



Hong Kong
Society of
Accountants



**A GUIDE FOR
EFFECTIVE
AUDIT COMMITTEES**



**By The Audit Committee Guide Review Task Force of
The HKSA Corporate Governance Committee**

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FOREWORD

It has been six years since Hong Kong Society of Accountants (HKSA) issued the First Report of its Corporate Governance Committee (formerly the Corporate Governance Working Group) in December 1995. The report recommended, inter alia, that a requirement for an Audit Committee with defined functions should be introduced as part of the Stock Exchange's Code of Best Practice, when a workable reporting framework and guidance had been developed.

In our continuing effort to promote sound corporate governance in Hong Kong, "A Guide for the Formation of An Audit Committee" was issued in December 1997 with the aim of providing HKSA members (and their associates) with practical guidance on the formation of Audit Committees. The Guide was well received by the community. Since that time, within Hong Kong, the issue of corporate governance has been attracting the attention of the HKSAR Government and the investing public. Elsewhere in Asia, new codes on corporate governance have been issued in some countries, such as Singapore, Malaysia and India and, in other countries, including the Mainland, measures have been adopted in relation to publicly-traded companies to improve standards of transparency and disclosure. In view of the widespread and growing recognition of the importance of sound corporate governance, the HKSA's Corporate Governance Committee sought to build upon its original initiative by forming, in mid-2001, an Audit Committee Guide Review Task Force to review and update the 1997 Guide.

The Task Force believes that while the existence of an Audit Committee is a pre-requisite for good corporate governance, **EFFECTIVENESS** is the key. In addition to giving guidance on the formation of an Audit Committee, this updated Guide therefore aims to cover various aspects of the implementation of an effective Audit Committee and the disclosure of its work. It is hoped that this will provide useful guidance and support to HKSA members, as well to non-HKSA members serving on boards of listed companies, regulators and other users of financial statements.

Alvin Wong
President

February 2002

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I. INTRODUCTION

1. As stated in the OECD (Organisation for Economic Co-operation and Development) Principles of Corporate Governance, “the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders”. In this context, the Principles recommend that boards consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest, including financial reporting, and further, that in order to deal with such issues, boards should consider establishing specific committees that may require a minimum number, or be composed entirely, of non-executive members.
2. In relation to monitoring financial reporting and other important areas, Audit Committees have a key role to play. Audit Committees are a well-established feature of corporate governance in many countries and in line with this international trend, in May 1998, the Stock Exchange of Hong Kong (SEHK) formally endorsed the establishment of Audit Committees by listed companies in the Main Board Code of Best Practice (Appendix 14 to the Listing Rules) . The HKSA Guide “A Guide for the Formation of an Audit Committee” issued in December 1997 was referred to by the SEHK in the Code, and subsequently also in the Growth Enterprise Market (GEM) Listing Rules (Chapter 5) as a source of further guidance on the establishment of an Audit Committee.
3. The Guide has now been in place for more than three years and Audit Committees are a fundamental part of the corporate governance landscape in Hong Kong although the degree of involvement of Audit Committees in board oversight functions may vary considerably. The Guide has now been updated to focus more on the “substance” of Audit Committees, with the aim of reflecting existing best practice and promoting high standards of performance and disclosure.
4. A number of measures are recommended in this revised Guide to assist in improving the effectiveness of Audit Committees, as well as enhancing transparency and accountability. Certain guiding principles for effective Audit Committees are also set out.

5. The disclosure recommendations relating to Audit Committees referred to in paragraph 3.3(i) of the Society's publication "Corporate Governance Disclosure in Annual Reports – A Guide to Current Requirements and Recommendations for Enhancement" issued in March 2001, have been incorporated and are stated in paragraph 61.
6. This Guide also addresses the role of the chairman of an Audit Committee in view of the importance of this role in the effective operation of the Committee.
7. This updated Guide builds upon and supersedes the Society's December 1997 publication "A Guide for the Formation of an Audit Committee".
8. The concepts contained in this Guide are also applicable to other non-listed public corporations, including large not-for-profit organisations.

II. AUDIT COMMITTEES – A BROAD OUTLINE

9. The key recommendations of this Guide regarding the formation, operation and disclosure of the work of an Audit Committee are:
 - (a) The Board should establish an Audit Committee.
 - (b) There should be written terms of reference dealing clearly with the Audit Committee's authority and duties.
 - (c) The Committee should be appointed from amongst the non-executive directors of the Board only and consist of:
 - a minimum of three members
 - a majority of whom, including the chairman, should be independent.
 - (d) Audit Committee meetings should be adequately planned and prepared for, held at appropriate times and attended by relevant persons.
 - (e) The principal duties of the Audit Committee should include the monitoring of the company's financial reporting process, internal controls and risk management.

- (f) The Audit Committee should understand the roles and responsibilities of the parties involved in the financial reporting and audit process, and should have good and independent communications with the management and the internal auditors as well as the external auditors.
 - (g) The Audit Committee should provide regular and informative reporting to the Board.
 - (h) A statement should be included in the annual report which discloses, inter alia, the composition, role (including reference to the frequency of its meetings), function and activities of the Audit Committee.
10. Each of these eight aspects is considered in further detail in this Guide. They provide only a very broad guideline in respect of Audit Committees, and flexibility remains for companies to develop their own model.
11. The remainder of this Guide sets down a basic model which companies can adapt or develop for their own Committees in accordance with their own circumstances.

III. OPERATING EFFECTIVE AUDIT COMMITTEES

12. The function of an Audit Committee is seen as assisting the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the company, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. To operate effectively, an Audit Committee requires the cooperation and support of the executive management in providing information and resources, and in implementing and carrying out the Committee's requests and recommendations. Members of the Committee, as non-executive directors, are an integral part of the Board, with the same legal responsibilities as any other directors. It is, therefore, in their best interests as Committee members to insist on adequate information being supplied to them by the executive management. Non-cooperation of the executive management can undermine the effectiveness of the Audit Committee.
13. Under the existing legal system, the Board has full responsibility and authority for the management and supervision of the business. The Audit Committee does not take over these functions but will report and make recommendations to the full Board on matters pertaining to its work and findings.

14. Notwithstanding the variations in industry, business risks, size of business, etc. The following guiding principles for effective Audit Committees apply:

- (a) *Oversight role* – The Audit Committee should understand the respective roles and responsibilities of each party involved in the financial reporting and audit processes, including the management, the internal auditors and external auditors, and the interaction between these parties. It should satisfy itself that there are effective processes and safeguards employed by each party, that each carries out its functions effectively, and there are mechanisms to ensure accountability amongst the different parties.
- (b) *Independent communication with internal audit* – In view of the unique position of the internal auditor as both an employee and a reviewer of management, and the tensions that this can create, the Audit Committee, with the support of the management, should develop a culture that promotes open disclosure on the part of the internal auditor to the Audit Committee, so that all identified problems are disclosed and dealt with. Copies of internal audit reports should be forwarded to the Audit Committee and formal mechanisms should be in place for meetings independent of management between the Audit Committee and the internal auditors.
- (c) *Independent communication with external audit* – To ensure that the external auditors can perform their work independently and objectively, there should be formal mechanisms put in place, such as private meetings independent of management and/or regular reports made to the Audit Committee. In addition, the Audit Committee should promote a culture that values objective and critical analysis of the management and the internal audit process.
- (d) *Discussions with key parties on issues relating to judgement and quality* – The Audit Committee is largely dependent upon the information supplied to it by the management and the internal and external auditors. It therefore needs to have candid discussions with all parties to provide the Committee with a greater insight into the considerations and processes behind the numbers entered in the financial statements, including matters that require the exercise of judgement and that impact upon the quality of the financial statements, financial reporting process and internal control and risk management systems.

- (e) *Quality of membership* – The Audit Committee should carefully consider the qualifications required of its members. The Board should have in place mechanisms that encourage the selection and retention of diligent and knowledgeable Audit Committee members who are dedicated and willing to devote the requisite time and energy to these responsibilities, in addition to their other board duties.
15. An effectively-operated Audit Committee serves as a means to increase Board effectiveness, accountability, transparency and objectivity, and has the following potential benefits:
- (a) it improves the quality of financial reporting, by reviewing the financial statements on behalf of the Board;
 - (b) it creates a climate of discipline, risk management awareness and control which will reduce the opportunity for fraud;
 - (c) it enables the non-executive directors sitting on the Audit Committee to contribute an independent judgement and play a positive role;
 - (d) it helps the finance director, by providing a forum in which he can raise issues of concern, and which he can use to get things done which might otherwise be difficult;
 - (e) it strengthens the position of the external auditor, by providing a channel of communication and forum for issues of concern;
 - (f) it provides a framework within which the external auditor can assert his independence in the event of a dispute with management;
 - (g) it strengthens the position of the internal audit function, by providing a greater degree of independence from management;
 - (h) it increases public confidence in the credibility and objectivity of financial statements and of the Board.

IV. STRUCTURE OF AUDIT COMMITTEES

Constitution

16. The Audit Committee should be established as a Committee of the Board with written terms of reference which deal clearly with its authority and duties.
17. Formally constituting a Committee ensures that there is a clear relationship with the Board to which it reports. In particular, the authority to act on behalf of the Board and the Committee's areas of responsibility should be clearly defined.
18. In the case of an Audit Committee created by the Board of Directors of the holding company, the scope of the Committee's review should not be restricted to activities at the company level, but should be extended to activities at the group level, insofar as they fall within the duties of the holding company's Board.
19. A list of specific areas which may be addressed under the Committee's terms of reference is included in Appendix I.
20. The terms of reference should be formally approved by the full Board and reviewed periodically.

Membership

Size

21. A typical Committee will comprise between three and five members, depending on the size of the company and the range and complexity of the issues arising. A membership of three or more, with a quorum of two independent non-executive directors, is considered desirable by the HKSA to enhance efficiency in decision making and make the best use of the mix of available skills and experience.
22. Due to the long-term nature of the Audit Committee's activities, membership continuity is important, although this is offset by the need to keep a fresh and independent approach that may require some rotation of members. Re-appointment and terms that end in different years will help to achieve this objective and avoid the disadvantages of replacing all the experienced members at one time.

Independence and quality of the non-executive directors

23. All members of the Committee should be non-executive directors and a majority of them, including the chairman, should be independent.
24. The criteria for independence are detailed in the Main Board and GEM Listing Rules and are discussed below.
25. *Independence* – The independent non-executive directors should, apart from their director's fees and permitted shareholdings, be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement as a Committee member. When independent non-executive directors become aware of any dealings in which they have an interest, they should always declare their interest and withdraw from the discussion. In relation to independence, it is equally important to observe the spirit of the law as to stick to the letter.
26. *Quality* – The Committee will only be as good as the people in it. The members should possess the authority and necessary skills and experience and be prepared to tackle complex financial, operating and other issues. The qualities of members that will contribute to the effective operation of audit committees include:
 - Soundness of judgement
 - Independence of mind
 - Objectivity
 - Inquiring attitude with a healthy degree of scepticism
 - Sufficient understanding to deal adequately with the financial, accounting and auditing matters that the Committee will have to consider. Whilst an in-depth knowledge of accounting or law is generally not necessary, it is advisable for at least one member of the Committee to have financial or accounting expertise
 - A clear understanding of the company's business, its internal environment including its corporate and management structure, policies, business processes and management control and reporting systems
 - Willingness and ability to commit sufficient time and effort to the Committee's duties and responsibilities, including preparing and participating in Committee deliberations and attending meetings. Factors such as the size and complexity of the company, its financial reporting process, internal control and risk management systems and the quality of briefing papers provided by the management will directly affect the amount of time spent by the Committee members in achieving their objectives.

27. Ideally, the Committee should consist of members with a broad business background as well as a variety of skills. Members should be familiar with the external environment in which the company operates, including the social, political, economic and legal framework and its industry sector.

Chairman

28. The role of the chairman of the Committee is vital to the success of the Audit Committee. The chairman should be an independent director. He/she should have the confidence and ability to direct discussion and follow up any actions or recommendations with the full Board. As such, the chairman should be appointed by the full Board.
29. In order to perform his/her work effectively, the chairman must ensure that he/she has the appropriate type of relationship with his/her working partners. The chairman should:
- Maintain a close contact with the chairman of the Board to ensure that the Board is fully aware of the development and work plan of the Audit Committee
 - Establish a good working relationship with the finance director so as to ensure effective information exchange on all relevant matters
 - Be in direct contact with the external auditors and be informed of the progress of audit, findings and action points agreed following the audit
 - Consider the extent and frequency of communications between the head of internal audit and the Audit Committee.
30. The chairman should have a clear understanding of the Audit Committee's authority to conduct any work/investigations appropriate to fulfilling its responsibilities and be able to defend the Audit Committee's territory where disputes arise.
31. The chairman should monitor the work of the Audit Committee and ensure that it has discharged its responsibilities in compliance with its terms of reference.

Secretary

32. The company secretary is well positioned to facilitate communication between the Board and the Committee and to access information required by Committee members in pursuit of their duties. For this reason, the company secretary would normally also act as the secretary to the Audit Committee and must ensure that full minutes are kept of all meetings.

Remuneration

33. Committee members should be adequately remunerated to reflect the time, commitment and responsibility involved in serving on the Committee.

Conduct of meetings

Preparation

34. It is important that meetings of the Committee are adequately planned and prepared for. The purpose of the meeting should be made explicit. The Committee chairman should be responsible for the agenda, together with any supporting material that is required, the preparation of which should be delegated to the management personnel responsible for the relevant area.
35. The chairman should ensure that the material is prepared in sufficient detail and in a format which allows the Committee members to understand it, together with the implications of the issues to be discussed. It is equally important that the material is distributed in sufficient time for members to read it to prepare for the meeting.

Frequency

36. The frequency of meetings will vary with the range and complexity of the issues that the Committee must consider. A typical Audit Committee would meet three or four times each year for between half a day and a day at each meeting. The Committee would normally meet prior to the finalisation of the interim and year end accounts to discuss any issues arising from them. These or other meetings planned during the year would address internal control, including risk management, and other duties and responsibilities. The Committee will also meet as and when necessary.

Attendance by others

37. The executive directors and external auditors may be invited to attend a particular Committee meeting in order to answer specific points or concerns. Where an internal audit function exists, the head of internal audit should normally attend Audit Committee meetings. It may also be useful for the Committee to meet other members of staff, particularly when a person has specific responsibility for the area under review. The finance director or equivalent should normally be invited to attend.

38. When meeting prior to the finalisation of the year end accounts, the external auditors would normally be invited to attend the Audit Committee meeting to address issues arising from the audit of financial statements.

External professional advice

39. The Committee should be able to obtain external professional advice and to invite outsiders with relevant experience to attend meetings if necessary.

Private meetings

40. The Committee may find it useful or necessary to hold separate private meetings with both the internal and external auditors with no executive directors present. Private meeting(s) would help to ensure a free and frank exchange where the expression of views might otherwise be restricted. A private meeting with the executive directors in the absence of the auditors can also be helpful.

V. RESPONSIBILITIES OF AUDIT COMMITTEES

41. The responsibilities of the Audit Committee should be clearly documented in its terms of reference. Its precise responsibilities will vary depending upon the circumstances of a particular company but, in principle, they will centre on assisting the Board to fulfil its duties in relation to internal control, risk management and financial, management and other reporting.
42. This should be considered under four main headings:
- Financial and other reporting
 - Internal control and risk management
 - Audits
 - Other duties and responsibilities.

Financial and other reporting

43. The Committee's review of financial information, which includes the financial statements, directors' report, chairman's statement and management discussion and analysis in the annual and interim reports, should be concerned primarily with its completeness, accuracy and fairness. The review should challenge the quality of earnings and also the completeness, accuracy and fairness of disclosures together with the appropriateness of statements given by the directors. The review process would typically include the following major areas:

(a) *Significant accounting policies*

The Committee should consider whether the accounting policies are in accordance with current best practice in Hong Kong. In particular, it should consider areas where the company's policies are not in accordance with Hong Kong Statements of Standard Accounting Practice and the reasons for any departures. Furthermore, the Committee should consider the appropriateness of the accounting policies adopted and whether alternative policies would be more appropriate. Any new accounting policies or changes to existing policies should also be reviewed.

(b) *Judgemental issues and estimates*

There may be a number of areas in a company's accounts where exact figures are not available and management have made estimates. These typically occur where the outcome of a particular item is uncertain, the information cannot be gathered in the time available or where the expense involved in producing a precise figure would outweigh the benefit to readers of the accounts. The Committee should review these areas carefully to ensure that the judgements made by the management are reasonable. The Committee may also challenge whether an alternative basis of calculation would be more relevant or where further supporting details should be obtained before a conclusion is reached.

(c) *Disclosures*

The Committee should consider whether all relevant items have been adequately disclosed in the financial statements and whether the disclosures give readers a fair view of the nature of the transactions reported. Particular attention should be directed to the disclosure of related party transactions and any unusual items (discussed in further detail below) which have occurred during the period under review.

(d) *Unusual items*

The disclosure of unusual items which occurred during the period under review should be considered by the Committee to ensure that the disclosure in the accounts is fair, not misleading and gives the item suitable prominence in the financial statements. Any material, non-recurring items may be considered unusual. Examples of unusual items would include asset acquisitions and disposals, contingent liabilities and litigation.

(e) *Significant audit adjustments*

All significant audit adjustments should be reviewed by the Committee. Consideration should also be given to the cause of the error that gave rise to the adjustment and whether further investigation should be carried out.

(f) *Auditors' concerns and significant unadjusted audit differences*

Any areas which have been the subject of discussion or dispute between the management and the external auditors should be reviewed by the Committee. These should include matters of significance that may have been raised by the auditors with the management arising from the audit of the financial statements such as:

- Material uncertainties that may cast significant doubt on the company's ability to continue as a going concern
- The potential effect on the financial statements of any significant risks and exposures that are required to be disclosed in the financial statements
- Expected modifications to the auditors' report
- Any significant irregularities including fraud and non-compliance with law and regulations.

(g) *Consistency of financial information*

The Committee should review the financial information in the interim and annual reports to ensure that there are no inconsistencies within them. In particular, it should review whether the directors' report, the chairman's statement and the management discussion and analysis reflect the company's performance and financial position fairly and are consistent with the picture given by the accounts. The Committee should also consider whether reports submitted to any regulatory bodies are in accordance with the financial statements as presented.

44. The Committee should review the results of the discussion with the external auditors to ensure that proper follow up action has been taken and, if it is satisfied, endorse the financial statements before they are presented to the full Board for approval.

Internal control and risk management

45. Business risk is a major concern for the management of a company and the maintenance of an effective control environment is vital to the company's operations. The Audit Committee's role in this area is to ensure that control systems and procedures are in place to keep pace with business changes in terms of volume, generation, competition, etc.
46. The Committee needs to assess whether there are internal control and risk management procedures in place to ensure adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.
47. Internal control considerations could fall into one or more of the following general categories:
 - Effectiveness and efficiency of operations
 - Reliability of internal and external reporting
 - Compliance with applicable laws and regulations and internal policies
48. In reviewing the adequacy of the control environment, the Committee will review any reports (both regular and exceptional) produced by the internal auditors, and any management letters submitted by the external auditors as well as the management's responses. The Committee should also meet with the internal auditors, the external auditors and management to discuss findings from their work and the resolution, or otherwise, of the points arising. The process may also involve site visits and the review of documentation of the company's systems.

49. Audit Committee members should obtain assurance that the management systematically identifies key areas of risk and that an appropriate control environment is enforced and maintained in order to manage the identified risks. Business risks may affect many areas of business, e.g. strategy, operation, transactions, finance, technology, environment, and are interrelated. In order to be effective, Committee members must be familiar with the issues themselves before they can challenge whether the management is taking full account of the associated risks and uncertainties.

Audits

50. The Committee should monitor internal and external audit coverage to ensure all key risk areas are considered. This may involve reviewing and discussing with the auditors the current year's audit plan, together with the resolution of prior year issues.
51. Members of the Committee may also have useful experience in assessing the quality of the service and the reasonableness of the fees charged by the external auditors and they should therefore normally include making recommendations to the Board on the appointment of the external auditors, the audit fee, and any questions of resignation or dismissal. They should keep under review the nature and extent of non-audit services provided by the external auditors, to ensure a balance between the maintenance of objectivity and the minimising of costs. The independence of the external auditors should also be reviewed.
52. The Committee should discuss with the external auditors all items that have a significant impact on the accounts and generally items under paragraph 43.
53. The Committee should also assess the effectiveness of the internal audit function, including the adequacy of its resources and its standing within the company.

Other duties and responsibilities

54. In addition to the specific areas of financial reporting, internal control and risk management and audits, the Committee may address a wider range of issues. These may be specifically delegated by the Board, be referred to in the terms of reference or may arise as a natural extension of the review of the company's affairs in the course of the Committee's other duties. Typically, the Committee will review compliance with regulations. These may include the Listing Rules and other regulatory, industry or legal requirements. The Audit Committee's scope may also include a review of the company's wider obligations to the community in which it operates and of the social or ethical codes that exist within the business.

VI. REPORTING TO THE BOARD

55. Informative reporting to the Board is a pre-requisite for the Committee's effectiveness. No matter how good the work of the Committee is, the company will not be able to benefit from its efforts if the Board is not informed of its findings.
56. Lines of reporting between the Committee and the Board should be formalised, normally within the terms of reference of the Committee. Regardless of the mode of communication, it is important that the relationship and communication channels between the Committee and the Board are clearly defined and that the Committee reports to the main Board on a regular basis. Through effective reporting, the Board members will be aware of any issues or disagreements which may have been settled before the accounts are presented to them for approval.
57. It is usual for the Committee chairman to present to the Board periodic written reports of the Committee which address the work and findings of the Committee. The frequency of these reports will vary between companies but should, as a minimum, be on an annual basis.

58. Reports to the Board should cover, as appropriate, the work and findings of the Committee under the following areas:
- Financial and other reporting
 - Internal control and risk management
 - Audits
 - Other duties and responsibilities.
59. The Committee should circulate its meeting minutes to the Board, thereby keeping them informed of the Committee's activities and recommendations on a more regular basis.
60. Reports to the Board and minutes of the Audit Committee should be formally approved by the Audit Committee before reporting to the Board.
61. Disclosure of the existence, function and performance of the Audit Committee to shareholders is an important element of transparency and good corporate governance practice. Disclosures in the Annual Report to shareholders should include:
- The composition of the Audit Committee (preferably in the corporate information section)
 - The role and function of the Audit Committee
 - The work of the Audit Committee undertaken during the financial year, significant issues addressed including in respect of the review of financial reports, internal control and risk management, the conclusions and key findings (either in the report of directors or the review of operations, as considered appropriate by the Board)
 - The number of times that the Audit Committee met during the year and members' attendance at meetings held during the year
 - A statement on the independence of the Audit Committee.

APPENDIX I

Specimen Terms of Reference for an Audit Committee – substantially reproduced from the *Report of the Committee on the Financial Aspects of Corporate Governance* (The Cadbury Committee) (1992)

(For guidance only)

Constitution

1. The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee.

Membership

2. The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, a majority of whom should be independent. A quorum shall be two members.
3. The Chairman of the Committee shall be appointed by the Board and should be an independent director.

Attendance at meetings

4. The Finance Director, the Head of Internal Audit, and a representative of the external auditors shall normally attend meetings. However, at least once a year the Committee shall meet with the external and internal auditors without executive Board members present.
5. The company secretary shall be the secretary of the Committee.

Frequency of meetings

6. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

Authority

7. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

8. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

9. The duties of the Committee shall be:
 - (a) to consider the appointment of the external auditor, the audit fee, and any questions of resignation or dismissal;

 - (b) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

 - (c) to review the interim and annual financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards; and
 - (vi) compliance with stock exchange and legal requirements.

 - (d) to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);

- (e) to review the external auditors management letter and management's response;
- (f) to review the company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (g) (where an internal audit function exists) to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the company;
- (h) to consider the major findings of internal investigations and management's response; and
- (i) to consider other topics, as defined by the Board.

Reporting procedures

10. The secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

APPENDIX II

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