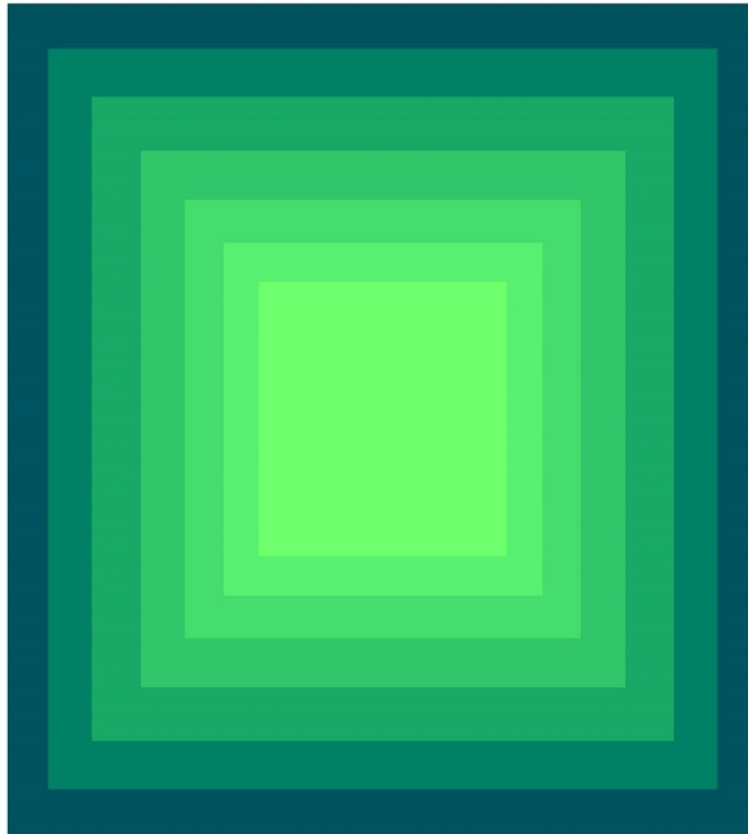




AUDIT OVERSIGHT BOARD  
The Independent Audit Regulator



# AUDIT COMMITTEE TOOLKIT

## GUIDANCE ON THE ROLES AND RESPONSIBILITIES OF AUDIT COMMITTEES

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# Illustrative Terms of Reference for Audit Committees

## Objective

1. The board of directors (“board”) of the company resolves to establish a committee of the board to be known as the audit committee (the “committee”).

## Membership

1. The committee shall be appointed by the board and shall consist of not less than three members comprising of non-executive directors and at least one independent director.
2. The chairman of the board shall not be a member of the committee.
3. At least one of the committee members shall have recent and relevant financial expertise (be financially literate<sup>1</sup>) to the board’s satisfaction.
4. The secretary of the company shall act as secretary to the committee.
5. The quorum will be {two} members.

## Meetings

1. The committee shall meet as often as it deems necessary but not less than at least once every quarter of the financial year. The meetings will be held to coincide with key dates in the financial reporting cycle.
2. Special meetings may be convened upon the request of the head of internal audit and the external auditors.
3. The chief executive officer and chief financial officer shall not attend any meeting of the committee except by invitation.
4. The committee shall meet the external auditors without the presence of management at least once every year.
5. The committee shall meet the head of internal audit without the presence of management at least once every year.

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<sup>1</sup> The term financially literate shall have the meaning outlined in section 28(c) of the Listed Companies (Code of Corporate Governance) Regulations 2017.

## **Authority**

The committee is authorized by the board to:

1. Have unrestricted access to all functions, systems, records, property, and personnel of the company.
2. Seek any information and obtain the assistance of company employees in the discharge of its responsibilities.
3. Obtain independent legal, accounting, or other professional advice as it requires.

## **Responsibilities**

The committee shall have the following responsibilities:

### **Internal Audit:**

1. To review and approve the internal audit charter and to ensure that the function has the organizational independence and resources to discharge its responsibilities.
2. To review and approve the internal audit plan and ensure it addresses key risks to the company.
3. To review all internal audit reports and ensure adequate follow up action on recommendations by management.

### **Financial Reporting:**

1. To monitor, review, and assess the integrity of the financial reporting process and review any significant reporting issues and judgments contained therein.
2. To review and challenge where necessary the actions and judgments of management related to the annual and interim financial statements of the company, prior to their approval by the board of directors, and focusing on:
  - major judgmental areas;
  - significant adjustments resulting from the audit;
  - going concern assumption;
  - critical accounting policies and any changes in accounting policies and practices;
  - compliance with applicable accounting standards;
  - compliance with these regulations and other statutory and regulatory requirements;
  - all related party transactions;

- clarity of disclosures;
- significant and/or unusual transactions.

**Internal Controls:**

1. To review and monitor the company's internal control and risk management systems.
2. To ensure that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities, and the reporting structure are adequate and effective.
3. To discuss any significant and/or material internal control deficiencies with the Board and external auditors.
4. To review the company's statement on internal control systems prior to endorsement by the Board.
5. To review all related party transactions prior to board consideration.

**External Audit:**

1. To facilitate the external audit process.
2. To review and discuss with external auditors:
  - major issues arising from internal and final audits including issued management letters and management responses.
  - key accounting and audit judgments made during the audit.
  - The level of errors identified during the audit.
  - how audit quality was maintained through the external audit process.
3. To discuss major observations arising from interim and final audits with external auditors, including any matter that the auditors may wish to highlight (in the absence of management, where necessary).
4. To ensure coordination between the internal and external auditors of the company.
5. To recommend to the board the appointment of external auditors, their removal, audit fees, and the provision of non-audit services.
6. To develop and oversee selection procedures for the appointment of the audit firm and ensure that the firm is registered with the AOB and has been given a satisfactory quality control review rating by the Institute of Chartered Accountants of Pakistan.
7. To ensure that the audit fee charged by the external auditors is commensurate with the execution of a high-quality audit.

8. To investigate any causes leading to a resignation by the external auditor and whether any actions are required.
9. To ensure that no relationships exist that adversely impact the external auditors independence and objectivity and that the company has not appointed a person as an external auditor (or a person involved in the audit of a company) who is a close relative (spouse, parent, dependent, or non-dependent child) of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary, or a director of the company.
10. To develop and implement policy on the supply of non-audit services by the external auditor and on employment of former employees of the external auditor.
11. To review on an annual basis the independence and objectivity of the external auditor taking into account relevant professional and regulatory pronouncements.

**Compliance, fraud, and whistle blowing:**

1. To review and determine the company procedures for fraud detection and for compliance with statutory requirements.
2. To review arrangements for staff and management to report in confidence to the audit committee any concerns about actual or potential improprieties in financial and other matters.
3. To review the major findings of internal investigations of activities characterized by fraud, corruption, and abuse of power and management's response thereto.

**Reporting**

1. The secretary shall be responsible for ensuring that all meetings of the committee are minuted and circulated to all members of the committee in a timely fashion. The secretary shall circulate minutes of meetings of the audit committee to all members, directors, head of internal audit and where required to the chief financial officer prior to the next meeting of the board. Where this is not practicable, the chair of the audit committee shall communicate a synopsis of the proceedings to the board and the minutes shall be circulated immediately after the meeting of the board.
2. The committee shall prepare a report describing its activities to be included in the annual report of the company.