Grant Thornton
An instinct for growth™

The Companies Act 2014

Audit committees

February 2015

Introduction

Following on from our overview of the Companies Act 2014 (the "Act") (available on our website at www.grantthornton.ie), in this publication we set out the new requirements for large companies to form an audit committee.

An audit committee is a committee of directors, appointed by the board to oversee financial reporting and related matters.

Up until the commencement of the Act only 'public interest entities' needed to establish an audit committee. Public interest entities comprise of:
- companies with shares quoted on a stock exchange;
- banks and certain other credit institutions; and
- insurance companies.

The Act has extended the need to establish an audit committee to all large companies.

What is a large company under the Act?

The definition of a large company in the context of the Act can vary depending on the specific matter in question. In this instance a large company, for the purposes of the requirement to establish an audit committee, is one where:

Large company	
Turnover exceeds	€50 million
Balance sheet total exceeds	€25 million

If a company meets both thresholds in the most recent financial year and the immediate preceding financial year, then the Act requires it to set up an audit committee. In respect of a group, the above thresholds are deemed to apply to the parent entity together with all of its subsidiaries.

Are there any exceptions?

The short answer to this question is, yes, there is a means whereby a company need not establish an audit committee. If the board of directors decides for whatever legitimate reason not to establish an audit committee, the directors shall, in the directors' report included within the financial statements, clearly set out their reasons for that decision.

It is worth noting that the Act does not give us any guidance on what would be considered a "legitimate" reason. We believe that in practice it will not be feasible for most large indigenous companies to 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.

Who should serve on the audit committee?

In general terms the Act does not specifically state who should serve on the audit committee, other than that it specifically requires there be at least one non-executive director who is independent and suitably qualified. "Independent" means that they have not, in the three years preceding their appointment, either had a material business relationship with the company (either directly or indirectly), held a position of employment or been engaged in the daily management of the company. "Suitably qualified" means that the non-executive director has competence in accounting or auditing.

In practice audit committees have tended to be made up entirely of non-executive directors. For some of the new companies that will now need to consider the establishment of an audit committee, this may not always be practical and they will need to consider the composition of their board of directors.

What are the responsibilities of the audit committee?

The audit committee has several key responsibilities which include:

Responsibilities	Details
Financial reporting	The committee is required to monitor the financial reporting process
Internal systems	The committee is required to monitor the effectiveness of the company's systems of internal control, internal audit and risk management.
Audit	The committee shall monitor the statutory audit of the company/group and shall also review and monitor the independence of the auditors particularly in reference to any additional services provided by the auditors outside of the audit function. One key aspect of the committee's relationship with the audit function is the requirement to consider the report from the auditors on key matters arising from the audit, particularly on any material weaknesses in internal control in relation to the financial reporting process. The committee is also required to propose appointment of the auditor to the board of directors.

What are the responsibilities of the board of directors with respect to the audit committee?

The board of directors is responsible for establishing the audit committee and stating in the directors' report that they have done so or in the event they have not done so to give their reasons. Where the directors are found not to have complied with the requirement to either set up the audit committee or set out their reasons for not doing so, they will be guilty of an offence carrying a fine of up to €5,000 or imprisonment not exceeding six months or both.

Conclusion

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 and improve the general risk management, internal control and governance structures for the company.

While the Act has extended the requirement for establishing audit committees, existing requirements and recommendations under certain codes of governance still exist and need to be taken into account for specific company types, such as government bodies or financial institutions.

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 or contact the Grant Thornton Companies Act 2014 team at companiesact2014@ie.gt.com.

Jillian O'Sullivan
Partner
T +353 (0)1 680 5850
E jillian.osullivan@ie.gt.com

@GrantThorntonIE

www.grantthornton.ie

Offices in Dublin, Belfast, Cork, Galway, Kildare, Limerick and Longford.