OUR VIEW ON CORPORATE GOVERNANCE MATTERS

Assessment Questions for Audit Committees to Consider

(Offered in Conjunction With Protiviti's *The Bulletin*,
"Setting the 2024 Audit Committee Agenda"[1])

The following questions are provided to assist audit committee members in their periodic assessments of committee composition, agenda and focus, in view of the company's industry, circumstances, risks, financial reporting issues and current challenges it may be facing.

These questions are intended to be illustrative and do not purport to cover every topic the committee should consider nor are they intended to apply to every audit committee. The full list of questions may be more suited to larger companies. Accordingly, they should be customised to the committee's specific needs and assessment focus.

These questions should be used in conjunction with the agenda items suggested in Protiviti's *The Bulletin*, "Setting the 2024 Audit Committee Agenda," as those items are unique to the next 12 months and may not be included specifically in this summary.

[1] "Setting the 2024 Audit Committee Agenda," *The Bulletin*, Volume 8, Issue 7, Protiviti, December 2023: www.protiviti.com/US-en/newsletter/bulletinv8i7-2024-audit-committee-agenda.

Committee Composition and Dynamics:

- Do all members of the committee meet the applicable independence requirements? For example, committee members cannot receive additional compensatory income outside of director fees, have family members serving in senior executive positions or be affiliated with the company, its subsidiaries or the independent auditor.
- Do committee members have the requisite business and leadership experience and is the committee's composition sufficiently diverse to oversee the financial reporting process, expanded emphasis on disclosing nonfinancial information to investors and other relevant issues germane to the committee's chartered activities?
  - Are all members of the committee financially literate (e.g., are they capable of reading and understanding the financial statements)?
  - Is at least one audit committee member an expert in financial reporting matters germane to the industry-specific issues the company faces in preparing financial reports in accordance with applicable accounting standards?
  - Does the committee have access to other sources of expertise beyond financial reporting needed to fulfill its responsibilities (e.g., technology, cybersecurity and regulatory matters)?
- Are committee members periodically rotated, including the chair, to encourage fresh perspectives in discharging the committee's responsibilities?
- Are the frequency and duration of committee meetings sufficient to permit active discussions with management and other executives?
- Does the committee engage independent advisers when needed?
- Does the committee coordinate its activities with other board committees to ensure sufficient board oversight coverage of significant matters?

Committee Charter and Agenda:

- Does the committee review and approve the charter and align its activities with a calendar that incorporates required activities and allows flexibility to cover additional topics as they emerge?
- Are the committee charter and agenda focused on the issues most likely to affect the quality of financial and other information reported?
- Are meeting agendas developed in consultation with management and the external auditor?
- Are committee meeting materials and agendas aligned with priority areas?

Oversight of Internal Controls and Financial Reporting:

- Do committee members understand the key controls and reporting risk areas identified by management, the internal auditors and the independent auditor?
- Does the committee focus its oversight on understanding high-risk and complex accounting and reporting areas — particularly areas involving significant judgement and estimation processes — and how management addresses them and their financial statement impact?
- Does the committee understand the issues raised in comment letters the company receives from the U.S. Securities and Exchange Commission (SEC) and management's planned response?
- Does the committee stay abreast of pending financial reporting and regulatory developments and understand how they may affect the company? For example, does it consider the nature of SEC comment letters being issued to competitors and other companies regarding issues germane to the industry as well as emerging focus areas of the SEC relevant to the company?
- Does the committee give adequate attention to overseeing the following areas:
  - The financial reporting process, including reviewing annual and quarterly financial statements and earnings releases (including management's discussion and analysis, information and guidance provided to analysts and rating agencies, and pro forma or "adjusted" non-GAAP measures and key performance indicators included therein)?
  - Critical accounting policies, quality of management judgements and estimates impacting the financial statements, and written communications between external and internal auditors and management?
  - Implementation of new accounting standards and disclosure rules?
  - Adequacy of disclosures of significant transactions involving related parties?
  - Existence of significant pressure to meet budgeted or expected targets?
  - Consideration of fraud risk, including the risk of fraudulent financial reporting?
  - Management's purpose for reporting non-GAAP and other key operational measures in public reports and the disclosure controls and procedures for ensuring their propriety, accuracy and consistency with prior periods?
- Is the committee satisfied with the following:
  - Are appropriate financial reporting controls and disclosure controls and procedures in place?
  - Is it being notified of any significant deficiencies and material weaknesses on a timely basis, and is it being kept informed of steps taken along the timetable for correction?
  - Is it notified promptly of significant compliance issues and briefed regularly on the status of outstanding issues and their remediation?

Oversight of the External Auditor:

Does the committee give adequate attention to the following areas in conjunction with ensuring audit quality:

- Hiring, retention, performance and compensation of the external auditor, including preapproval of nonaudit services to be provided by the auditor?
- Understanding current Public Company Accounting Oversight Board (PCAOB) inspection report findings related to the external auditor and the potential implications of those with respect to the nature, timing and extent of auditors' procedures or related matters?
- Monitoring PCAOB developments and their implications to the scope of the external audit (e.g., the PCAOB's current proposal to expand the auditor's obligation to plan and perform audit procedures to identify laws and regulations with which noncompliance could reasonably have a material effect on the financial statements and identify whether there is information indicating that such noncompliance has or may have occurred)?
- Approving policies on hiring personnel from the external auditor (with an appropriate cooling-off period)?
- Setting the tone for the company's relationship with the external auditor in preserving auditor objectivity, in part, through direct oversight of the audit relationship and evaluating the auditor's independence?
- Evaluating the propriety of nonaudit services, including those provided in the environmental, social and governance (ESG) space when the auditor is attesting to ESG disclosures?
- Meeting periodically with the lead audit partner(s) and the specialists (e.g., tax, IT, valuation, actuarial), used by the auditor, who contribute to the audit process and, when necessary, engaging in dialog outside of formal committee meetings?
- Defining expectations regarding the nature and method of communication from the auditor, particularly critical audit matters (CAMs) for both the company and its industry?
- Understanding the CAMs reported and whether they represent significant judgemental issues on which management and the auditor may not agree or if management may be applying aggressive accounting — indicating an opportunity to streamline and improve the quality of the company's accounting and reporting processes?

Risk Oversight:

- Does the audit committee understand the company's risk profile and discuss with management the company's policies related to risk assessment and risk management? (Note: This is a requirement for NYSE-listed issuers.)
- If the audit committee takes on only those risk oversight responsibilities that address the risks inherent in the committee's chartered activities (e.g., financial reporting, fraud, reputation, and certain compliance, technology and other risks), does it collaborate with other board committees and

the full board to ensure that significant risks are not missed by the board in its overall risk oversight, such as:

- Cybersecurity risk?
- Data privacy risk?
- Compliance risk?
- Third-party risk?

- With respect to risks inherent in the audit committee's charter, does the committee receive periodic updates from management responsible for each of the priority risks?
- If the board delegates its overall risk oversight responsibilities to the audit committee, is the committee able to devote sufficient time to the risk oversight process as well as to its other responsibilities? Does the committee:
  - Allow sufficient time to monitor the strength of the company's risk governance and culture?
  - Periodically review management's assessment of the top enterprise risks, including the member of management who owns each risk and the board committee responsible for overseeing each risk?
  - Ensure management has in place a reasonable information and reporting system with regard to the critical enterprise risks that warrant the most attention, and that the committee is privy to the system's insights from time to time and whenever necessary?
  - Periodically assess quality and reliability of risk reports received from management?
  - Consider the propriety of risk tolerances related to the significant risks, including whether they may be too low and discourage appropriate risk-taking?
  - Periodically discuss with management whether (a) the appropriate "tone at the top" is reinforcing the company's values and promoting a "risk aware" culture and (b) the "tone in the middle" is aligned with the "tone at the top"?
  - Work with the compensation committee to understand whether existing incentive compensation plans encourage the undertaking of unacceptable risks?
- If the audit committee oversees cybersecurity, does it have access to sufficient cybersecurity expertise to ensure that the right questions are asked (particularly in light of recently finalised cyber disclosure rules for SEC registrants)?
- Regardless of the scope of risk oversight, as designated by the full board, are committee members satisfied that they:
  - Understand the business, technology and other risks that could affect financial and public reporting?
  - Receive appropriate overviews from business leaders concerning matters germane to financial risks and other factors influencing the financial statements and public reports?
  - Are coordinated with other committees, if/as applicable (e.g., risk, cyber, sustainability)?

Business Context:

Does the audit committee have a strong business context to discharge its responsibilities effectively? For example, does it consider:

- Changes in the business environment that can result in changes in the assumptions underlying financial reporting assertions and different financial reporting risks?
- Significant and rapid expansion of operations or unusual disruptions that can strain the control environment and increase the risk of a breakdown in key controls?
- Changes in the overall control environment, including tone at the top, which could affect its overall effectiveness?
- New business models, products, services or activities that may introduce new risks associated with financial reporting?
- New disclosure requirements, accounting pronouncements and tax regulations?
- Other relevant aspects of the business environment that present change from the prior year that could have financial reporting implications, such as increased credit risk, inventory write-downs, asset impairments, and recording and disclosure of loss contingencies?

Corporate Culture:

Unless responsibility is delegated to one or more other board committees, does the audit committee oversee:

- The organisation's ethics and legal compliance policies, including its code of conduct and tone at the top set by management regarding ethical and responsible business behaviour?
- The adequacy of the organisation's confidential, anonymous hotlines and other procedures for handling complaints and employee concerns on accounting, financial reporting, internal control, auditing and code of conduct matters, and compliance with applicable laws, regulations and internal policies?
- The initiation of internal and independent investigations on matters within the committee's scope of responsibilities?
- The handling of management's override of established controls and waivers of conflicts of interest policies, including the risk mitigation and control mechanisms in place?

Executive Sessions:

- Are audit committee meetings preceded or followed by private sessions with the chief financial officer (CFO), chief audit executive (CAE) and other executives (e.g., chief information officer, chief information security officer) as warranted?
- Does the committee periodically meet separately with the independent auditor?

- Does the committee meet in closed executive session for its members to discuss:
  - Issues of concern, how the meeting went and agenda topics to cover in future meetings?
  - Evaluation of the CFO and other finance executives?
  - Evaluation of the CAE?

ESG Reporting:

- Has the committee collaborated with the board and various committee chairs to ensure that the board has sufficient overall input into ESG and sustainability performance, reporting and disclosures?
- Has the committee considered the implications of the company's human capital, climate and other ESG disclosures on the assumptions underlying financial reporting assertions?
- Does the committee engage with management on disclosure controls and procedures relating to ESG metrics and reporting (sometimes referred to as "internal control over sustainability reporting")?
- If the company opts to obtain external assurance, does the committee ensure there is appropriate board oversight over such activities, including ensuring auditor independence?

Oversight of the Finance Organisation:

Does the committee:

- Discuss succession planning for the CFO and accounting and finance staff, including the CFO's organisation's bench strength?
- Understand finance's process for early identification and resolution of accounting and other issues?
- Understand plans to address new accounting and reporting requirements and related risks?
- Provide input into the finance organisation's goal-setting process?

Oversight of Internal Audit:

Does the committee:

- Ensure that the CAE has direct reporting access to it?
- Play an active role in determining the highest and best use of internal audit, as well as the appropriate structure of the group (e.g., in-house versus outsourced resources)?
- Have transparency into the internal audit risk assessment and audit plans, including activities and objectives regarding internal control over financial reporting?
- Discuss, review and approve any potential conflict of interest issues that may arise through internal audit's advisory and consulting services or through internal audit support from any co-sourced service provider that may also provide other services to the organisation?

- Obtain a clear understanding of internal audit's strategic plan and transformation priorities to improve its performance continuously?
- Focus on whether any high-risk areas are being deferred or otherwise not addressed by the audit plan?
- Ensure that it has a "coverage view of risk," including the extent to which key risks are being addressed by other assurance functions (risk management, ethics and compliance, SOX financial controls PMO)?
- Understand internal audit staffing, funding and succession planning, particularly the adequacy of resources to deliver on the audit plan?

Committee Effectiveness:

- Prior to reporting on its activities to the full board and/or to shareholders, is the committee satisfied a process is in place to ensure that all matters in the committee charter are covered sufficiently by its activities?
- Do committee members have the time to do their jobs effectively and fulfill the responsibilities specified by the charter?
- Does the committee serve as an advocate for financial reporting, and the related internal controls, in working with other board committees and the full board to monitor execution of corporate initiatives, such as cost-reduction plans as well as enterprise resource planning and financial system implementations, so that they are not unintentionally implemented in ways that would compromise management's meeting of its financial reporting responsibilities?
- Regarding committee meetings:
  - Are briefing and other materials distributed well in advance? Do committee members review those materials prior to the meeting?
  - Do reports include executive summaries that highlight issues and critical points to allow for discussion (versus presentation) during meetings?
  - Do meetings allow open and candid discussions among attendees?
- If a member serves simultaneously on multiple audit committees (say, for more than three public companies), has the board considered whether that individual is able to devote sufficient time and attention to the items on the company's audit committee agenda?

- At least annually, does the committee:
  - Perform a robust self-assessment, including the contribution and performance of individual members, and are the results discussed with committee members in executive session and plans developed to implement improvements?
  - Review its responsibilities to ensure that its workload is manageable?
  - Obtain informal feedback from the board, CEO, CFO and external auditors as to how it can best contribute value?

Member Orientation and Education:

Does the committee:

- Ensure that new members receive appropriate onboarding and orientation that trains their attention on its chartered responsibilities, agenda and focus, the company's business, and its most significant accounting and reporting issues?
- Include educational topics on the agenda periodically (such as a deep dive on a specific area of the business and related risks or a refresher in a significant accounting area)?
- Address board education requirements in accordance with the company's corporate governance guidelines and consistent with applicable listing standards?

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