

Audit Committee Role & Responsibilities

The primary purpose of a company's audit committee is to provide oversight of the financial reporting process, the audit process, the company's system of internal controls and compliance with laws and regulations.

The audit committee can expect to review significant accounting and reporting issues and recent professional and regulatory pronouncements to understand the potential impact on financial statements. An understanding of how management develops internal interim financial information is necessary to assess whether reports are complete and accurate.

The committee reviews the results of an audit with management and external auditors, including matters required to be communicated to the committee under generally accepted auditing standards. Controls over financial reporting, information technology security, and operational matters fall under the purview of the committee.

Audit committees meet separately with external auditors to discuss matters that the committee or auditors believe should be discussed privately. The committee also reviews proposed audit approaches and handles the coordination of the audit effort with internal audit staff. When an internal audit function exists, the committee will review and approve the audit plan, review the staffing and organization of the function, and meet with internal auditors and management on a periodic basis to discuss matters of concern that may arise.

Audit committees must have authority over their own budgets and over external auditors. It is through these protections that investors will come to trust the financial reports released by companies.

While boards should seek members who can provide a diverse range of competent perspectives based on their experience and expertise, it is nevertheless imperative that board members are knowledgeable and conversant in the language of finance and accounting. This need is particularly acute for the audit committee.