

## 30 Attributes of Effective Audit Committees (outline format)

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Introduction. Audit committee activities are a group, collaborative effort requiring committee processes, and committee member experience/educational qualifications, inquiry, diligence, decision making, integrity, independence, leadership, communication, and ability to work with others. Perhaps because of the technical, important and sometimes mandatory nature of the audit committee's work, people tend to forget that the audit committee still is a subcommittee of the board. The below list of attributes is fairly exhaustive—you may want to consider the list when performing a committee evaluation; however every audit committee works differently, and involves different people and circumstances. No two audit committees are alike.

I do recommend that every audit committee of a public company, private company, nonprofit or governmental entity engage in an annual performance evaluation. And I recommend that the committee use an outside facilitator to help with that process. Pure self-evaluation tends to be a less effective process. People generally get a feeling about whether things are going well or not, but they do not necessarily speak-up or effectively communicate and resolve those matters. Remember, if you are serving on an audit committee, or if you are viewing the work of an audit committee, and if you find that you feel uncomfortable about something, the chances are strong that the situation should be discussed, and that a solution will be found. An audit committee member should not feel like he or she is working alone, or without adequate information, or without the necessary support and communication. Audit committee members and people who interact with or rely on the committee need to have a mutual understanding about the committee's responsibilities, functions and needs, and also about those items that are not the committee's responsibility.

Depending on the circumstances, some of the below listed attributes are mandatory for select audit committees; however, as a whole, the attributes should not be viewed as mandatory. Not all attributes will apply to each and every audit committee or circumstance. Some of the attributes specifically apply only to public companies. For ease of reference, and for the purpose of this paper, I have left the attributes in outline, checklist format without discussion.

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The attributes are divided into two primary categories: (1) committee member related attributes, and (2) committee related attributes.

### Committee Member Related Attributes.

The committee member:

1. Has appropriate and requisite experience. In this context the term "requisite" means required by laws, regulations or rules.
2. Has appropriate and requisite technical knowledge about accounting, auditing, tax, internal control, securities laws, and other necessary subject areas.
3. Satisfies requisite independence requirements.
4. Is interested in and committed to the company.
5. Is knowledgeable about the company, and its industry.
6. Has a willingness to learn about matters relating to the audit committee function.
7. Has a thorough understanding of his or her legal responsibilities.
8. Demonstrates leadership and tone at the top.
9. Has sufficient time availability.
10. Has integrity; doing the right thing attitude.
11. After due consideration is comfortable (i.e., satisfied) that the committee has complied with the laws, regulations, rules, and Charter provisions that govern and relate to audit committee activities.
12. Reviews and is comfortable with the accuracy of financial statement related documents, securities filings and corporate communications to the extent required by laws, regulations, rules, and audit committee Charter provisions.
13. Reviews and is comfortable with the accuracy of all documents and statements signed by or attributed to the committee member, or the committee.

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14. Is comfortable with the other audit committee members, CEO, CFO, inside auditor, outside auditor, board, counsel, and others.
15. What have we omitted? Generally, I would say, overall perspective, individual self-confidence, humility, and conviction. What attributes are on your list?

Committee Related Attributes.

16. The ease and demeanor of communications between the committee members are appropriate.
17. The ease and demeanor of communications with people outside of the committee are appropriate, including with the CEO, CFO, Controller, outside auditor, inside auditor, board, legal counsel and others.
18. The committee has appropriate accessibility to information and resources, paid for by the company.
19. The committee has appropriate accessibility to continuing education about core areas, new developments, and hot topics, paid for by the company.
20. The committee has accessibility to independent legal counsel and consultants, paid for by the company.
21. There is an audit committee Charter. There is a mutual understanding of the responsibilities and functions of the committee, and of the activities for which the committee is not responsible.
22. There are prudent processes for the documentation of committee activities.
23. The activities and performance of the audit committee are evaluated annually, or more often as necessary.
24. There is sufficient and prudent audit committee and related D&O insurance coverage.
25. There are prudent procedures for the timing, calendaring, and organization of committee activities.
26. There are effective meeting agenda preparation and dissemination processes.

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27. There are prudent issue spotting, evaluation, investigation, informed decision making, and follow-up processes.
28. Meetings are conducted in a collaborative, participatory, interactive and organized manner.
29. The services of the outside auditor, and the outside auditor selection process are evaluated annually, or more often as necessary.
30. There are appropriate and effective anonymous whistleblower and complaint, inquiry and investigation processes.

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