

Accountability and audit

Financial reporting

The board should present a balanced and understandable assessment of the company's position and prospects.

Internal control

The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

The board should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.

Further details on internal control are contained in "The Turnbull Guidance".

Audit committee and auditors

The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

The board should establish an audit committee of at least three, or in the case of smaller companies two, members, who should all be independent non-executive directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- To monitor the integrity of the financial statements of the company
- To review the company's internal financial controls and to review the company's internal control and risk management systems
- To monitor and review the effectiveness of the company's internal audit function; where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board
- To make recommendations to the board, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor
- To review and monitor the external auditor's independence and objectively and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken
- Review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Further information on audit committees can be found in "The Smith Guidance" which is designed to assist boards in making suitable arrangements for their audit committees and to assist directors serving on audit committees in carrying out their role.