

## *Example Terms of Reference for an Audit Committee*

### **Constitution**

The audit committee shall be a committee of the board established by the board.

### **Objective**

The objective of the committee is to assist the board in carrying out its duties in regard to financial reporting and legal compliance.

### **Membership**

Members of the committee shall be members of the board. The committee will have at least three members, all of them, where possible, non-executive directors. The chief executive shall not be a member of the committee.

The board shall appoint a non-executive director as committee chair.

### **Secretarial and Meetings**

The secretary of the committee shall be appointed by the board.

A quorum of members of the committee shall be two.

The committee may invite management including the chief financial officer, and the external auditors, as it considers necessary to provide appropriate information and explanations.

All directors shall be entitled to attend meetings of the committee unless the committee chooses to hold a meeting without any company executives present. This means that executive directors cannot attend.

Reasonable notice of meetings and the business to be conducted shall be given to the members of the committee, all other members of the board, the chief executive officer, the chief financial officer and the external auditors.

Meetings shall be held not less than three times a year having regard to the company's reporting and audit cycle. Any member of the committee, the chief executive officer, the chief financial officer or the external auditors may request a meeting at any time if they consider it necessary.

Minutes of all meetings shall be kept.

### **Responsibilities**

The responsibilities of the committee are as follows:

- liaison with internal and external auditors;
- review of the annual audit plan with the external auditors;
- assessment of the performance of financial management;
- review of audit findings and the annual financial statements;
- review of interim financial information;
- review of accounting policies;
- oversight of compliance with statutory responsibilities relating to financial and other requirements;
- review of the appointment of the external auditors and their fees;
- review of the internal auditors and their activities;
- ensuring that recommendations highlighted in internal audit reports are actioned by management;

monitoring of corporate risk assessment and the internal controls instituted; and  
supervision of special investigations when requested by the board.

In addition, the committee shall examine any other matters referred to it by the board.

### **Authority**

The committee is authorised by the board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees will be directed to co-operate with any request made by the committee.

The committee is authorised by the board to obtain, at the expense of the company, outside legal or other independent professional advice and to arrange for the attendance at meetings, at the expense of the company, of outside parties with relevant experience and expertise if it considers this necessary.

### **Review of the Committee**

The Committee shall undertake an annual self review of its objectives and responsibilities.

Such objectives and responsibilities shall also be reviewed by the board, the chief executive officer, the chief financial officer and any other person the board considers appropriate.

### **Reporting Procedures**

The committee shall maintain direct lines of communication with the external auditors, the chief executive officer, the chief financial officer, the internal auditors and with management generally including those responsible for non-financial risk management.

The chief executive officer and the chief financial officer shall be responsible for drawing to the committee's immediate attention any material matter that relates to the financial condition of the company, any material breakdown in internal controls, and any material event of fraud or malpractice.

After each committee meeting the chairman shall report the committee's findings and recommendations to the board.

The minutes of all committee meetings shall be circulated to members of the board, the chief executive officer, the chief financial officer, the external auditors and to such other persons as the board directs.

The chairman shall present an annual report to the board summarising the committee's activities during the year and any related significant results and findings.

*Acknowledgements for this example Terms of Reference: Institute of Directors in New Zealand*