

SELF-EVALUATION: A PRIMER FOR AUDIT COMMITTEES

The audit committee's self-evaluation should employ a straightforward approach that will aid the committee in assessing its strengths and lay a foundation for future improvement.

Audit committees should consider conducting an annual comprehensive self-evaluation of their performance and effectiveness. This can be accomplished in a number of formats and scenarios, such as self-evaluation, using outside evaluators, or employing a 360-degree format. The self-evaluation can take different forms, involve a number of participants, and use diverse techniques. Most important, however, it should employ a straightforward approach that will aid the audit committee in assessing its strengths and lay a foundation for future improvement.

The self-evaluation might include:

Introspection. Evaluate the audit committee's performance by asking specific questions about the impact it has had on the organization and, most important, its financial reporting process; the annual audit; and its relationship with internal and independent auditors, members of management. Consider including the chair of the board in this evaluation process.

Comprehensive. Conduct 360-degree evaluations of all audit committee members and the committee chair. The chair should consider the results of the members' evaluations of each other in the context of his or her own evaluations. The chair also should, in consultation with the chair of the board and/or chair of the corporate governance committee, consider whether any members should be rotated off the committee. Consider the members' attendance record and level of participation during this process.

Performance improvement. Ask the chief audit executive, chief financial officer, chief executive officer and independent auditor for comments on the performance of the audit committee. Include this constructive feedback in the session referred to in *Introspection*, above.

Competency. Audit committee members should be financially literate. Members should have attended recent training on enterprise risk management, accounting, auditing and financial reporting developments (e.g., IFRS, XBRL, etc.), and current business and industry practices.

AUDIT COMMITTEE BRIEF

From the Audit Committee Effectiveness Center

Before self-evaluation begins, the committee should determine how it can ensure a forthright exchange of ideas and opinions.

Leadership. The members should discuss the committee chair's performance. If the members collectively agree that the chair is not performing at the proper level, the members should bring their concerns to the attention of the chair of the board and/or chair of the corporate governance committee.

The sample questions provided below are a starting point for evaluating the performance and effectiveness of the audit committee. Before completion, the committee should determine how it can best ensure the responses reflect a forthright exchange of ideas and opinions among audit committee members, and determine how the process should be completed. The questions may be completed anonymously, prior to attending an evaluation-discussion meeting or during a committee session.

This list is intended to provide guidance on assessing the audit committee's general effectiveness in its roles and relationships – including understanding the organization's activities and risk factors, and acquiring the technical and communication proficiency necessary for proper oversight of the accounting, financial reporting enterprise risk management and internal control environment.

- Does the audit committee have a positive working relationship with management, internal auditors and independent auditors?
- Does the committee provide to the chair its own view on issues?
- Are differences of opinion resolved to the committee's satisfaction?
- Do all members provide appropriate input to the committee chair?
- Is an audit committee charter used to guide the committee's efforts and agenda?
- Does the committee engage outside experts, as appropriate?
- Does the committee work with other committees (e.g., compensation, governance, etc.), as appropriate?
- Does the committee conduct executive sessions in a manner that offers a safe haven to the individual, while at the same time asking tough and necessary questions, evaluating the answers and pursuing issues to a satisfactory resolution?
- Did the audit committee evaluate the internal auditors' overall effectiveness?
- Did the audit committee evaluate the independent auditors, including their responsiveness to the committee's expectations?
- Is the size of the committee appropriate for the complexity and operations of the organization?
- Are committee members independent of management?

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- Do committee members encourage a tone at the top that conveys basic values of ethical integrity, legal compliance, and strong financial reporting and control?
- Does the committee receive the internal and independent auditors' assessments of the risks for fraud and other factors that lead to potential fraudulent financial reporting?
- Is the audit committee aware of reports or other communications received from regulators – and updates from general counsel on legal and regulatory matters – that may have a material effect on the financial activities and related financial statements, or that may affect related organizational compliance policies?
- Has the audit committee reviewed all significant risk issues and control deficiencies identified by the internal or independent auditors, as well as management's corrective action plan and timetable for addressing those recommendations?
- Are meeting agendas prepared and distributed in advance to ensure effective and efficient meetings, allow that necessary topics are addressed, and to comply?

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