



# Putting Australian audit committee practice in a global context

AUSTRALIA

# The Australian experience

Not surprisingly, given worldwide economic uncertainty, risk management was rated as the primary concern of audit committees both locally and globally for 2010.

## About the survey

In 2010 KPMG surveyed 1,180 members of board audit committees in a number of countries to identify their attitudes to a range of contemporary issues. The Australian component of the survey was conducted between February and April 2010. It collected the responses of 52 Australian audit committee members serving on the board of at least one public company. We asked that their answers be based on the practices and experiences of the largest company (by revenue) of which they were an audit committee member.

In this summary we highlight the findings we consider are most relevant to audit committee members in Australia. Surveys were also conducted in other countries where KPMG's Audit Committee Institute is active. We have included comparative data from these other countries where we consider it is relevant to the Australian situation.

For Australian audit committees, dealing with financial statement issues such as impairment and fair value, and stresses on financial reporting processes, was the next priority.

The effects of public policy initiatives on company reporting, compliance, risk and control processes was the third top concern in Australia. These results are consistent with the matters raised during KPMG's discussions with Australian directors during the year.

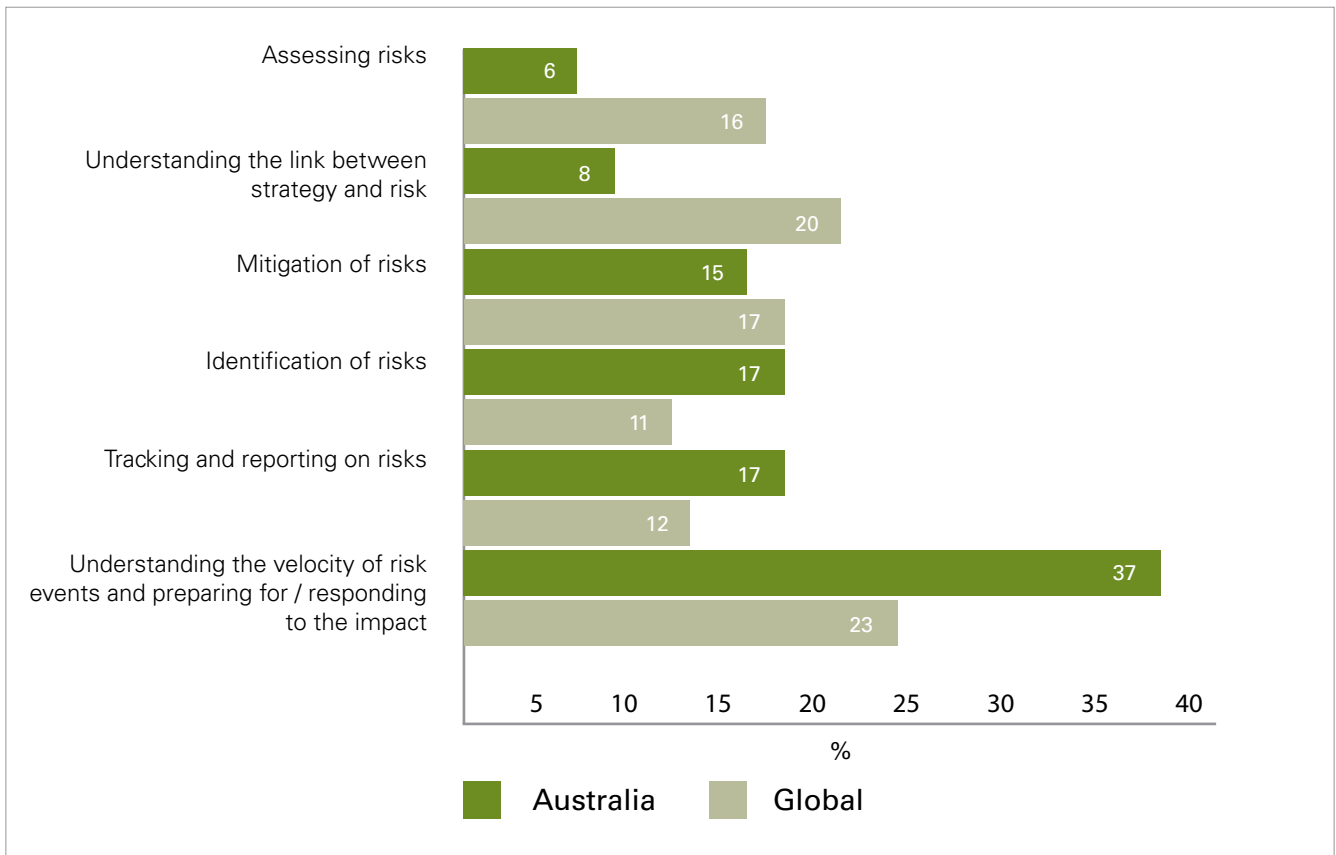
In comparison to their overseas counterparts, Australian participants were:

- more optimistic about the future, though they were getting updates on liquidity more regularly
- more confident about the robustness of their risk management systems
- more involved in financial reporting oversight, which may, of course, be partly a result of the 'continuous disclosure' regime operating in Australia
- more likely to address sustainability/corporate social responsibility issues at the audit committee or board level.

For those Australian companies that implemented significant cost reductions over recent times, the area of most concern was employee talent retention and training. This was consistent with survey results from other countries.

The greatest area of risk challenge for Australian respondents was the speed with which risk events unfold and deciding how to respond to them.

### What aspect of risk management is posing the greatest challenge for your company?



Despite the stresses of the global financial crisis, a majority of participants continued to feel their audit committees were 'effective'.

### Optimism

As the economy 'recovers' do you believe most companies will return to 'business as usual?'

|   | Australia % | Global (Includes Australia) % |
|---|-------------|-------------------------------|
| Will return to business as usual within 2 years   | 44          | 30                            |
| Will return to business as usual within 3-4 years   | 12          | 22                            |
| Will not return to business as usual and will operate in a new business environment for at least the next 4 years | 44          | 47                            |

Further, 88 percent of Australian participants thought their Audit Committee agendas would return to 'normal' as the crisis subsided. Globally, only 76 percent of respondents felt this way.

### Liquidity

Frequency with which reports on the company’s liquidity position are received by the audit committee or board

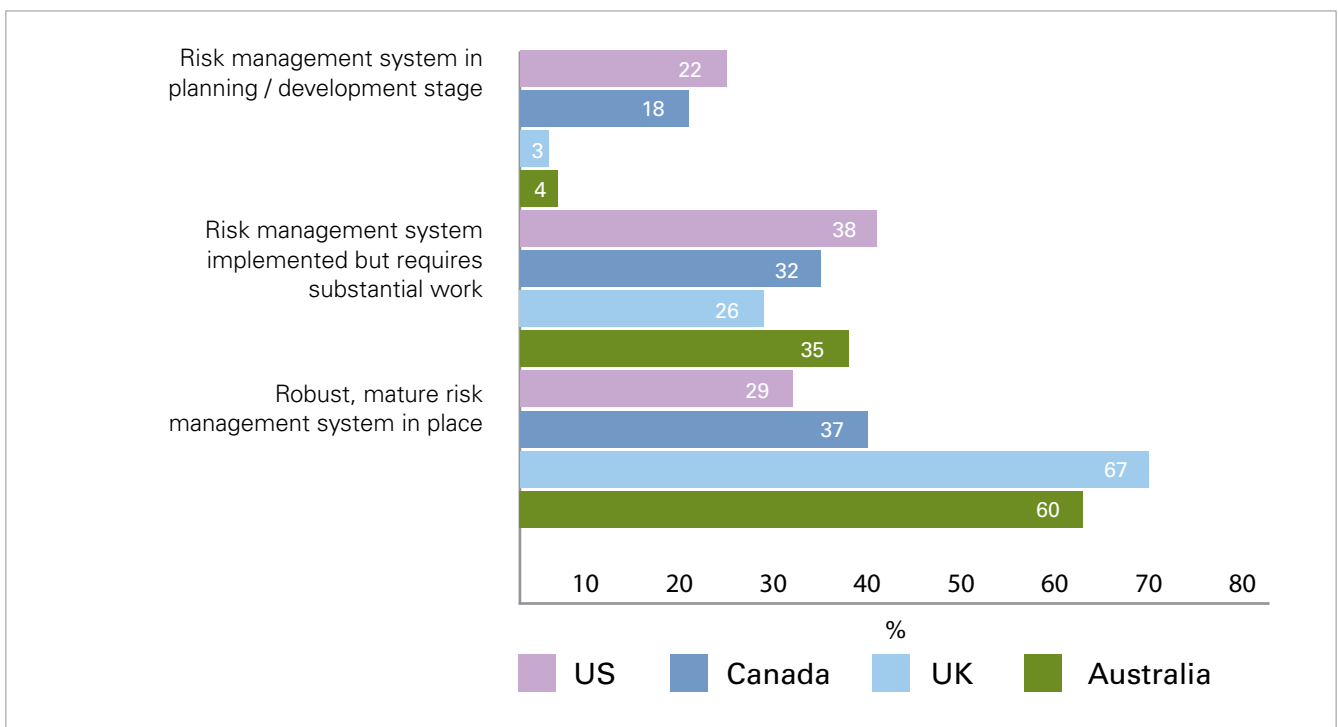
|  | Australia % | Global (Includes Australia) % |
|--|-------------|-------------------------------|
| Monthly                                  | 63          | 32                            |
| Quarterly                                | 12          | 30                            |
| At every audit committee / board meeting | 21          | 32                            |
| Other                                    | 4           | 4                             |
| Not at all                               | 0           | 2                             |

Level of satisfaction that management has timely and accurate forecast information about the company’s earnings and cash flow

|                    | Australia % | Global (Includes Australia) % |
|--------------------|-------------|-------------------------------|
| Satisfied          | 73          | 68                            |
| Somewhat satisfied | 25          | 27                            |
| Not satisfied      | 2           | 5                             |

### Risk management systems

Status of company’s risk management system / progress



Of Australian respondents:

- 37 percent of boards had formed a risk committee versus a global average of 17 percent
- 87 percent felt they had risk management related expertise on the audit committee versus 66 percent globally
- 52 percent of companies had formed a management risk committee versus 34 percent globally
- 50 percent possessed a chief risk officer (or equivalent) versus 28 percent globally.



## Financial reporting

**Extent to which the audit committee drills down and reviews key assumptions underlying accounting adjustments and estimates**

|                     | Australia % | Global (Includes Australia) % |
|---------------------|-------------|-------------------------------|
| To a great extent   | 79          | 54                            |
| To a limited extent | 21          | 44                            |
| Not at all          | 0           | 3                             |

**In what areas have audit committees increased their scrutiny of the company's financial communications?**

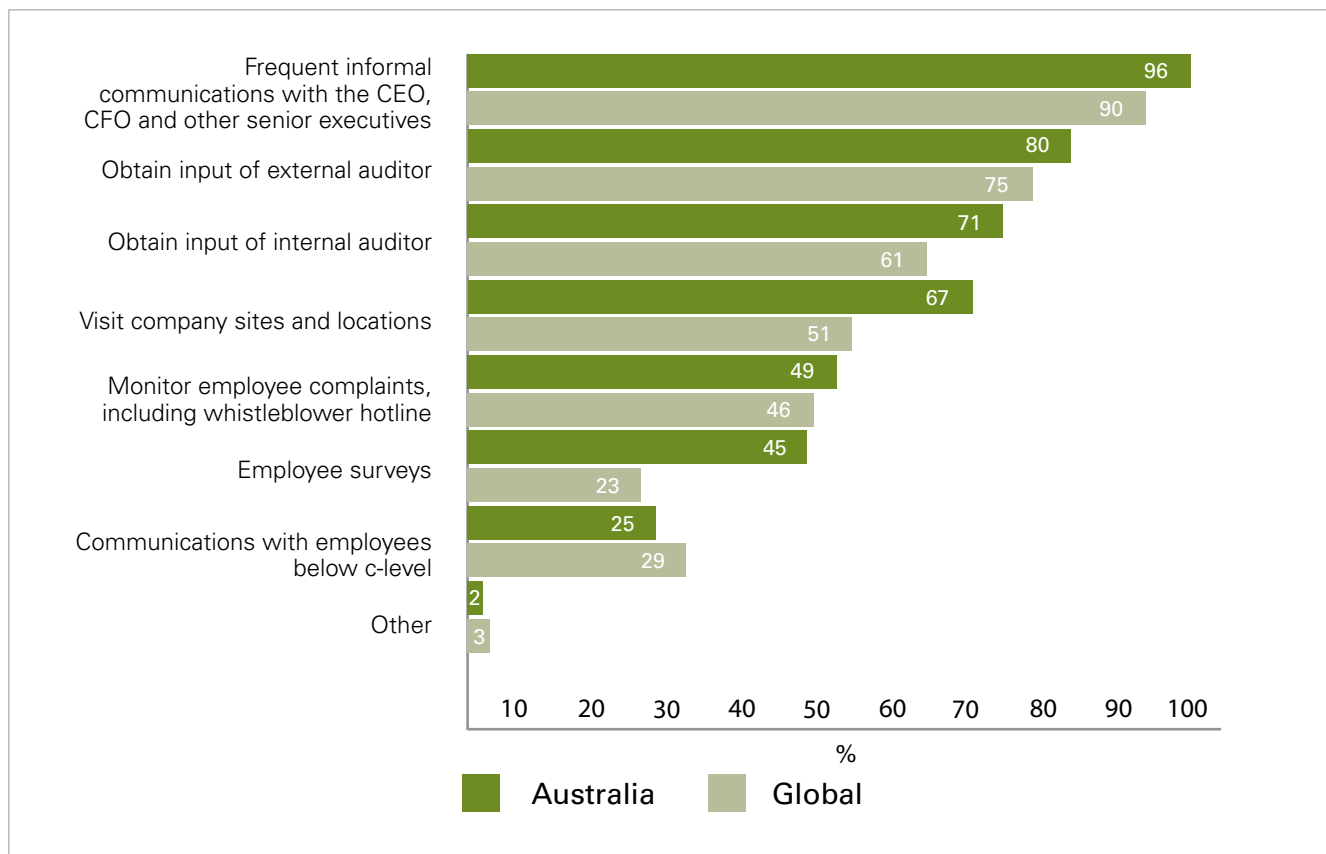
|   | Australia % | Global (Includes Australia) % |
|---|-------------|-------------------------------|
| Earnings press release                    | 49          | 36                            |
| Earnings estimates                        | 43          | 40                            |
| Scripts for analyst calls / presentations | 37          | 12                            |

### Audit committee effectiveness

The resounding message we get from audit committee members in our interactions with them is the importance of a strong ethical culture in sustaining a robust risk management system.

In terms of developing an understanding of the tone at the top and ethical culture of the company, Australians take a multi-faceted approach. Interestingly, in accumulating knowledge about their companies, they reported relying more on the input of their internal and external auditors and from visiting company sites and locations than did respondents elsewhere.

#### How does your audit committee develop its understanding of the tone at the top and ethical culture of the company? (Select all that apply)



The main suggestions for improving the effectiveness of Australian audit committees included:

- improved committee agendas (greater focus on what is important and less on checklists)
- better information flow (high quality, variety of resources and ‘internal transparency’)
- better committee composition.

Consistent with prior years, Australian participants felt the quality of information on IT risks was substantially less than the quality of information they receive on other risks and oversight areas. This finding was echoed by overseas participants.

## Audit committee basics – Country comparisons at a glance

|  | Australia           | UK                  | Canada              | US                  |
|--|---------------------|---------------------|---------------------|---------------------|
| <b>Meetings</b>  |                     |                     |                     |                     |
| Average # of audit committee meetings in 2009  | 5.5                 | 4.5                 | 5.4                 | 8.8                 |
| Average length of meetings in hours  | 3.1                 | 2.7                 | 3.4                 | 2.9                 |
| Average # of hours per month in 2009 spent on board and committee matters for the company (including travel time, meetings, reading) | 47.2                | 98.2                | 43.3                | 51.0                |
| Use of electronic portal for committee material and confidential company information   | Yes - 27%           | Yes - 20%           | Yes - 36%           | Yes - 35%           |
| Is agenda for meeting regularly re-assessed at beginning of the meeting?   | Yes - 44%           | Yes - 33%           | Yes - 85%           | Yes - 45%           |
| Frequency of executive sessions with audit committee   | Every meeting - 67% | Every meeting - 49% | Every meeting - 84% | Every meeting - 84% |
| Frequency of use of consent agendas (a list of non-controversial / routine matters that the committee can vote in one action)        | Never - 71%         | Never - 77%         | Never - 49%         | Never - 65%         |
| <b>Self Evaluation</b>   |                     |                     |                     |                     |
| Approaches used for self evaluation over past 3 years:   |                     |                     |                     |                     |
| • questionnaires completed by members  | 45%                 | 74%                 | 82%                 | 83%                 |
| • confidential interviews  | 18%                 | 25%                 | 19%                 | 18%                 |
| • 360 degree feedback  | 18%                 | 19%                 | 17%                 | 20%                 |
| • other  | 36%                 | 13%                 | 10%                 | 11%                 |
| Is individual member performance and effectiveness evaluated?  | Yes – 26%           | Yes – 26%           | Yes – 31%           | Yes – 29%           |
| <b>Risks</b>   |                     |                     |                     |                     |
| Non-financial reporting risks the audit committee has primary oversight responsibility for (top 3):                                  |                     |                     |                     |                     |
| 1. Financial operating risks (e.g. cash flow, capital funding)   | 85%                 | 90%                 | 88%                 | 80%                 |
| 2. Legal / regulatory compliance risks   | 79%                 | 73%                 | 66%                 | 70%                 |
| 3. IT / security and privacy risks   | 62%                 | 60%                 | 63%                 | 66%                 |

## Contact us

To learn more about this survey or about KPMG's Audit Committee Institutes, visit us online at [aci.kpmg.com.au](http://aci.kpmg.com.au) or contact Chris Hall (02) 9335 7108 or Paul McDonald (03) 9288 5795

If you would like to discuss governance or other board related issues, please contact Mark Jones in our Board Advisory Services group on (03) 9288 5790.

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