

# The Companies Act 2014

## Audit Committee Statement (Section 167 of the Act)

June 2016



### Audit Committees

The Act requires companies, in both the most recent financial year and the immediately preceding financial year, with a turnover of greater than €50 million and total assets in excess of €25 million to establish an audit committee or explain in their directors' report the reasons why they have not done so. These parameters also apply to the total turnover and net assets of a group of companies (i.e. consolidated group basis as opposed to an individual entity basis).

The directors' report must state whether there has been an Audit Committee set up or in circumstances where there hasn't, an explanation as to why not. It is worth noting that while the establishment of the audit committee provides a degree of independence and investigation into the company's financial reporting, it is still ultimately the responsibility of the Board of Directors to ensure the integrity of the financial statements.

The audit committee must include at least one independent Non-Executive Director (NED) who has competence in accounting or auditing. This requirement for the Audit Committee means that where the board decides to establish an audit committee the composition of the board of directors will need to be considered as there will be an indirect requirement to have an independent NED on the board.

The responsibilities of the Audit Committee as specified under the Act include, monitoring:

- the company's financial reporting process;
- the effectiveness of the company's systems of internal control and risk management;
- the company's statutory audit and statutory financial statements; and
- reviewing the independence of the statutory auditor.

In reality the role of the Audit Committee is to counter-balance the potential influence of those managing the company who are at the coal face in terms of managing financial reporting and procedures. This is an opportunity for companies that are required to form or revisit their Audit Committee to apply good governance practices and establish high quality monitoring and review procedures.

This should ultimately improve the efficiency of audits, the financial reporting process in general, provide support to the board of directors and improve the general risk management, internal control and governance structures for the company.

Any proposal by the Board of Directors on the appointment of a statutory auditor shall be based on a recommendation made to the board by the Audit Committee. The statutory auditor is obliged to report to the audit committee on any key matters arising from the statutory audit with particular reference to any material weaknesses in internal controls. It is a category three offence for any director to fail to take all reasonable steps to either set up an Audit Committee or have reasons for not doing so. A category three offence carries a fine of up to €5,000 or imprisonment not exceeding six months or both.



The Act does not prescribe what might constitute a satisfactory reason for deciding not to set up an Audit Committee. In practical terms it is difficult to see how large indigenous companies might justify not having an audit committee, especially where there are factors such as external shareholders, significant debt financing, or directors not involved in the day to day running of the business. In circumstances where an audit committee is not set up, the board of directors should carefully document the decision together with the underlying reason for the decision.

Grant Thornton can provide assistance or advice in relation to:

- the set up and structure of your Audit Committee;
- the composition of your board;
- the evaluation of the skills and expertise required;
- the process around sourcing new board members;
- the drafting or review of the terms of reference of your audit committee; and
- your compliance with any governance and regulatory requirements.

## Contact

If you require assistance or want to learn more about the Companies Act 2014, please refer to our other publications at [www.grantthornton.ie](http://www.grantthornton.ie) or contact our Companies Act 2014 team at [companiesact2014@ie.gt.com](mailto:companiesact2014@ie.gt.com)

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