



AUDIT COMMITTEE INSTITUTE

# The Audit Committee Journey

## A Global View

*2005–2006 International Audit Committee Member Survey*

KPMG INTERNATIONAL



# Preface

The growing importance of audit committees throughout the world—and the intense spotlight under which many, if not most, operate today—underscores the inextricable link between financial reporting integrity and investor confidence.

Companies around the world have long relied on audit committees (or equivalent supervisory bodies<sup>1</sup>) to oversee the financial reporting process and ensure its integrity; yet, the heightened scrutiny of audit committee effectiveness—triggered largely by financial reporting scandals that shook U.S. and global markets in 1999–2000—has caused many audit committees and other stakeholders to refocus on key oversight practices. Based on our recent survey findings, many audit committee members believe there is ample room for improvement.

Nearly half of the more than 1,200 audit committee members responding to our global survey rated their committees as only “somewhat effective” or in need of improvement, and one in three said the audit committee’s effectiveness has “stayed about the same”

over the past year. Among the most frequently cited areas for improvement: agenda setting, self-evaluation, and the quality of pre-meeting materials.

Clearly, the perceptions of those audit committee members polled—as well as their committees’ practices—must be viewed in the unique context and circumstances of their country, corporate culture, regulatory environment, and other variables; all, however, face the common challenge of ensuring a thorough and rigorous oversight process. In short, the audit committee journey continues.


Our hope is that these survey findings—as a global snapshot of current challenges, practices, and concerns—will help audit committees (working with their boards, management, auditors, regulators, and others) improve their oversight effectiveness and thereby strengthen investor confidence in the integrity of the financial reporting process.



## CONTENTS

- 2 INTRODUCTION**
- 4 KEY FINDINGS AND REGIONAL VIEWS**
  - 4 Audit Committee Effectiveness**
  - 4 Oversight Processes**
  - 6 Relationships and Communications**
- 9 CONCLUSION**
- 10 METHODOLOGY**
- 12 APPENDIX**

<sup>1</sup>For those countries that have a two-tier board system, the term “board,” as used in this survey, refers to the supervisory committee.



## Introduction

From November 2005 through January 2006, Audit Committee Institutes (ACIs) of KPMG member firms around the world posed 30-plus questions to audit committee members of public and nonpublic companies. From very broad questions (*How effective is the audit committee?*) to more focused questions (*How much time did you spend fulfilling your audit committee role in 2005?*), our queries were aimed at identifying the key challenges and concerns that drive audit committee activities around the globe.

Following are highlights of the survey findings, primarily related to audit committee oversight processes and audit committee relationships and communications with other participants in the financial reporting process. For each major finding, significant regional variations are noted. Also highlighted are leading characteristics and attributes of audit committees around the world—including committee composition, member

background and experience, time commitment, meeting practices, and perspectives on legal and personal financial exposure.

For each of the findings discussed, detailed data are provided in the Appendix to this document.

For information about these and other results from the ACI survey, please contact the U.S. Audit Committee Institute at 1-877-KPMG-ACI or e-mail [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com).

## COUNTRIES SURVEYED BY REGION

### AMERICAS

Brazil, Canada, United States

### EUROPE & AFRICA

Belgium, Denmark, France, Germany, Ireland, Netherlands, South Africa, Switzerland, United Kingdom

### ASIA-PACIFIC

Australia, India, Malaysia, Singapore

## Key Findings and Regional Views

### AUDIT COMMITTEE EFFECTIVENESS

Nearly half of the audit committee members we surveyed in major markets around the world rated their committees as only “somewhat effective” or in need of improvement; and one in three said the audit committee’s effectiveness has “stayed about the same” over the past year. The strongest ratings of audit committee effectiveness were found in the Americas, and views on the audit committee’s improvement over the past year were similar across all regions surveyed. (See Charts A through D on page 12.)

**REGIONAL VIEWS:** Slightly higher ratings of “effectiveness” in the Americas may stem from the ongoing scrutiny of corporate governance in the United States—and regulatory requirements under the Sarbanes-Oxley Act of 2002 (S-O) and other reforms. The “new” corporate governance environment in the United States has driven many audit committees there to focus intensely on their effectiveness. Nearly 70 percent of respondents in the Americas also said their audit committee had become “more effective” over the past year.



### OVERSIGHT PROCESSES

#### Agenda Setting

Nearly half of audit committee members surveyed feel their approach to establishing the committee’s agenda could be more effective, with about one in ten noting that the process specifically “needs improvement.” More than half said they were “very satisfied” with the current approach. (See Charts E and F on page 13.)

**REGIONAL VIEWS:** Audit committee members in the Americas and Australia were most satisfied with the agenda-setting process, while those in Asia were least satisfied. Respondents in Asia and South Africa indicated the greatest need for improvement.



#### **Pre-meeting Materials**

While more than half of respondents rated their pre-meeting materials as “high quality,” nearly 40 percent said the quality was “moderate” or “low.” (See Charts G and H on page 13.)

**REGIONAL VIEWS:** Audit committee members in Australia and Europe were more satisfied with the quality of their pre-meeting materials than those in other regions. A majority in Asia (58 percent) rated the quality as only “moderate.”

#### **Audit Committee Self-evaluation**

More than 70 percent of audit committee members surveyed feel that the committee’s current self-evaluation approach could be improved. About one in three said they were very satisfied with the process that is currently in place. (See Charts I and J on page 13.)

**REGIONAL VIEWS:** Satisfaction with the self-evaluation process was fairly consistent across global regions; however, audit committee members in Australia expressed slightly less satisfaction, and the highest numbers of “very satisfied” responses came from the Americas, South Africa, and Asia.

## RELATIONSHIPS AND COMMUNICATIONS

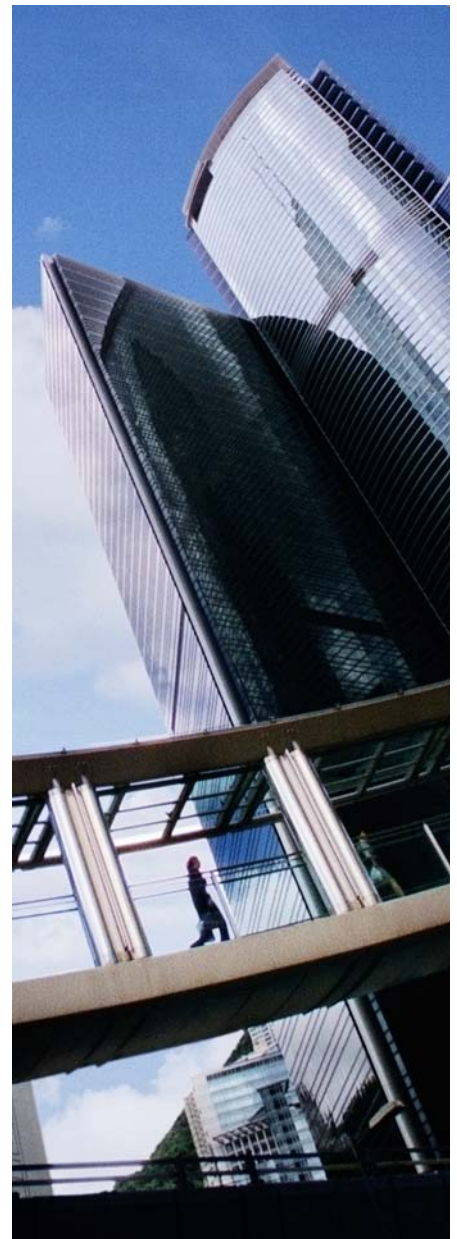
### Interaction and Support

Audit committee members generally were most satisfied with their interaction with, and the support they receive from, the CFO—followed by the chief audit executive (internal audit), external audit partner, and CEO. In all regions, respondents were least satisfied with their interaction with and support from the company’s external legal counsel.

In all regions, the full board of directors was cited as providing the most constructive suggestions for improving the audit committee’s effectiveness. The external auditor received the second-highest tally, followed by the CFO. (See Charts K and L on page 14.)

**REGIONAL VIEWS:** In Asia, the highest marks went to the full board as the best source of ideas. Only in Australia did respondents register notable support for the audit committee (5 percent) and its chair (10 percent) as providing the best ideas. (See Chart M on page 14.)

External auditors in Australia received the highest marks for their interaction with and support of the audit committee.



### Internal Auditor

One third of audit committee members were only somewhat or not confident that the company's chief audit executive (internal audit) would report directly to the audit committee controversial issues involving senior management. (See Charts N and O on page 14.)

Although most respondents indicated that the audit committee or the full board has the ultimate authority to hire and fire the chief audit executive, more than one in four said that authority rests with the CEO or CFO. (See Charts P and Q on page 15.)

**REGIONAL VIEWS:** Audit committee members in the Americas had the most confidence in their reporting relationship with internal audit, followed by audit committee members in Australia and Europe. The lowest confidence levels were found in Asia, where more than half of respondents said they were either "somewhat confident" or "not confident." Audit committee members in Asia also reported the highest frequency of the CEO having responsibility for hiring and firing the chief audit executive.

### External Auditor Independence

Nearly three out of four respondents said their audit committee is very effective at ensuring the external auditor's independence from management and its accountability to the audit committee. (See Charts R and S on page 15.)

**REGIONAL VIEWS:** Respondents in the Americas were most confident in this respect, followed by Australia, Europe, and South Africa. Nearly half of respondents in Asia said the audit committee was only somewhat or not effective in its ability to ensure the external auditor's independence and accountability.

## HOW DOES YOUR AUDIT COMMITTEE COMPARE?

The characteristics and practices of audit committees around the world vary widely by region—as they often are influenced by different business, regulatory, cultural, and marketplace factors. As a result, in many cases direct comparisons can be difficult. Keeping such variations in mind, our global survey findings offer a snapshot of “typical” audit committees in 2005—their composition, members’ professional backgrounds and motivations, meetings/mechanics, and other attributes.<sup>2</sup>

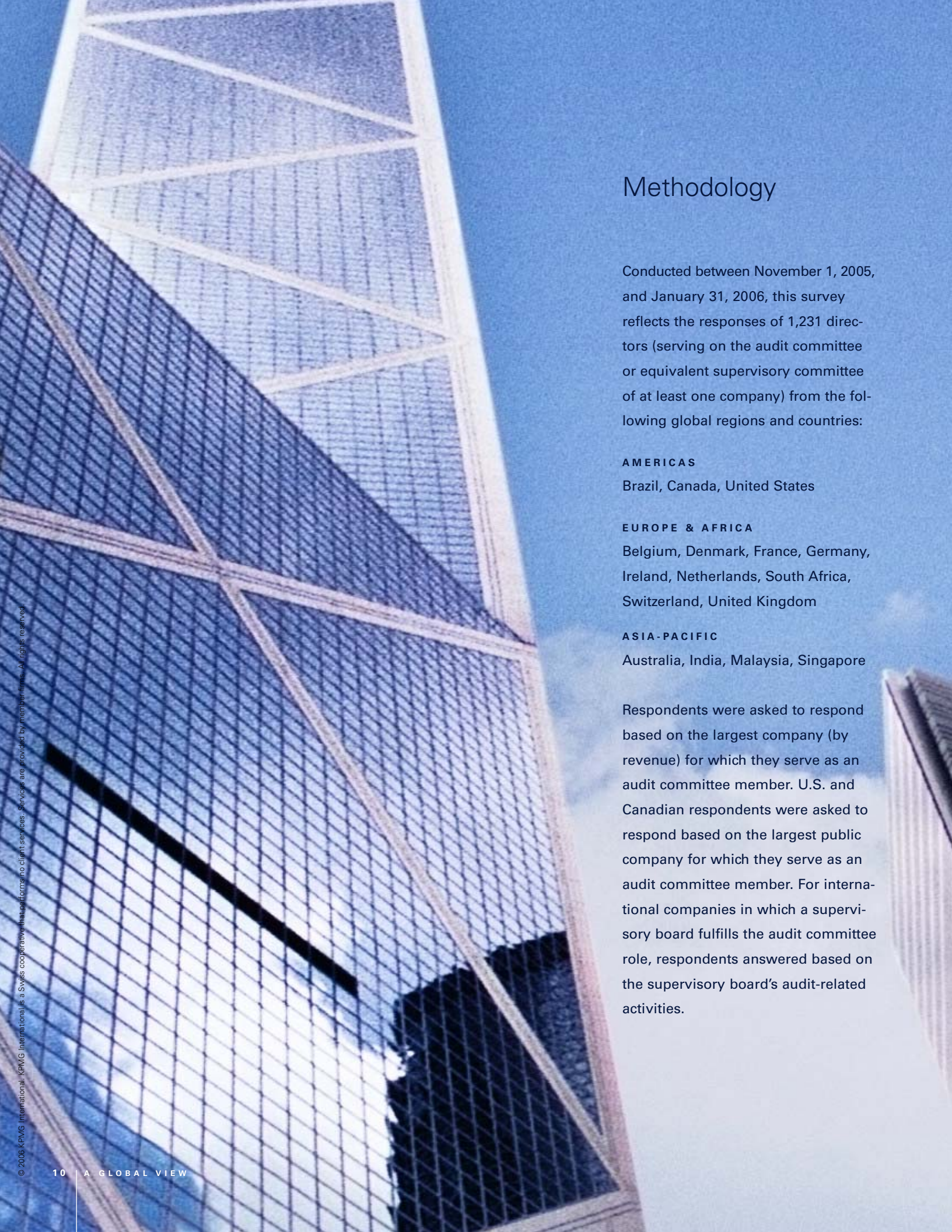
	AUDIT COMMITTEES/ MEMBERS IN GENERAL	SIGNIFICANT REGIONAL DIFFERENCES
<b>COMPOSITION AND BACKGROUND</b>	<ul style="list-style-type: none"> <li>• Have three or four members</li> <li>• Believe having a background as a CFO (or related accounting/finance experience) and broad business experience is important</li> <li>• Feel it is “very important” for one or more members to have financial reporting/accounting expertise</li> <li>• Consider “contacts” and “public profile” as the least important prerequisites for serving as a member</li> </ul>	<ul style="list-style-type: none"> <li>• South Africa: Largest average audit committee membership (five)</li> </ul>
<b>TIME COMMITMENT IN 2005</b>	<ul style="list-style-type: none"> <li>• Serve on only one or two audit committees</li> <li>• Devote less than 100 hours to fulfilling their audit committee role</li> </ul>	<ul style="list-style-type: none"> <li>• Australia: Members are most likely to serve on three or four audit committees</li> <li>• Americas: More than 60 percent of audit committee members devoted between 50 hours and 150 hours to fulfilling their role</li> <li>• Asia: Only 44 percent devoted more than 50 hours</li> </ul>
<b>MEETINGS/MECHANICS</b>	<ul style="list-style-type: none"> <li>• Met approximately seven times last year (five face-to-face meetings and two teleconference calls)</li> <li>• Conducted face-to-face meetings that averaged three hours and teleconference calls lasting half as long</li> </ul>	<ul style="list-style-type: none"> <li>• Americas: Averaged most meetings per year (about eight)</li> <li>• Asia: Fewest meetings conducted via teleconference (averaging fewer than one per year)</li> </ul>
<b>LIABILITY/EXPOSURE</b>	<ul style="list-style-type: none"> <li>• Feel that legal/financial exposure is greater for audit committee members than for other board members (and are concerned)</li> <li>• Are not fully satisfied with their directors and officers liability insurance coverage</li> </ul>	<ul style="list-style-type: none"> <li>• South Africa and Asia: Highest number of respondents (four in ten) who believe their legal/financial exposure is “significantly greater” than that of other board members</li> </ul>

## Conclusion

Generally, audit committees (or their equivalent supervisory committees) around the world feel they are fairly effective at ensuring the integrity of the financial reporting process. Most are confident in their ability to ensure the independence of the external auditor from management and its accountability to the audit committee; and most are very satisfied with the support they receive from the chief financial officer, chief audit executive, external auditor, chief executive officer, and full board.

That said, almost one in every two audit committee members today is likely to consider the committee as being only “somewhat effective” — and many feel their committee did not become more effective in 2005. Further, many audit committee members cite room for improvement in various aspects of the oversight process, including agenda-setting, self-evaluation, pre-meeting materials, and the chief audit executive’s accountability to the audit committee.





## Methodology

Conducted between November 1, 2005, and January 31, 2006, this survey reflects the responses of 1,231 directors (serving on the audit committee or equivalent supervisory committee of at least one company) from the following global regions and countries:

### AMERICAS

Brazil, Canada, United States

### EUROPE & AFRICA

Belgium, Denmark, France, Germany, Ireland, Netherlands, South Africa, Switzerland, United Kingdom

### ASIA-PACIFIC

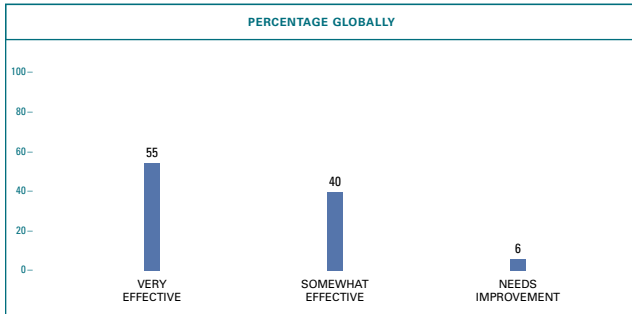
Australia, India, Malaysia, Singapore

Respondents were asked to respond based on the largest company (by revenue) for which they serve as an audit committee member. U.S. and Canadian respondents were asked to respond based on the largest public company for which they serve as an audit committee member. For international companies in which a supervisory board fulfills the audit committee role, respondents answered based on the supervisory board's audit-related activities.

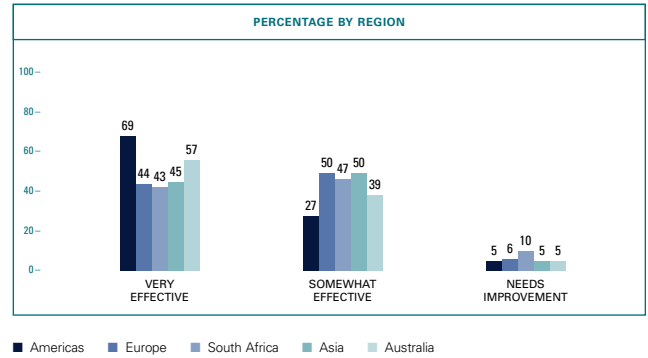


## AUDIT COMMITTEE EFFECTIVENESS

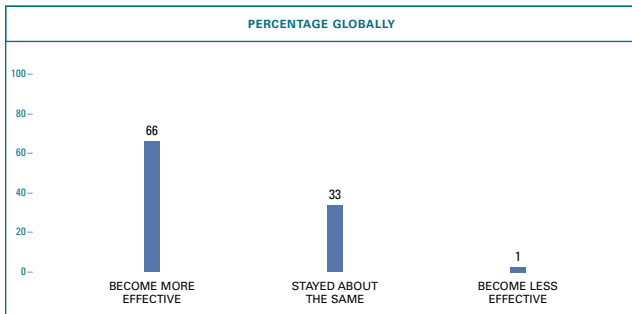
A How would you rate the overall effectiveness of your audit committee?



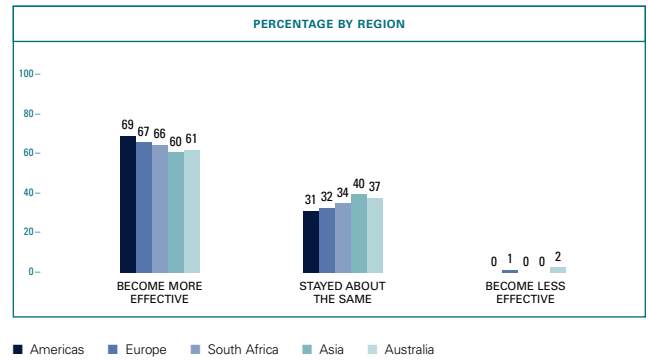
B How would you rate the overall effectiveness of your audit committee?



C In the past year, would you say the audit committee has become more effective, stayed about the same, or become less effective?



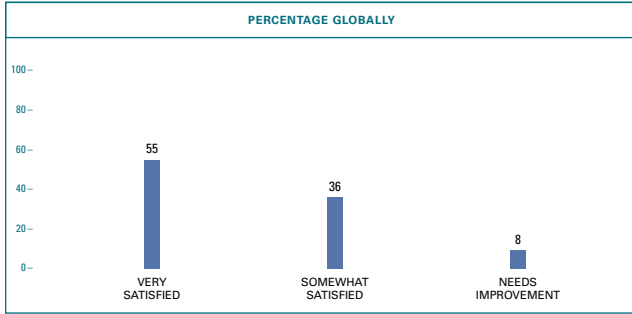
D In the past year, would you say the audit committee has become more effective, stayed about the same, or become less effective?



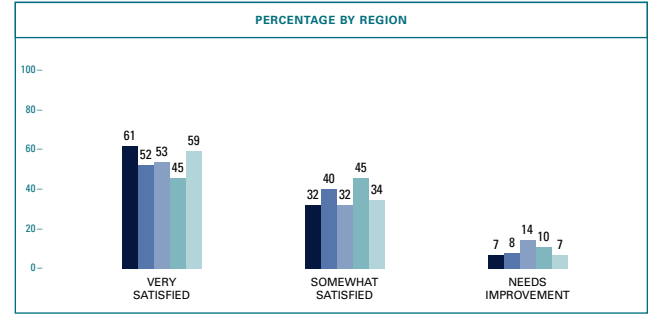
# Appendix

## OVERSIGHT PROCESSES Agenda Setting

E How satisfied are you with the approach used to establish the audit committee's agenda/work plan?



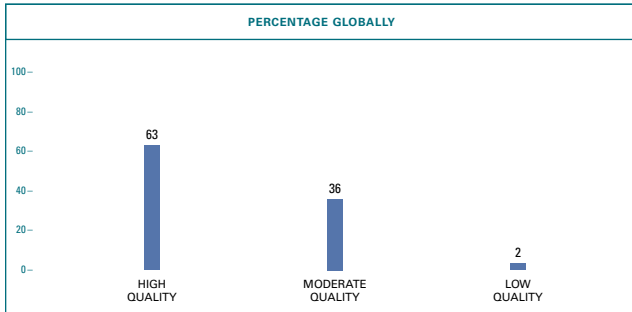
F How satisfied are you with the approach used to establish the audit committee's agenda/work plan?



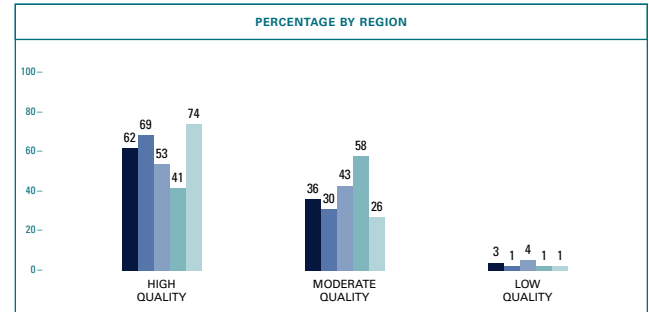
■ Americas ■ Europe ■ South Africa ■ Asia ■ Australia

## Pre-meeting Materials

G How would you rate the quality of the pre-audit committee meeting materials provided to your audit committee?



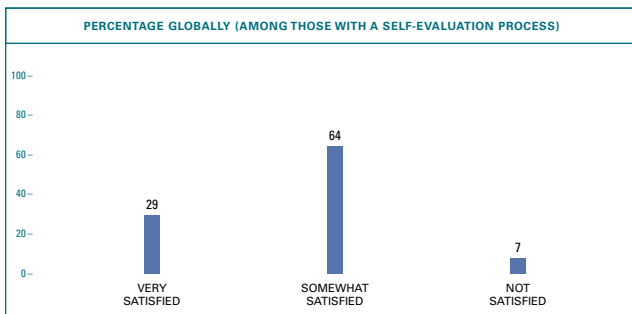
H How would you rate the quality of the pre-audit committee meeting materials provided to your audit committee?



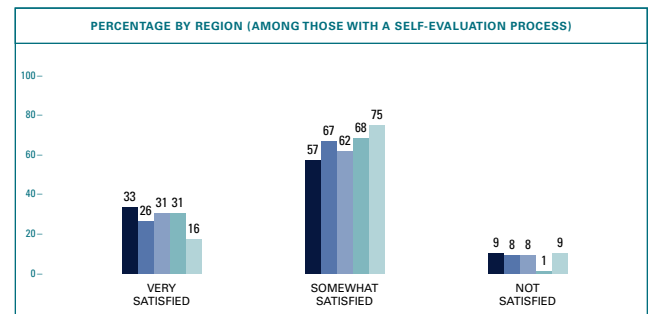
■ Americas ■ Europe ■ South Africa ■ Asia ■ Australia

## Audit Committee Self-evaluation

I How satisfied are you that your audit committee's current self-evaluation approach enhances its effectiveness?



J How satisfied are you that your audit committee's current self-evaluation approach enhances its effectiveness?

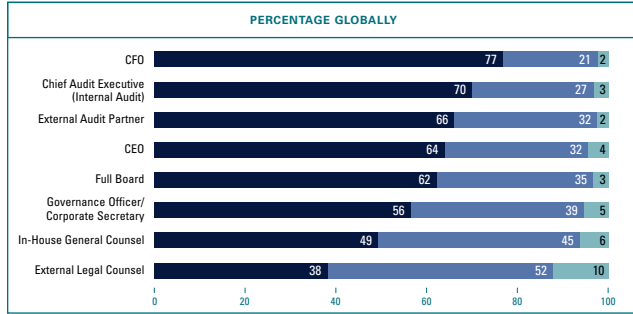


■ Americas ■ Europe ■ South Africa ■ Asia ■ Australia

# Appendix

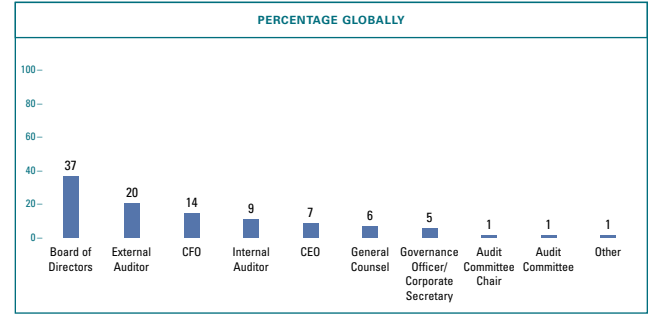
## RELATIONSHIPS AND COMMUNICATIONS Interaction and Support

**K** How satisfied are you with the interaction and the support the audit committee receives from each of the following?

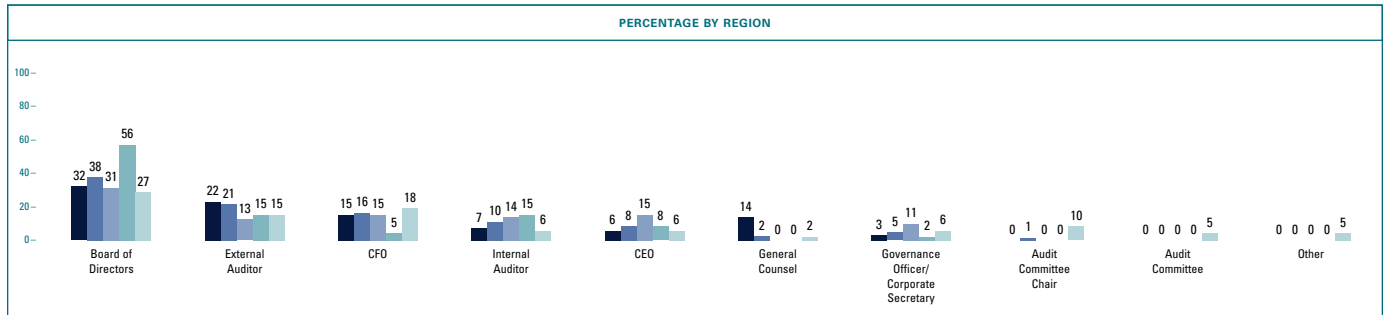


■ Very satisfied ■ Somewhat satisfied ■ Not satisfied

**L** Who has identified and communicated the most constructive suggestions to improve the audit committee's organization and activities as a result of their interaction with the committee?



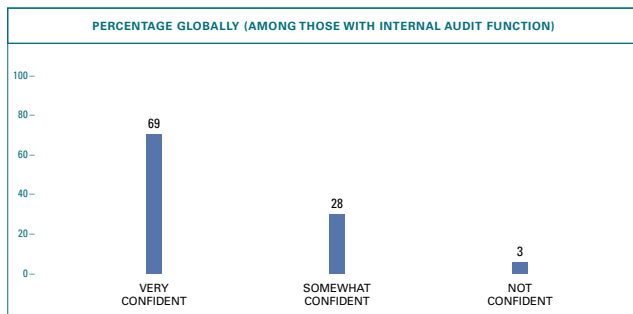
**M** Who has identified and communicated the most constructive suggestions to improve the audit committee's organization and activities as a result of their interaction with the committee?



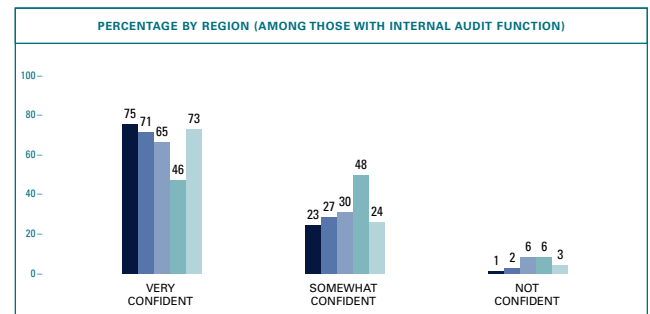
■ Americas ■ Europe ■ South Africa ■ Asia ■ Australia

## INTERNAL AUDITOR

**N** How confident are you that your company's chief audit executive would directly report any controversial issues involving senior management to the audit committee?



**O** How confident are you that your company's chief audit executive would directly report any controversial issues involving senior management to the audit committee?

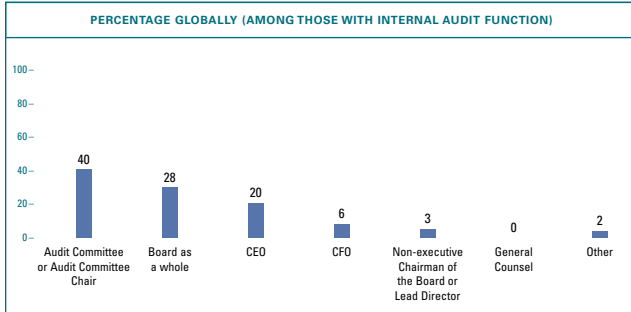


■ Americas ■ Europe ■ South Africa ■ Asia ■ Australia

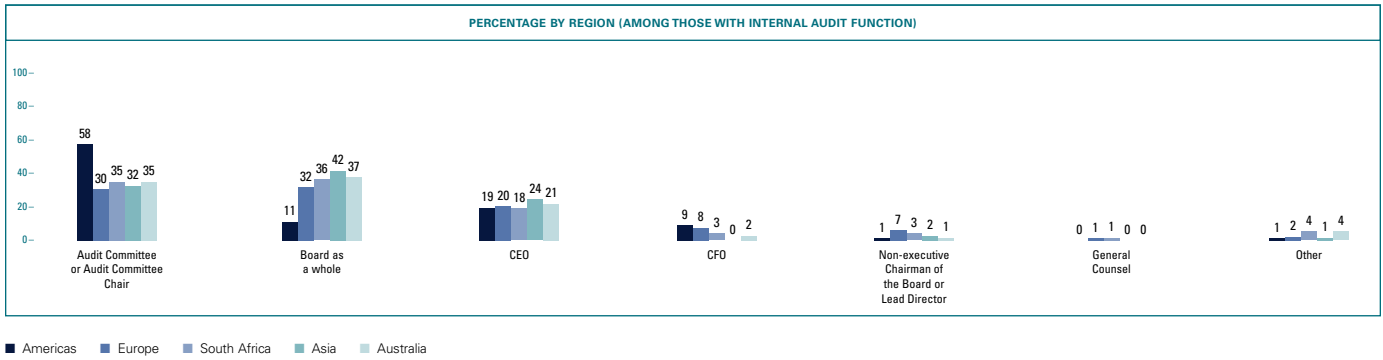
# Appendix

## INTERNAL AUDITOR (continued)

P Who has the ultimate authority to hire/fire the chief audit executive?

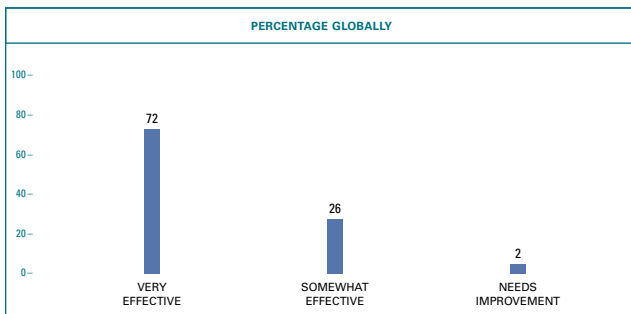


Q Who has the ultimate authority to hire/fire the chief audit executive?

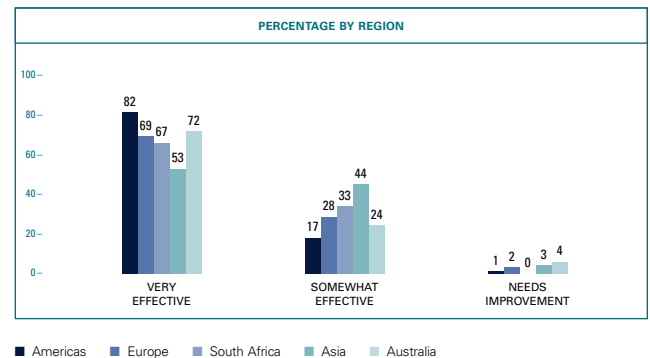


## EXTERNAL AUDITOR INDEPENDENCE

R How effective is the audit committee at helping ensure the external auditor's independence from management and accountability to the audit committee?



S How effective is the audit committee at helping ensure the external auditor's independence from management and accountability to the audit committee?





## ABOUT KPMG'S AUDIT COMMITTEE INSTITUTE

Launched by KPMG International member firms in 19 countries, KPMG's Audit Committee Institutes (ACIs) have played a leading role in assisting audit committee members, directors, and senior executives—including CEOs, CFOs, internal auditors, and others interacting with the audit committee—in addressing the critical challenges they face. ACIs host forums around the world during which independent directors and executives explore the changing regulatory landscape and share leading practices in corporate governance and financial reporting oversight.

Currently, member firms of KPMG International sponsor local ACIs in the following countries:

Australia	Germany	Northern Ireland
Belgium	Hong Kong / China	South Africa
Brazil	India	Spain
Canada	Ireland	Switzerland
Chile	Malaysia	United Kingdom
France	Mexico	United States
	Netherlands	

To learn more about Audit Committee Institutes around the world, please go to [www.kpmgauditcommitteeinstitute.com](http://www.kpmgauditcommitteeinstitute.com).

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