

Board Process Report

Edition 4: The Audit Committee

February, 2007

Foreword

Board Process Reports are data-intensive, 'bottom-up' analyses of peer company practice. They act as a reference point for monitoring company reporting on board process, committee organisation and disclosure policy. Each report incorporates data from an index of leading companies selected on a UK, US, Australian and global basis. Clients can nominate additional companies for inclusion. Future reports in 2006 will examine in detail a specific cross-section of board process and decision-making.

Board Process Reports are produced by Institutional Design's research function. The remit of the function is to provide authoritative data and analysis on those factors determining the risk profile of boards and the effectiveness of board processes.

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INSTITUTIONAL DESIGN: PROFILE

Established in 1999, Institutional Design is a London based consulting firm specialising in board process.

We provide public listed companies with advice and consulting services to manage governance risks. Services are delivered according to Institutional Design's approach, a proven and coherent methodology.

Our services enable companies to develop improved board processes, providing increased assurance to directors, shareholders and strategic partners. We work exclusively with corporates, but maintain strong links with investor and policy-making communities.

Institutional Design has earned a reputation for insightful analysis. The firm has been consistently asked by government bodies, regulators and policy networks to input into governance reform programmes.

EDITOR'S SUMMARY

This report is intended for Company Secretaries, Board Chairmen and Chief Risk & Compliance Officers responsible for the work of public listed company boards, and the ongoing improvement of board process.

The purpose of the report is to monitor trends and variations in board process in order to understand how different factors contribute to overall board performance.

The report analyses:

- audit committees
- the role of audit committees in board process
- how audit committees can be more effective in interacting with management, internal audit and the external auditor

Key findings based on analysis of leading UK, US and Australian companies and recent market and regulatory trends, include:

- Greater clarity is needed in the interaction process between the audit committee chairman, the board chairman, CEO and CFO.
- Section 234ZA Companies Act implements requirements relating to accounting periods on or after 1 April 2005 and requires directors' sign-off ensuring sufficiency of audit information as provided to the external auditor.
- As a result, it is imperative that up-to-date procedures are in place to ensure compliance. This indicates a need for effective interaction between the audit committee, management and the auditors, and for the board to be involved in this process.
- This process should involve board review of key audit committee documents as well as other relevant documents and advice on the audit process, liability and risks.
- Peer analysis indicates a shift away from audit committees relying on collective financial experience, toward a reliance at least one member with "recent and relevant financial experience" and/or being an "audit committee financial expert."
- In some cases this has not resulted in any increased responsibilities being given to that particular member, and it does not so far appear to have affected the risk of legal liability.
- A "Responsibilities Calendar" and/or "Key Practices" framework document puts in place a system for effective planning and externally signals the importance placed on planning.
- The audit committee should focus more extensively on enterprise-wide risk monitoring.

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1. INTRODUCTION

The objective of the report series is to monitor trends, variations and outstanding examples of disclosed board governance policy. Collectively, the series acts as an external reference point for developments in board practice, committee tasks & organisation, internal evaluation exercises and disclosure policy. Data is drawn from the public disclosures of a global index of companies comprised of ten issuers.

The peer group has been selected for both its range of industry coverage and the “international” nature of the companies, typically top-tier players operating in more than one jurisdiction (impacted by a multiplicity of stock exchange listing requirements and corporate governance standards). The constituent companies analysed are: BP, BHP Billiton, CBA, Exxon Mobil, HSBC, GE, Microsoft, Unilever, Telstra, and Vodafone.

In all cases, the sources reviewed were publicly available documents encompassing: annual reports, board and committee charters and terms of reference, and other miscellaneous website published material including presentations, and news/press releases.

The report is structured to provide:

- An overview of board and audit committee issues (Section 2).
- Commentary on current trends including; financial expertise requirements, monitoring particularly considering audit committee linkage to other players, and finally the oversight process considering roles and responsibilities of those involved in the audit process (Section 3).
- Insights from peer companies practice (Section 4).

2. THE BOARD AND THE AUDIT COMMITTEE

Audit committees have in recent times been the subject of much regulatory debate. The Audit Committee is seen as the foremost component in an organisation’s internal control framework, and as such, provides the foundation for embedding an effective financial reporting process within the organisation.

The changed regulatory environment has prompted many companies to begin to implement new oversight processes.¹ The appropriate framework for oversight of financial reporting processes rests upon having the right balance of members on the audit committee; the quality of relationships within a committee; the role of the committee chairman; the effectiveness of relationships between the committee and other groups in the organisation. All three elements described above must be carefully structured for the audit committee to provide meaningful oversight.

In order to understand the choices companies have made in terms of audit committee process it is first necessary to understand what constitutes market practice, before going on to highlight significant variations.

In the companies in our global peer group, a typical delegation from the board to the audit committee includes, but is not limited to, the following:

- Oversight of internal controls over financial reporting
- Risk management
- Accounting standards & policies
- Management of the relationship with the external auditor
- Internal audit oversight
- Other audit arrangements

In 2006, about two-thirds of US Fortune 100 company boards chose to make a direct delegation from the board to the audit committee to oversee the implementation and maintenance of risk and internal control

¹ As a rule, audit committees are responsible for internal controls over financial reporting as well as company-wide risk management. This is consistent with the global peer group of companies analysed in this report.

practices by management.² The results of another recent survey of global companies showed that the risks most frequently delegated to the audit committee are accounting and reporting issues, capital structure, tax, code of conduct, regulatory, IT and legal issues.³

The constituents of the oversight process involve management, internal audit and the external auditor. The audit committee has direct involvement in the process through which accountability is created between these other constituents to the board (through the audit committee). It is crucial for the audit committee to engage with management, particularly on an individual basis e.g. with the CFO.

What has not generally been seen is a systematic reinforcement of the fact that the internal audit function should be concerned with the issue of business risk as well as compliance risk. Similarly, the external auditor's accountability is to the audit committee as a committee of the board. This serves to highlight the representative role of the board to the shareholders.

The most striking peer example of the board's (and by extension the audit committee's) representative role is GE's practice of seeking shareholder ratification of the audit committee's selection of the independent auditor.

3. AUDIT COMMITTEE TRENDS

All companies in our peer group have developed processes to allow the audit committee to meet with external auditors, and sometimes key individuals (otherwise acting in a management role), without management being present. In this section we address the questions:

- A) What financial expertise skill-sets do companies have in their audit committees?
- B) How does monitoring take place – what is the linkage between the audit committee and the board, management, and auditors (internal and external)?
- C) Do the oversight processes of the board and audit committee take into account the different roles and responsibilities of those involved in the audit process?

A. What financial expertise skill-sets do companies have in their audit committees?

For UK companies, it is sufficient to satisfy the requirement of “recent and relevant” financial experience, a lower standard than the “audit committee financial expert” disclosure requirement under section 407 of the Sarbanes-Oxley Act.⁴ In the global peer group, a number of companies which have shares (ADRs) listed in US markets disclose the presence of an “audit committee financial expert.” While not a mandatory requirement for reporting companies, whether or not they are foreign private issuers, the SEC requires disclosure of whether there is an expert within the meaning of section 407 (essentially along the lines of a comply-or-explain rule).

A number of companies previously chose to rely on the collective experience of the audit committee in order to satisfy Combined Code requirements for “recent and relevant” expertise.⁵ For companies with US listings this meant that there was no “audit committee financial expert.” However, from 2003 onwards, there has been a trend to move away from reliance on collective experience.

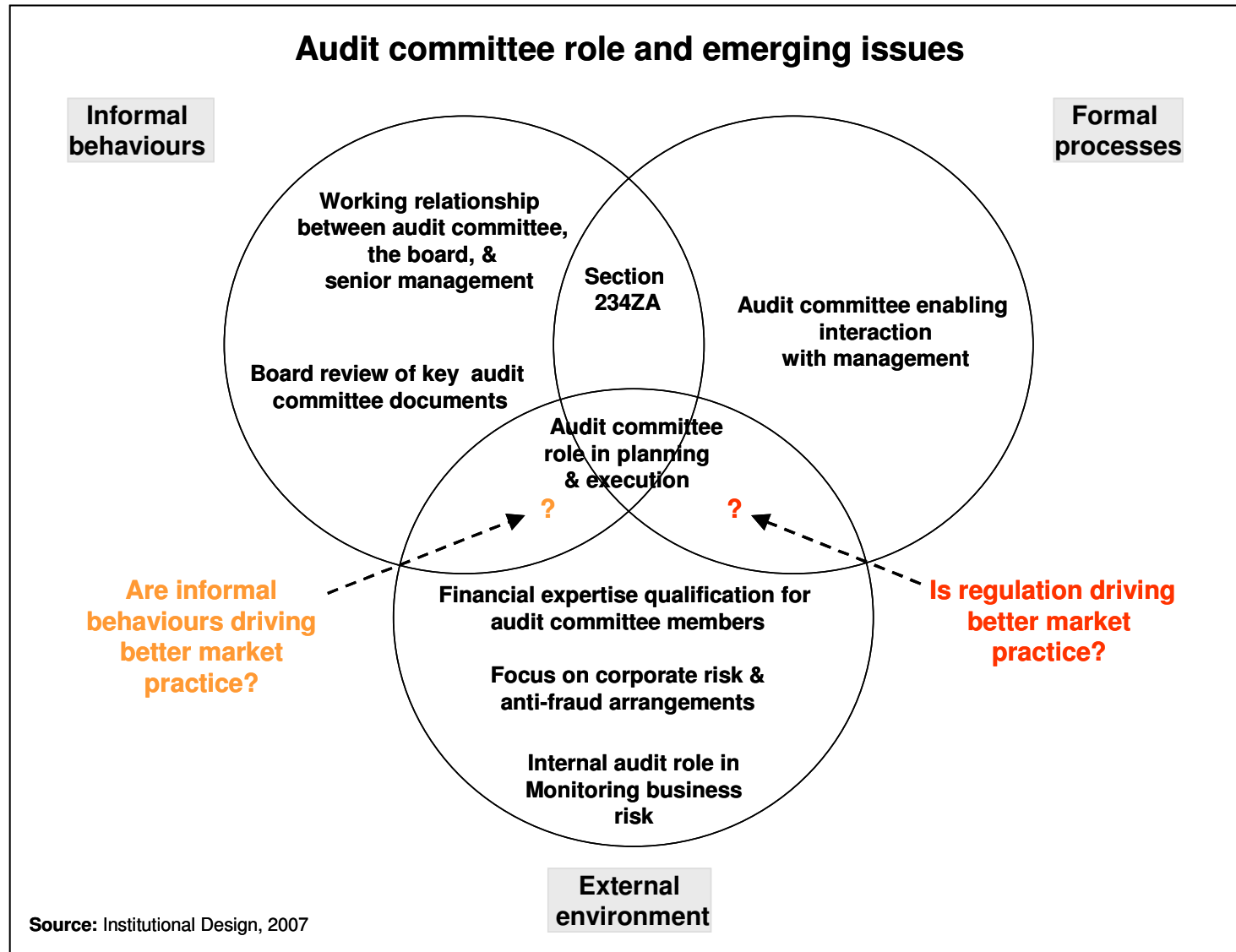
² *Board Members on Risk: Leveraging Frameworks for the Future*, Ernst & Young, July 2006. Those companies not making a direct delegation to an audit committee are typically financial services providers with established operational risk committees at board level covering regulatory issues such as licenses to operate and capital adequacy requirements.

³ *Audit Committee Perspectives*, Ernst & Young, 2007.

⁴ See Appendix A: international treatment of financial literacy in audit committees.

⁵ See Combined Code provision C.3.1.

Figure 1. Audit committee role and emerging issues



In addition, in the UK the Companies Act 2006 brings into effect a number of changes and modifications impacting directly on auditors. New measures are in place requiring technical changes such as signing in the audit partner's name, publication of audit engagement letters, and enabling of specifically audit related questions at a company's AGM. The 2005 corporate annual reports, relating to a previous reporting period, do not disclose these new changes.

Audit committees, where relevant disclosure regulations apply, designate at least one member of the committee as an expert. However, despite this expertise being present in audit committees, it is not clear that it translates into a greater role or responsibility for the designated expert. This, in part, may stem from liability concerns. For the purposes of US regulations, the "audit committee financial expert" will not in any case be deemed an expert and so will not attract liability under section 11 of the Securities Act of 1933.⁶

A recent survey of audit committees in global companies with US listings indicated that they had more than one financial expert.⁷

B. How does monitoring take place – what is the linkage between the audit committee and the board, management, and auditors (internal and external)?

In a minority of cases, peer company audit committees were specifically empowered such that management/internal audit had an express obligation to participate fully in assurance-related activities.⁸ This emphasis delineates and enhances the monitoring role of the audit committee, which it exercises on behalf of the board.

Debate on this point centres on the quality of information provided to audit committees. Recent empirical evidence suggests that the quality of pre-meeting information does not present an obstacle to the effectiveness of audit committee functioning. Only a very small percentage of the companies surveyed as part of this research rated the information they received as of low quality.⁹

The Smith Guidance states clearly that the most important feature of the relationship of the audit committee with the board, executive management, and the internal and external auditors, is that:

[It]... cannot be drafted as guidance or put into a code of practice: a frank, open working relationship and a high level of mutual respect are essential, particularly between the audit committee chairman and the board chairman, the chief executive and the finance director. The audit committee must be prepared to take a robust stand and all parties must be prepared to make information freely available to the audit committee, to listen to their views and to talk through the issues openly.

This guidance highlights the contribution and functioning of channels of communication between individual members of senior management and the audit committee chairman. Consistent with the lack of "enabling" provisions in the committee terms of reference of most peer companies, there is little discussion of one-to-one meetings as they relate to the audit committee chairman, chairman of the company, CEO or CFO. This type of provision in an audit committee charter would set in place a structure for communication.

In the UK context, the Companies (Audit, Investigations And Community Enterprise) Act 2004 introduces a new section 234ZA to the Companies Act, for accounting periods beginning on or after 1 April 2005. The directors' report must now include a statement to the effect that so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and they have taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.¹⁰ The standard applied is essentially an objective one and the actual knowledge, skill and experience that the director has is only taken into account to the extent that it exceeds what may reasonably be expected of a person carrying out the same

⁶ See SEC rules release No. 33-8177 and Final Rule 33-8220.

⁷ *Audit Committee Perspectives*, supra.

⁸ BHP Billiton's Risk and Audit Committee made specific mention of the relationship with management expressing management obligations.

⁹ *International Survey of Audit Committee Members*, Audit Committee Institute, KPMG 2006. Responses were expressed in terms of relative rather than absolute quality of reporting.

¹⁰ In practice, sign-off will be achieved by one director signing on behalf of the board.

functions as the director in relation to the company. Crucially, directors must engage so as to understand what exactly is required by the external auditor. One additional way might be to request a fully detailed memorandum explaining what information is required.

This will undoubtedly mean that directors on the boards of UK companies will have to engage rigorously with auditors to ensure that they are aware of all relevant information. This is all the more important since breach of the provision attracts criminal penalties already existing under section 233(5) but also possible extended civil liability. This could occur through the auditors meeting all directors and senior management as well at that stage discussing the memorandum with them, and generally engaging in a Q&A session. Other issues relevant to the board's role in gaining assurance that compliance with section 234ZA has been satisfied, include:

- Responsibility for coordination of section 234ZA process be assigned to a particular individual (director or company secretary)
- The audit committee should be aware of the exact scope of the audit so that it can report on this to the board in anticipation of section 234ZA compliance.
- The audit committee should also seek-out information which has not been provided to the external auditor (provided that this is made known to the audit committee).¹¹

C. Do the oversight processes of the board and audit committee take into account the different roles and responsibilities of those involved in the audit process?

There is scope for improvement in recognising the distinct roles and responsibilities of management, internal audit and the external auditor. Crucially important is the relationship with the external auditor. Recent evidence indicates that the most constructive suggestions to the audit committee consistently came from the external auditor, and secondly, from general counsel (though this was more likely to occur in US companies).¹²

Regarding risk management, constructive suggestions appear to be gained largely from internal audit and then from management in general. On the whole, it is seen that audit committees are able to meet internal audit on the one hand, and the external auditor on the other, without management being present. How frequently this occurred varied. Best practice at GE indicates that this happens quarterly; other company disclosures are not so specific so it is not possible to gauge the frequency in those other cases e.g. HSBC (where the provision exists) or Telstra (where at a minimum it should occur annually).

Another aspect to the enhancement of roles and responsibilities is the need to recognise that audit committee's require many more meetings on average than was previously the case. The fact that meetings are taking place in the absence of management highlights the importance of the audit process being independent from management influence.

Peer company disclosures relating to meetings frequency varies considerably, from 4 to 12 per annum. Companies who met most frequently were those with secondary listings on US exchanges. This correlates with recent survey data suggesting that directors contribute more time on US audit committees than do directors of non-US audit committees.¹³ On the other hand, the same survey indicates that less time spent actually discussing/asking questions by audit committees in US companies than UK companies.¹⁴

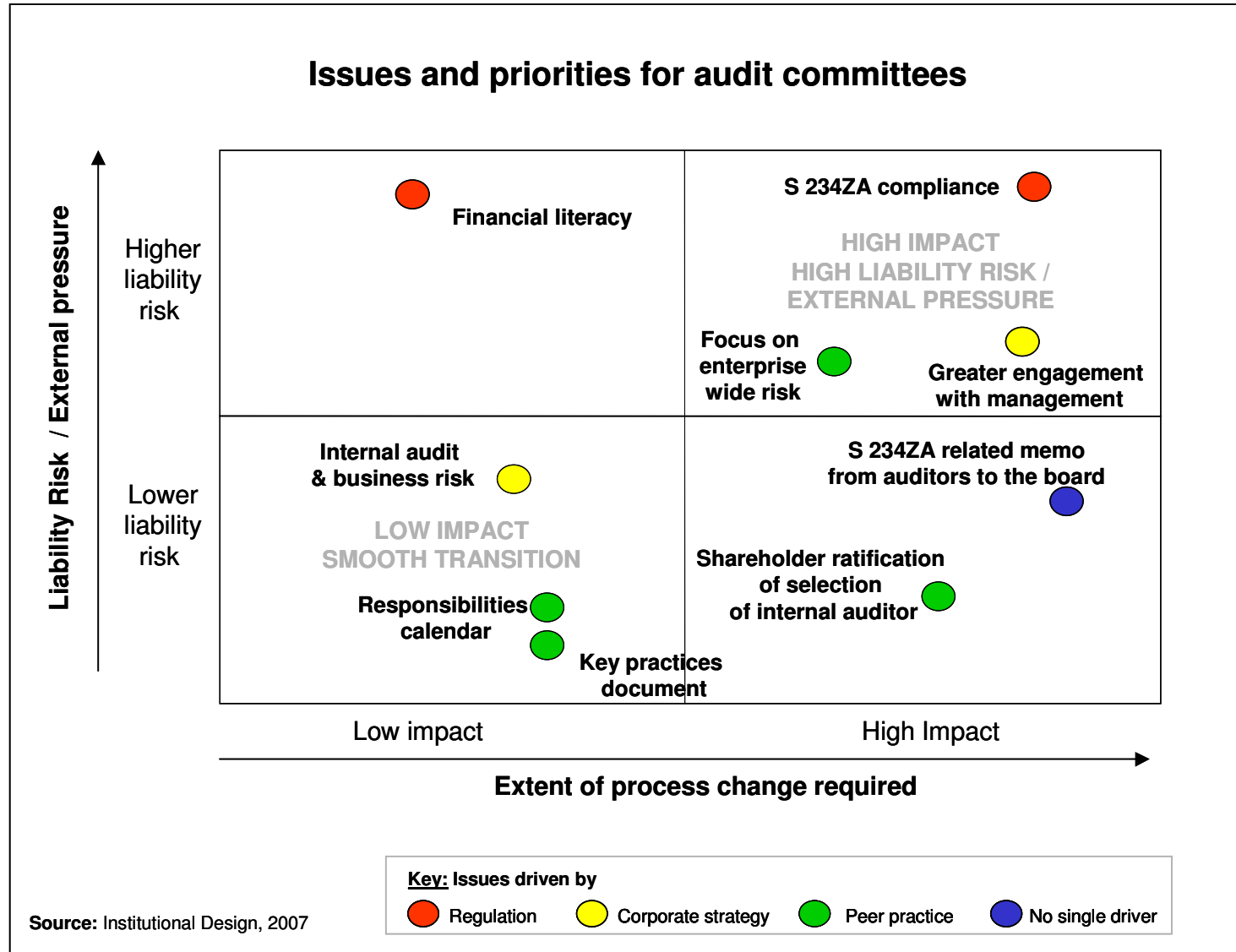
¹¹ Disclosures by peer companies suggested that existing audit committee terms of references already provide for this type of searching process to take place.

¹² *International Survey of Audit Committee Members*, supra. Views expressed were those of audit committee members.

¹³ *International Survey of Audit Committee Members*, supra.

¹⁴ Nearly 40% of UK audit committee members spent at least half of meeting times discussing/debating issues compared to 27% in US companies.

Figure 2. Issues and priorities for audit committee



4. COMPANY (PEER GROUP) COMMENTARY

This section provides commentary on selected examples of peer company practice in relation to the key trends in Section 3.

Table: Global index

Index	Peer companies
Global	BP, BHP Billiton, CBA, Exxon Mobil, HSBC, GE, Microsoft, Unilever, Telstra, Vodafone

Highlights of peer review

Our review of peer practices includes the following insights:

- Interaction with management enabled through audit committee charter with specific mention of CEO, CFO, Head of Internal Audit and external audit lead partner (BHP Billiton demonstrating “enabling” language and processes).
- Use of “Responsibilities Calendar” (Microsoft) and “Audit Committee” principles (GE)
- Use “Key Practices” framework document (GE).
- Ratification by shareholders of auditor selection (GE).
- A number of companies have restrictions on the number of other public company audit committees a member can sit on (Microsoft, GE).
- Re-structuring of audit committee remit to deal with anti-fraud arrangements, tax planning, and wider risk monitoring remit (Unilever).

Noteworthy features.

BP

In 2005, the BP’s 6 member Audit Committee met 12 times, and had a designated “audit committee financial expert” for disclosure purposes pursuant to Sarbanes-Oxley requirements.

The Audit Committee’s procedures are structured so as to enable it to discharge its key tasks of monitoring and assurance gaining. This ensures that firstly, standards of disclosure meet legal requirements and that secondly, executive limitations (financial matters) are observed.

Private meetings are held with external auditors as well as internal audit, without management presence.

The Audit Committee bi-annually reviews in detail reports of audit findings and management responses.

BHP Billiton

BHP Billiton’s Risk and Audit Committee (‘RAC’) assists its board in its oversight function in a number of key areas notably the integrity of financial statements, and effectiveness of systems of internal control and risk management, and the performance and leadership of the internal audit function. In addition, the scope of the RAC includes matters such as oversight of the CEO’s compliance with applicable limits. It met 9 times in 2005.

The RAC terms of reference indicate that the committee’s performance is supported by the CEO, CFO and Vice President – Risk Management & Assurance. Furthermore, particular reference is made to the Board Governance Document and the part that the CEO plays in the functioning of the RAC, namely, committing to

supplying the committee with information appropriate to its role in making assessment, judgement and conducting inquiries and gaining assurance from the CEO about corporate performance being directed towards the company's Corporate Objective. Clearly, the advantage of this approach is that specific mention is made of the key players in the relationship between senior management and the RAC. Moreover, the onus is on senior management to provide information in a form appropriate to the RAC's intrusive remit (which again is requisite and specified).

BHP Billiton's RAC manages the relationship with the External Auditor on behalf of the board of directors. It has the capacity to meet with the External Auditor, and/or the Vice President – Risk Management & Assurance, without management being present.

CBA

CBA's Audit Committee carries out review of the group's financial statements and compliance with accounting standards. Supplementing its activities in these areas are its remit allowing it to review all material matters affecting the exercise of judgement by management. Following any such review, the Audit Committee reports its findings to the Board. There is no specified mechanism that would place an onus on management to proactively engage in the process of providing appropriate information to the CBA Audit Committee. However, the Audit Committee does have the authority to meet with appropriate personnel including senior management, in order to carry out its functions. The Audit Committee meets 4 times annually.

At least twice annually, the members of the Audit Committee meet with the chief internal auditor and separately with external auditors independent of management.

CBA's Audit Committee has a designated "audit committee financial expert" as defined by the SEC rules. However, CBA discloses that the financial expert's responsibilities are the same as every other member of the Audit Committee.

CBA's Audit Committee is also responsible for reviewing material matters requiring exercise of judgement by management and reporting those matters to the full Board.

Exxon Mobil

As expected of a US company, in compliance with SEC requirements, Exxon Mobil's Audit Committee has at least one member who is an "audit committee financial expert."¹⁵

As with UK companies, it is a SEC requirement that audit committees be able to meet separately with management, internal audit and external (independent) auditors.

Within the remit of ExxonMobil's audit committee are risk assessment and management policies.

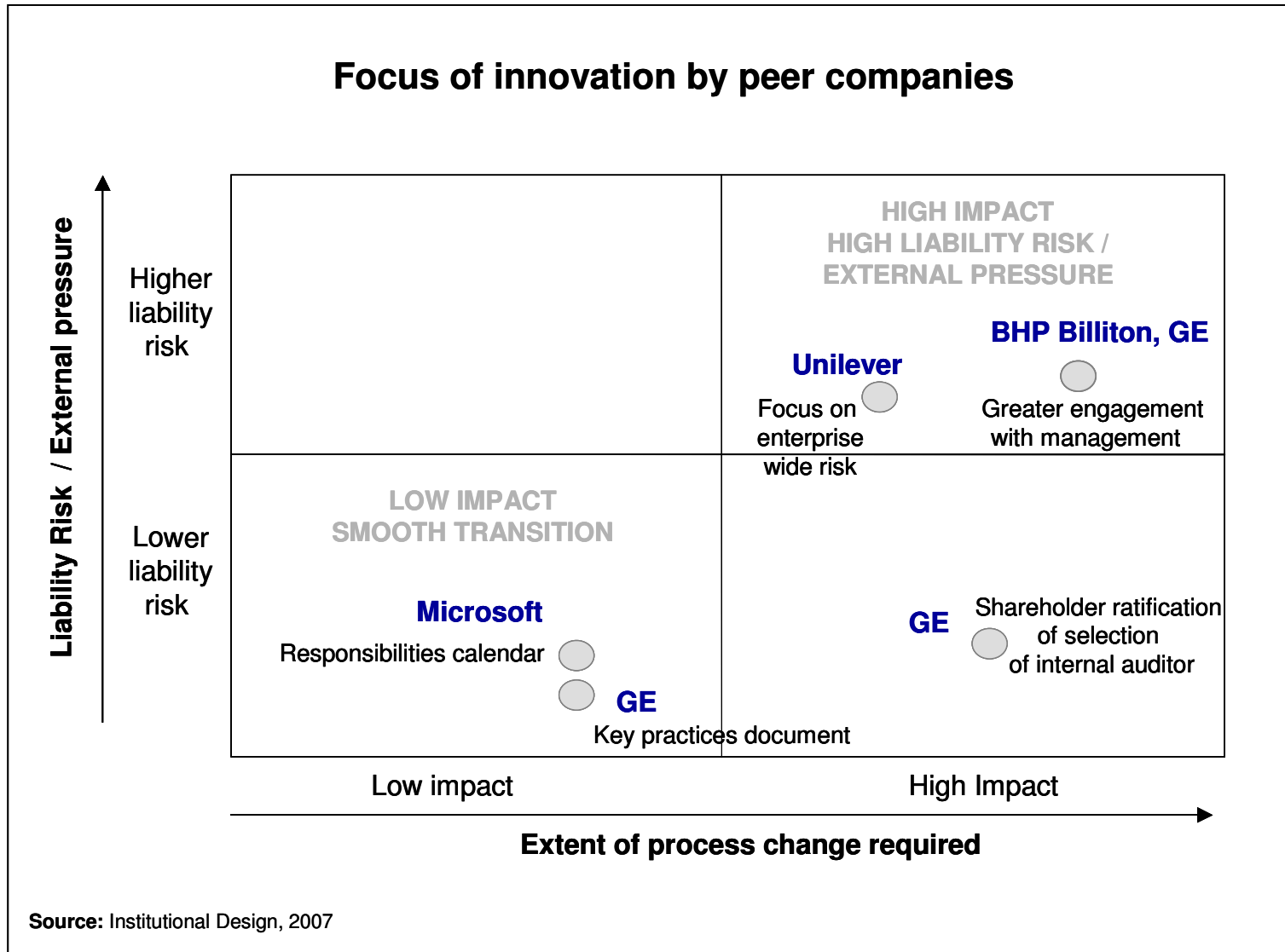
HSBC

HSBC's Group Audit Committee met 7 times during 2005.

The Group Audit Committee is charged with reviewing the external auditor's management letter and management's response as well as any material queries relating to internal control reporting.

¹⁵ Section 407, Sarbanes-Oxley Act of 2002.

Figure 3. Areas of innovation by peer companies



In terms of management reporting to the Audit Committee, details of material thresholds crossed are reported to the Audit Committee, in addition to regular reports.¹⁶ It also receives reports in relation to compliance infractions from the Head of Group Compliance.

The Group Audit Committee takes an active part in checking the resourcing and expertise of finance functions within the group on a regular basis. It also receives summaries of periodic peer reviews of other internal audit functions.

The Group Audit Committee has an opportunity to meet with the external auditor, in the absence of management. The opportunity exists also with respect to the internal auditor.

HSBC fulfils the SEC requirement of having at least one "audit committee financial expert".¹⁷

General Electric (GE)

GE's Audit Committee is composed entirely of independent directors and it met 10 times during the 2005 year. The Audit Committee Chairman attends audit staff and controllership meetings in addition to board and committee meetings. GE complies with the SEC's "audit committee financial expert" requirement.

In addition to having a charter for its Audit Committee, GE has adopted "key practices" which are designed to assist it in taking forward both functions and responsibilities set out in its Audit Committee charter. The key practices as such include:

- A requirement that members of the Audit Committee should not serve on more than 2 additional audit committees of other public companies.
- A recommendation to the board that it seek ratification by shareholders of the selection of the independent auditor despite recognising that the Audit Committee alone has the authority to appoint the independent auditor.
- Mandating oversight by the Audit Committee in the review of earnings releases and information provided to analysts and rating agencies.

GE's Audit Committee charter specifies clearly the oversight role to be played by the committee in management monitoring and mitigation of risk exposures. GE's Audit Committee is empowered to discuss with management and the independent auditor any audit problems or difficulties in the risk assessment/management process and any resulting corrective action taken by management.

In terms of management cooperation with the Audit Committee, a number of position-holders are specifically mentioned in the charter e.g. senior vice-president finance; and, vice-president corporate audit staff. This is in the context of audits and financial controls.

Reviews of the integrity of management take place regularly including compliance processes such as that relating to the corporate ombudsman. Such reviews may include the Audit Committee meeting with the General Counsel or other relevant officers or employees.

It is also specified that separate meetings with management, corporate audit staff, and internal audit take place at least quarterly.

Microsoft

Microsoft's Audit Committee meets at least 6 times annually, and at least one member satisfied the SEC's requirement of "audit committee financial expert."

The Audit Committee specifies that any member should not serve on more than 2 other audit committees of public companies.

¹⁶ Annual Report 2005, p 161.

¹⁷ In its Annual Report 2005, it is disclosed that 3 out of 6 members in the Group Audit Committee have such expertise.

The Audit Committee also has a “Responsibilities Calendar” which is publicly disclosed. As such, the Responsibilities Calendar sets out clearly the areas of responsibility on an ongoing periodic basis. One area in which the Audit Committee has oversight is disputes arising with management during the audit process.

Unilever

Unilever’s audit committee met 5 times in 2005, and one member satisfied the SEC’s requirement of “audit committee financial expert.”¹⁸

Unilever discloses that following a performance evaluation of the internal audit function in 2005, the Audit Committee also confirmed satisfaction in relation to the relationship with the Chief Auditor. In its terms of reference, the Audit Committee is expressly responsible for *inter alia* resolution of disagreements between the external auditors and management regarding financial reporting.

Unilever actually updated its Audit Committee’s terms of reference during 2005. The new terms of reference reflected a realignment of the role previously carried out by its Corporate Risk Committee. In addition, the new terms also denoted an increasing emphasis on Unilever’s anti-fraud arrangements, with the Audit Committee carrying out annually a review of these arrangements.

Taking into account changes in the Dutch Corporate Governance Code, in February 2006 the Audit Committee’s terms of reference were amended to include oversight for policies on tax planning, group financing and ICT.

The Audit Committee is supported by the Disclosure Committee in its oversight of disclosure controls and procedures.¹⁹

Telstra

Part of the role of Telstra’s Audit Committee is to provide a forum for communication between the Board, management and the auditors (internal as well as external).²⁰

In compliance with SEC regulations, one member of the Audit Committee is designated an “audit committee financial expert.”

The Audit Committee’s charter specifies that at least annually there is a need for it to meet with the internal auditor, and the internal auditor, separately without management.

Vodafone

Vodafone’s Audit Committee has a designated “audit committee financial expert” to satisfy SEC requirements. There is a procedure enabling the Audit Committee to meet auditors, and the Group Audit Director, without management being present. This is required to take place, at the minimum, twice yearly.²¹

The Audit Committee met 4 times in the year to March 31, 2005.

¹⁸ In its terms of reference, the Audit Committee is required to meet at least 4 times annually.

¹⁹ The Disclosure Committee is a management committee of Unilever.

²⁰ Telstra Audit Committee Charter.

²¹ Vodafone Audit Committee Terms of Reference.

SUMMARY: KEY FINDINGS

- Greater clarity is needed in the interaction process between the audit committee chairman, the board chairman, CEO and CFO.
- Section 234ZA Companies Act implements requirements relating to accounting periods on or after 1 April 2005 and requires directors' sign-off ensuring sufficiency of audit information as provided to the external auditor.
- As a result, it is imperative that up-to-date procedures are in place to ensure compliance. This indicates a need for effective interaction between the audit committee, management and the auditors, and for the board to be involved in this process.
- This process should involve board review of key audit committee documents as well as other relevant documents and advice on the audit process, liability and risks.
- Peer analysis indicates a shift away from audit committees relying on collective financial experience, toward a reliance at least one member with "recent and relevant financial experience" and/or being an "audit committee financial expert."
- In some cases this has not resulted in any increased responsibilities being given to that particular member, and it does not so far appear to have affected the risk of legal liability.
- A "Responsibilities Calendar" and/or "Key Practices" framework document puts in place a system for effective planning and externally signals the importance placed on planning.
- The audit committee should focus more extensively on enterprise-wide risk monitoring.

APPENDIX A: INTERNATIONAL REGULATORY TREATMENT OF FINANCIAL LITERACY IN AUDIT COMMITTEES

For audit committee members, financial literacy is a requirement of international best practice.

Consider the following:

UK: Combined Code

Provision C.2.1: The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

UK: Smith Guidance

It is desirable that the committee member whom the board considers to have recent and relevant financial experience should have a professional qualification from one of the professional accountancy bodies. The need for a degree of financial literacy among the other members will vary according to the nature of the company, but experience of corporate financial matters will normally be required. The availability of appropriate financial expertise will be particularly important where the company's activities involve specialised financial activities.

US: New York Stock Exchange Listed Company Manual

303.A.07: Each member of the audit committee must be financially literate, as such qualification is interpreted by the listed company's board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment to the audit committee. In addition, at least one member of the audit committee must have accounting or related financial management expertise, as the listed company's board interprets such qualification in its business judgment. While the Exchange does not require that a listed company's audit committee include a person who satisfies the definition of audit committee financial expert set out in Item 401(h) of Regulation S-K, a board may presume that such a person has accounting or related financial management expertise.

US: Sarbanes-Oxley Act of 2002

Section 407: The Commission shall issue rules... to require each issuer, together with periodic reports required pursuant to sections 13(a) and 15(d) of the Securities Exchange Act of 1934, to disclose whether or not, and if not, the reasons therefore, the audit committee of that issuer is comprised of at least 1 member who is a financial expert, as such term is defined by the Commission.²²

ASX Corporate Governance Council: Principles of Good Corporate Governance and Best Practice Recommendations

Recommendation 4.3: The audit committee should include members who are all financially literate (i.e. are able to read and understand financial statements); at least one member who has financial expertise (i.e. is a qualified accountant or other financial professional with experience of financial and accounting matters).

²² Cf. Regulation S-K item 401(h). See also SEC Final Rule: 33-8220. Note that foreign private issuers were not required to comply with the final rule until July 31, 2005.

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