied to the selection criteria such as X% for audit quality; Y% for cultural fit; Z% for experience; etc. Specifically address the involvement of the audit committee.
- Discuss any feedback mechanisms and any steps taken to allow firms to finesse their proposal and provide their best possible audit proposition.
- Discuss how management appraised the audit committee of the results of the evaluation activities.
- Describe the presentation phase. Who presented, how long were the presentations, etc.? Were all audit committee members present? Were management present?

Recommendation

Note: The Regulations require that the audit committee identifies in its recommendation to the board, its first and second choice candidates for appointment along with the reasons for its choices.

- Set out the two firms recommended by the audit committee.
- Identify the audit committee's preferred choice.
- Explain why the successful firm was chosen, including key areas where they excelled.
- Discuss how the transition between the outgoing and incoming audit firm will be manage

APPENDIX 15

Specimen non-audit services policy

This is a specimen policy for a UK Public Interest Entity (PIE) and its controlled undertakings. Updated February 2024.

Introduction

This policy applies to all companies, businesses, and functional areas within the Group; and to all situations where we propose to engage with the external auditor for the provision of non-audit services.

This policy is in place to mitigate any risks threatening, or appearing to threaten, the external audit firm's independence and objectivity arising through the provision of non-audit services – namely services which:

— create conflicts of interest between the external audit firm and the Group;

— result in the external audit firm functioning in the role of management;

— result in a fee which is material relative to the audit fee;

— result in a fee that drives the performance evaluation or remuneration of the individuals performing the audit;

— place the external audit firm in the position of auditing its own work; or

— place the external audit firm in the position of being an advocate for the Group.

This policy is in line with the recommendations set out in the Financial Reporting Council's (FRC's) Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2019) ("FRC Ethical Standard") and the International Ethics Standard Board for Accountants Code 2021 ("IESBA Code").

In line with these recommendations and requirements, an external audit firm is only appointed to perform a service when doing so would be consistent with both the requirements and overarching principles of the FRC Ethical Standard and the IESBA Code and when its skills and experience make it the most suitable supplier.

In addition, the FRC Ethical Standard requires an assessment of whether it is probable that an objective, reasonable and informed third party would conclude independence is not compromised.

Where the provision of a non-audit service to an IESBA PIE (or an affiliate of the IESBA PIE) creates a self-review threat for the auditor then that threat cannot be eliminated – no safeguard is capable of reducing that threat to an acceptable level hence the service can not be provided. IESBA requires a two-pronged test to be used to determine if a self-review threat might be created:

— Will the non-audit service impact the financial statements being audited?

— Will the audit team have to rely on or evaluate the outcome of the service as part of the audit?

If the answer to both questions is yes, then the service cannot be provided to an IESBA PIE.

The self review prohibition applies to:

— All IESBA PIEs; and

— All affiliates of an IESBA PIE[1].

Additionally, the IESBA Code prohibits the provision of accounting and bookkeeping services and the preparation of current and/or deferred tax calculations (tax accounting) for an IESBA PIE and its affiliates.

[1] With the exception of upstream and sister affiliates if they are not also audited by the external audit firm, under the 'Reasonable to conclude' exemption.

Approval

The approval of the Group Audit Committee must be obtained before the external auditor is engaged to provide any permitted non-audit services.

The policy shall document the authority for approving services if allocated between various Audit Committees in the same corporate structure.

Permitted non-audit services for UK PIEs are those listed in **Exhibit 1**. For the avoidance of doubt, where such services are provided, they shall not include any elements of those services subject to outright prohibition in Regulation 80 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177) – see **Exhibit 2.**

For permitted non-audit services that are clearly trivial[2], the audit committee has pre-approved the use of the external auditor subject to the following limits.

Value of service requested	Approval required prior to engagement of the external auditor
Up to £25,000	Group Financial Controller and Treasurer or Head of Group Reporting
£25,001 to £50,000	Chair of the Group Audit Committee (or delegate)
£50,001 and above	Group Audit Committee

[2] This could be either the full list of permitted services or a specified sub-set of that list.

For permitted non-audit services, business units must implement procedures to identify where there is a proposal to engage the external auditors and ensure the correct approval process is followed prior entering into any formal engagement with the external auditor.

Business units should ensure the appropriate justification is provided, setting out why the external auditor firm is the most appropriate supplier.

Business units must put in place communication plans to ensure all non-audit services purchased from the external auditor are reported to both the Chief Financial Officer and the Audit Committee.

Business units must put in place procedures and communication plans to ensure that only permitted services (see below) are purchased from the external audit firm.

When reviewing requests for permitted non-audit services, the audit committee will assess:

— whether the provision of such services impairs the auditor’s independence or objectivity and any safeguards in place to eliminate or reduce threats to independence;

— the nature of the non-audit services;

— whether the skills and experience make the auditor the most suitable supplier of the non-audit service;

— the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee; and

— the criteria which govern the compensation of the individuals performing the audit.

Fees

Any arrangement with the auditor that includes contingent fee arrangements is not permitted. In addition, the total fees for non-audit services provided by the auditor to the Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company, of its controlled undertakings and of the consolidated financial statements paid to the auditor in the last three consecutive financial years.

Confirmation of independence

The audit committee should seek annually from the audit firm information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff.

Exhibit 1 : Permitted Non-audit/Additional Services for Public Interest Entities

Services required by law or regulation and exempt from the non-audit services cap

— Reporting required by a competent authority or regulator under law or regulation for example:

  – Reporting to a regulator on client assets.

  – In relation to entities regulated under the Financial Services and Markets Act 2000 (FSMA), reports under s166 and s340 of FSMA.

  – Reporting to a regulator on regulatory financial statements.

  – Reporting on a Solvency and Financial Condition Report under Solvency II.

— In the case of a controlled undertaking incorporated and based in a third country, reporting required by law or regulation in that jurisdiction where the auditor is permitted to undertake that engagement.

— Reporting on internal financial controls when required by law or regulation.

— Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports.

— Reports, required by or supplied to competent authorities/regulators supervising the audited entity, where the authority/regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider.

— Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and an it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.

Services subject to the non-audit services cap

— Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation.

— Where not otherwise required by law or regulation, non-audit and additional services, as defined in the FRC Ethical Standard provided as auditor of the entity, or as reporting accountant, in relation to information of the audited entity for which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor is relevant to the service, and where the nature of the service would not compromise independence.

— Extended audit or assurance work that is authorised by those charged with governance performed on financial or performance information and/or financial or operational controls, in an entity relevant to an engagement or a third-party service provider, where this work is closely linked with the audit work.

— Additional assurance work or agreed upon procedures, authorised by those charged with governance performed on material included within or referenced from the annual report of an entity relevant to an engagement.

— Reporting on government grants.

— Reporting on covenant or loan agreements, which require independent verification, and other reporting to third parties with whom the entity relevant to an engagement has a business relationship in accordance with Appendix C of the FRC Ethical Standard.

— Services which have been the subject of an application to the Competent Authority in accordance with Regulation 79 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177).

— Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.

Exhibit 2 : Services subject to outright prohibition in Regulation 80 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177)

- Tax services relating to:
  - preparation of tax forms.
  - payroll tax.
  - customs duties.
  - identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law.
  - support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law.
  - calculation of direct and indirect tax and deferred tax.
  - provision of tax advice.
- Services that involve playing a part in the management or decision-making of the audited entity.
- Bookkeeping and preparing accounting records and financial statements.
- Payroll services.
- Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.
- Valuation services, including valuations performed in connection with actuarial services or litigation support services.
- Legal services, with respect to:
  - the provision of general counsel;
  - negotiating on behalf of the audit entity;
  - acting in an advocacy role in the resolution of litigation
- Services related to the audit entity's internal audit function.
- Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity.
- Promoting, dealing in, or underwriting shares in the audited entity.
- Human resources services with respect to:
  - Management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
    a) searching for or seeking out candidates for such positions; or
    b) undertaking reference checks of candidates for such positions.
- Structuring the organisation design.
- Cost control.

APPENDIX 16

Specimen policy on the employment of former employees of the external auditor

Audit integrity, objectivity and independence may be threatened where a director, officer or employee of an audited entity who is in a position to exert direct and significant influence over the preparation of the financial statements has recently been a partner in the audit firm or member of the audit engagement team.

Such circumstances may create self-interest, familiarity and intimidation threats, particularly when significant connections remain between the individual and the audit firm. Similarly, audit integrity or objectivity my be threatened, and independence compromised when an individual knows, or has reason to believe, that they will or may be joining an audited entity at some time in the future.

The FRC’s Ethical Standard contains strict rules that must be adhered to by auditors. Nevertheless, it is useful for an audit committee to have its own policy for the employment of former employees of the external auditor

Policy

As part of its remit, the audit committee keeps under review the integrity, objectivity and independence of the external auditor. The committee approved on [ ] a policy on employment of former employees of external auditors. Under this policy:

— Partners of the audit firm (regardless of whether they work on the audit) will not be offered employment in either a key management position or as a director (including non-executive director) by the company or any of its subsidiary undertakings within two years of leaving the audit firm.

A key management position is any position that involves the responsibility for fundamental management decisions (such as a CEO or CFO). It also includes any role that can influence the company's accounting policies or the preparation of the financial statements.

— Individuals who are not partners, but who are eligible to sign audit reports on behalf of the audit firm, will not be offered employment in either a key management position or as a director (including non-executive director) by the company or any of its subsidiary undertakings within two years[1] of undertaking any role on the audit.

— Other audit team members who accept employment by any group company must cease activity on the audit immediately they tender their resignation to the audit firm.

Any offer of employment to a former employee of the audit firm, within two years of the employee leaving the audit firm, must be pre-approved by the audit committee where the offer is made in respect of a senior executive position. Between meetings, the audit committee chairman has delegated authority to deal with such appointments at his discretion. Any such interim approval must be ratified at the next meeting of the committee.

[1] Two years for public interest entities and 1 year for other entities

APPENDIX 17

Evaluation of the external auditor

The evaluation of external audit effectiveness is subject to increased regulator and investor focus. Not only is it core to the audit committee role – the audit committee must satisfy itself that the audit is effective – but it can have an impact on any recommendations around audit tendering and/or rotation.

Our tool – which can be downloaded here - is designed to assist the audit committee in carrying out its assessment, guiding them through the key topics for consideration and facilitating a survey across the business to add depth and breadth to the committee's conclusions.

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