AUDIT COMMITTEE INSTITUTE

The Audit Committee Journey

Evolving Priorities, Practices, and Perspectives—A Global View

2006–2007 International Audit Committee Member Survey

KPMG INTERNATIONAL

Preface

From one country to the next, the differences in financial reporting and regulatory requirements, marketplace demands, and business cultures can vary significantly. Yet all market-based economies ultimately are driven by two critical imperatives: financial reporting integrity and investor confidence. The demand for integrity and confidence has intensified the focus on audit committees (or their equivalent supervisory committees) around the world. Their priorities and practices, as well as the support they receive from management and auditors, continue to be scrutinized, articulated, and refined in an ongoing effort to strengthen their effectiveness.

While many of the 1,300-plus audit committee members responding to our annual global survey believe their audit committee is "very effective," nearly half rated their committee as only "somewhat effective" or in need of improvement. Indeed, as the committee's oversight role and practices continue to evolve—and risk management issues such as IT governance become higher agenda priorities—the meaning of "effectiveness" also must evolve. In short, the bar keeps getting higher, and the audit committee journey continues.

We encourage audit committees around the world, as well as the executives, audit professionals, and boards supporting them, to consider these survey findings (and, indeed, the survey questions) as they examine their own oversight processes and continue their journey toward greater audit committee effectiveness.

CONTENTS

Introduction

From November 2006 through February 2007, Audit Committee Institutes (ACIs) of KPMG member firms around the world posed a series of questions to audit committee members of public and nonpublic companies in their respective countries. From very broad questions *(How would you rate the overall effectiveness of your audit committee?)*, to more pointed questions *(Which areas of oversight will be the highest priorities on your audit committee agenda for 2007?)*, our queries all were aimed at identifying key challenges and concerns driving audit committee agendas and activities around the globe.

Following are highlights of key survey findings, primarily related to audit committee oversight priorities and critical processes as well as audit committee relationships/communications with other participants in the financial reporting process. For each major finding, significant regional variations are noted. Also highlighted (page 8) are common characteristics and attributes of audit committees around the world, including committee composition, member background and experience, time commitment, and meeting practices.

For each of the major survey findings discussed, detailed data are provided in the Appendix (beginning on page 11) or are available from the Audit Committee Institute at auditcommittee@kpmg.com.

Key Findings and Regional Views

AUDIT COMMITTEE EFFECTIVENESS

While half of the audit committee members we surveyed in major markets around the world rated their committee as "very effective," about 40 percent said the committee was only "somewhat effective" and nearly one in ten said it "needs improvement." (See chart A on page 11.)

Similarly, while nearly 60 percent of respondents are "very satisfied" that the audit committee devotes an appropriate amount of time and attention to its duties, about one in ten believe the committee "needs to spend more time" on audit committee matters. (See chart C on page 11.)

REGIONAL VIEWS: The strongest ratings for audit committee effectiveness were found in the Americas (65 percent said "very effective"); the most room for improvement was cited by audit committee members in Africa (with 54 percent indicating their audit committee is only "somewhat effective" or in need of improvement). (See chart B on page 11.)

ON THE AGENDA: PRIORITIES FOR 2007

Risk management, internal controls, and accounting judgments and estimates are the areas of oversight that survey respondents were most likely to cite as the audit committee's top agenda priorities for 2007. The next highest oversight priorities were (in order) legal/regulatory compliance and ensuring the effectiveness of the internal audit function, followed by information technology (IT)/data security, business strategy, external auditor effectiveness, fraud risk, and taxes. (See chart D on page 11 and chart E on page 12.)

While most of these issues have long held prominent positions on many audit committee agendas, IT is emerging as a key area of audit committee focus. Nearly one third of respondents are not satisfied the audit committee devotes sufficient agenda time to the oversight of IT risk. Two thirds said the audit committee's primary IT oversight responsibility is for IT-related compliance and controls, followed by business continuity and information security/privacy. One in five said none of these IT issues was a primary responsibility of the audit committee. (See charts F and G on page 12.)

REGIONAL VIEWS: Following oversight of risk management and internal controls, accounting judgments and estimates was most likely to be cited as a high priority in Europe and the Americas. The focus on risk management oversight is greatest in Asia, Europe, and Africa. Ensuring the effectiveness of the external auditor is of significantly greater interest in Africa than in other regions. (See chart E on page 12.)
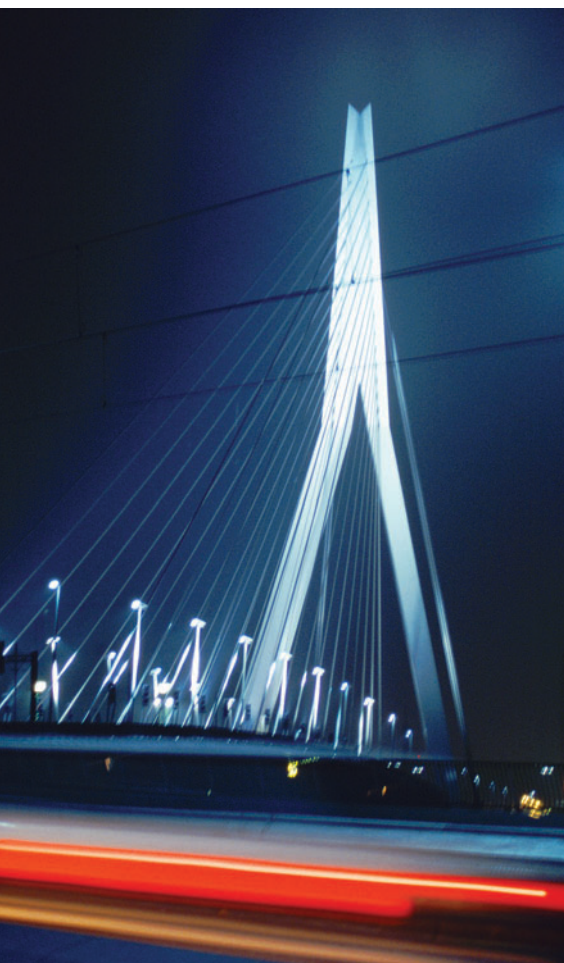
KEY OVERSIGHT PROCESSES

Agenda-Setting

As in 2006, almost 45 percent of audit committee members surveyed believe their approach to establishing the committee's agenda could be more effective (of which nearly one in ten specifically said the process "needs improvement"). Fifty-seven percent said they were "very satisfied" with the committee's current approach. (See chart H on page 12.)

REGIONAL VIEWS: Audit committee members in the Americas were most satisfied with the agenda-setting process, while those in Africa were least satisfied. (See chart I on page 12.)

Audit Committee Self-evaluation

As in 2006, about 70 percent of respondents indicated that the audit committee's current self-evaluation approach could be improved, with 8 percent saying they are "not satisfied" that the process enhances the committee's effectiveness. One in three said they were "very satisfied" with the current process. (See chart J on page 13.)

REGIONAL VIEWS: Satisfaction with the self-evaluation process was fairly consistent across global regions; however, audit committee members in Africa cited the most room for improvement in this area. (See chart K on page 13.)

RELATIONSHIPS AND COMMUNICATIONS

Interaction and Support

Audit committee members' satisfaction with the support they receive from management, auditors, and others increased slightly overall. Once again, CFOs this year received the highest ratings for their interaction with and support of the audit committee, followed by the chief audit executive (internal audit), external audit partner, and CEO, respectively. External legal counsel received the lowest satisfaction ratings, while audit committee members' satisfaction with the corporate secretary/governance officer jumped from 56 percent to 65 percent. (See chart S on page 14.)

The full board of directors and external auditor were cited as providing the most constructive suggestions for improving the audit committee's effectiveness, followed by the CFO, chief audit executive (internal audit), and CEO. Few respondents thought the most constructive suggestions for improvement came from the audit committee chair or the audit committee itself (only 2 percent and 3 percent, respectively). (See chart U on page 14.)

Most audit committee members (78 percent) rated their executive sessions with the CFO as most productive, followed by the chief audit executive/internal audit (70 percent), external audit partner (66 percent), and CEO (60 percent). Less than half (47 percent) said executive sessions with the in-house general counsel are "very productive." (See chart W on page 15.)

REGIONAL VIEWS: Satisfaction with various parties' support for and interaction with the audit committee was fairly consistent across regions; two notable variations, however, were high ratings for the in-house general counsel (67 percent were "very satisfied") and external legal counsel (50 percent were "very satisfied") in the Americas. (See chart T on page 14.)

In the Americas, the external auditor was cited as providing the most constructive suggestions for improving the audit committee's effectiveness; audit committee members in Europe ranked the full board, external auditor, and CFO fairly evenly in this respect. The general counsel received low ratings in all regions except the Americas, where audit committee members were about four times more likely than those in other regions to cite the general counsel as an important source of ideas. (See chart V on page 15.)

Internal Audit Function

As in our 2005–2006 survey findings, about one third of audit committee members were only somewhat or not confident that the company's chief audit executive (internal audit) would directly report controversial issues involving senior management to the audit committee. Fewer than half (41 percent) said they were "very satisfied" with the effectiveness of the company's internal audit function. Most (72 percent) said the internal auditor should report "functionally" to the audit committee and "administratively" to the CEO (40 percent) or CFO (38 percent). (See charts L, N, and O on page 13.)

While many respondents (78 percent) said the internal audit position currently is an audit professional and that the position is "not being used specifically as a stepping stone to a line management position," only 66 percent view that as the most appropriate staffing model; about 35 percent said the internal auditor *should be* "an audit professional who is destined for a line management position." (See chart R on page 14.)

REGIONAL VIEWS: Audit committee members in the Americas had the most confidence in the internal audit function, followed by those in Africa and Europe. The lowest confidence levels were found in Asia, where nearly 45 percent of respondents were either "somewhat confident" or "not confident." Respondents in Europe were more likely than those in other regions to say internal audit should report "functionally" to the CEO (16 percent). (See chart M on page 13 and chart P on page 14.)

External Auditor

Two thirds of respondents said they were "very satisfied" with the communications between the audit committee and the external auditor; however, about 30 percent were only "somewhat satisfied," and 5 percent said audit committee/external auditor communications need improvement). (See chart X on page 15.)

REGIONAL VIEWS: Audit committee/external auditor communications received the highest ratings in the Americas, with about three in every four respondents indicating they were "very satisfied." (See chart Y on page 15.)

TODAY'S AUDIT COMMITTEE: A SNAPSHOT

The characteristics and practices of audit committees can vary by region, often influenced by distinct business, regulatory, cultural, and marketplace factors. As a result, direct comparisons can be difficult. However, keeping such variations in mind, our global survey findings offer a snapshot of "typical" audit committees in 2006—their composition, members' professional backgrounds, meeting mechanics, and other attributes contributing to their oversight effectiveness and efficiency.*

	AUDIT COMMITTEES/ MEMBERS IN GENERAL	SIGNIFICANT REGIONAL DIFFERENCES
COMPOSITION AND BACKGROUND	• Have three or four members • Have backgrounds as a CEO or CFO	• Africa: Largest average audit committee membership (five)
TIME COMMITMENT	• Expect to devote 100 hours or less to fulfilling their audit committee role in 2007 • Serve on only one or two audit committees (slightly fewer than last year)	• Americas: Nearly 20 percent of audit committee members expect to devote between 100 and 150 hours to fulfilling their role in 2007 • Asia: Only 42 percent expect to devote more than 50 hours
MEETINGS	• Met approximately six times last year (a slight decrease from the previous year), including five face-to-face meetings and one teleconference call	• Americas: Averaged most meetings per year (7.6) • Africa: Averaged fewest meetings per year (4.3) • Asia: Virtually all meetings conducted face-to-face last year

*For detailed survey data, please contact the Audit Committee Institute at auditcommittee@kpmg.com.
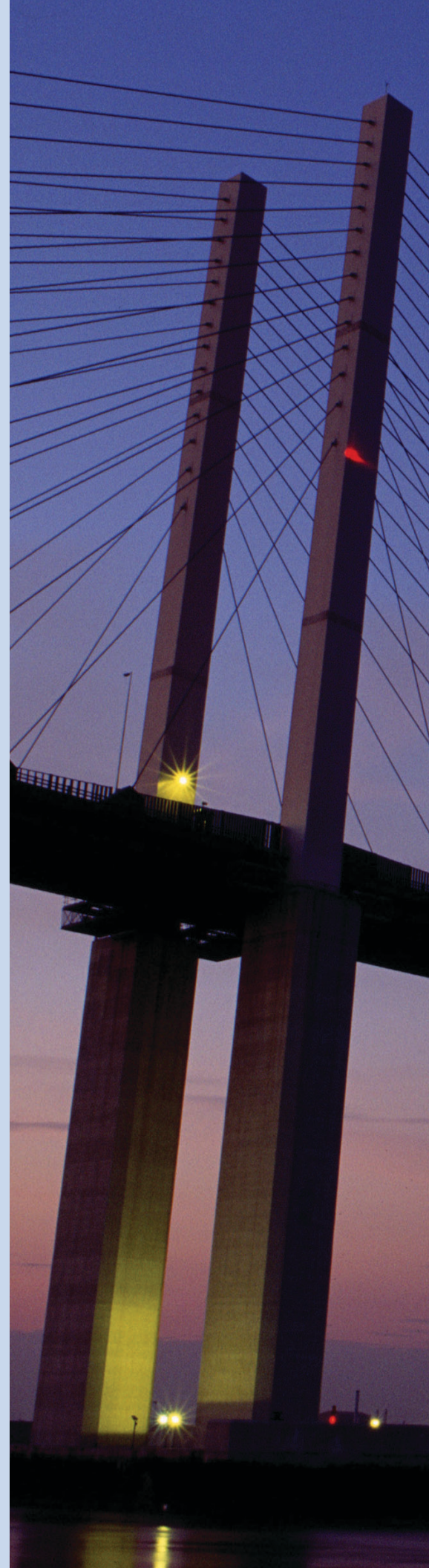
Conclusion

As in 2006, most audit committees (or their equivalent supervisory committees) around the world generally believe they are effective at ensuring the integrity of the financial reporting process. Nearly half, however, are likely to consider the committee as being only "somewhat effective" or in need of improvement. Clearly, the issues that audit committee members say are at the top of their agendas for 2007—including oversight of risk management, internal controls, accounting judgments and estimates, and IT risk—put a premium on the audit committee's effectiveness and efficiency.

Even more-so than in 2006, audit committee members are generally satisfied with the committee's interactions with and the support it receives from management, auditors, and others supporting the financial reporting process. Yet, significant opportunities to improve key oversight processes remain, including gaining greater confidence in the internal audit function, ensuring effective oversight of IT and other key risks, improving the agenda-setting process, and enhancing the effectiveness of the audit committee's self-evaluation.

Methodology

Conducted between November 2006 and February 2007, this survey reflects the responses of 1,343 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, Mexico, United States

EUROPE

Belgium, Cayman, France, Germany, Ireland, Italy, Liechtenstein, Luxembourg, Netherlands, Poland, Spain, Switzerland, United Kingdom

AFRICA

Namibia, South Africa, Zambia

ASIA

Australia, China, Hong Kong, India, Malaysia

Respondents were asked to respond based on the largest company (by revenue) for which they serve as an audit committee member. U.S. and Canada 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 were asked to respond based on the supervisory board's audit-related activities.
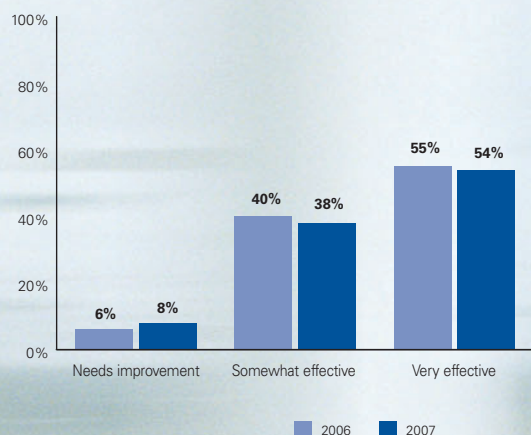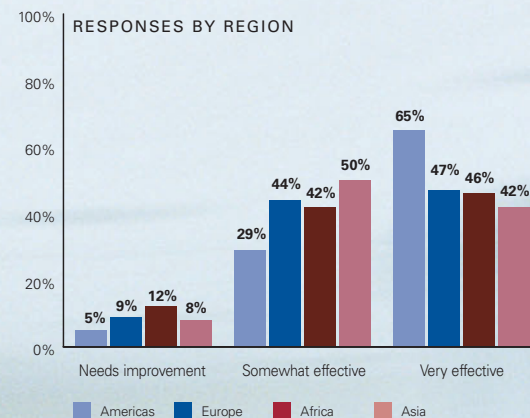
Appendix

Due to rounding, or where multiple responses were provided, not all response totals will equal 100 percent. For more information about these and other results from the ACI/NACD survey, please contact ACI at 1-877-KPMG-ACI or auditcommittee@kpmg.com.

AUDIT COMMITTEE EFFECTIVENESS

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

	Needs improvement	Somewhat effective	Very effective
2006	6%	40%	55%
2007	8%	38%	54%

2006   2007

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

RESPONSES BY REGION

	Needs improvement	Somewhat effective	Very effective
Americas	5%	29%	65%
Europe	9%	44%	47%
Africa	12%	42%	46%
Asia	8%	50%	42%

Americas   Europe   Africa   Asia

C How satisfied are you that the audit committee devotes an appropriate amount of time and attention to its duties?

	Needs to spend more time	Somewhat satisfied	Very satisfied
2006	8%	37%	56%
2007	9%	34%	57%

2006   2007
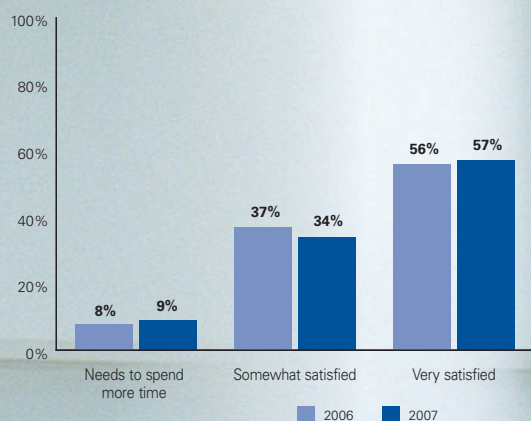
PRIORITIES FOR 2007

D Which areas of oversight will be the highest priorities on your audit committee agenda for 2007?

Risk management	61%
Internal controls	61%
Accounting judgments and estimates	50%
Legal/regulatory compliance	31%
Internal auditor effectiveness	23%
Information technology/data security	19%
Business strategy	18%
External auditor effectiveness	18%
Fraud risk	10%
Taxes	6%
Other	2%

Source for all charts: KPMG's Audit Committee Institute, 2007

E Which areas of oversight will be the highest priorities on your audit committee agenda for 2007?

RESPONSES BY REGION

Legend: Americas, Europe, Africa, Asia

Area	Americas	Europe	Africa	Asia
Risk management	53%	68%	62%	68%
Internal controls	59%	62%	49%	66%
Accounting judgments and estimates	50%	55%	45%	30%
Legal/regulatory compliance	34%	28%	33%	25%
Internal auditor effectiveness	18%	25%	25%	34%
Information technology/data security	24%	16%	12%	16%
Business strategy	21%	15%	15%	19%
External auditor effectiveness	18%	17%	26%	13%
Fraud risk	10%	6%	17%	21%
Taxes	10%	3%	7%	2%
Other	2%	1%	1%	2%

F For which of the following areas of information technology (IT) does your audit committee have primary oversight responsibility?
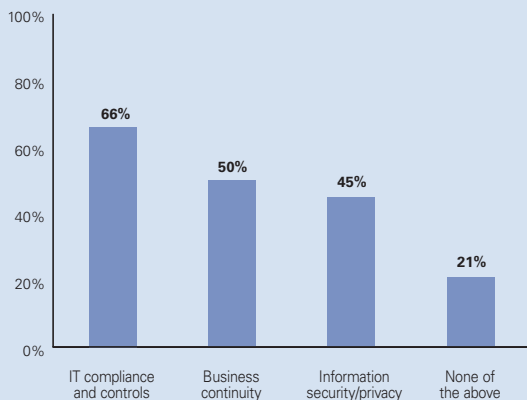
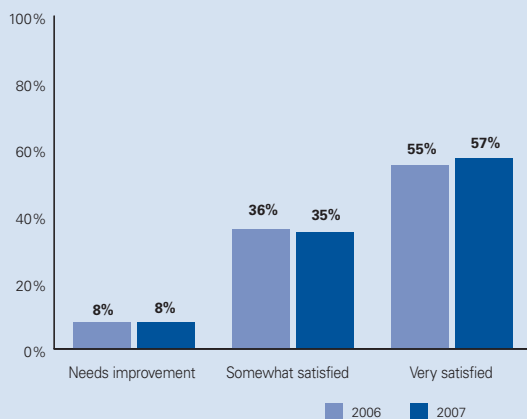|	
IT compliance and controls	66%
Business continuity	50%
Information security/privacy	45%
None of the above	21%

G How satisfied are you that your audit committee devotes sufficient agenda time to the oversight of IT risk?

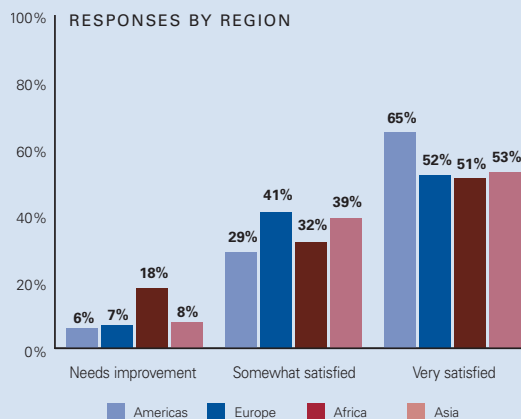|	
Not satisfied	30%
Somewhat satisfied	59%
Very satisfied	11%
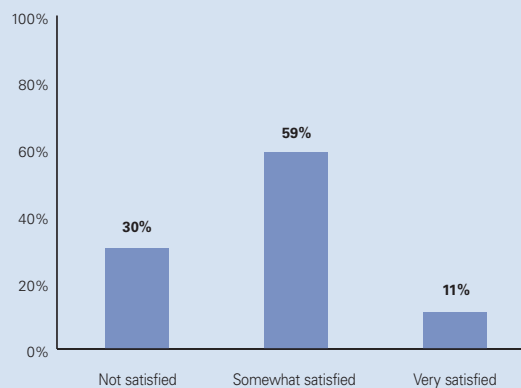
KEY OVERSIGHT PROCESSES
Agenda-Setting

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

	2006	2007
Needs improvement	8%	8%
Somewhat satisfied	36%	35%
Very satisfied	55%	57%

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

RESPONSES BY REGION

	Americas	Europe	Africa	Asia
Needs improvement	6%	7%	18%	8%
Somewhat satisfied	29%	41%	32%	39%
Very satisfied	65%	52%	51%	53%

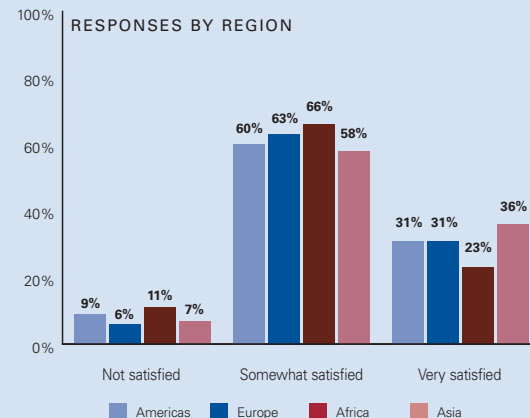Source for all charts: KPMG's Audit Committee Institute, 2007

Audit Committee Self-evaluation

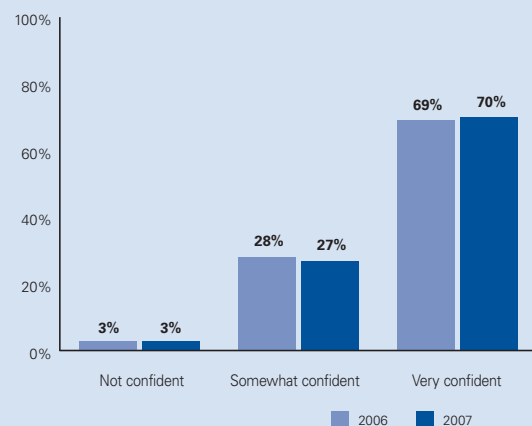J How satisfied are you that your audit committee's current self-evaluation approach enhances its effectiveness?

	Not satisfied	Somewhat satisfied	Very satisfied
2006	7%	64%	29%
2007	8%	61%	31%

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

RESPONSES BY REGION

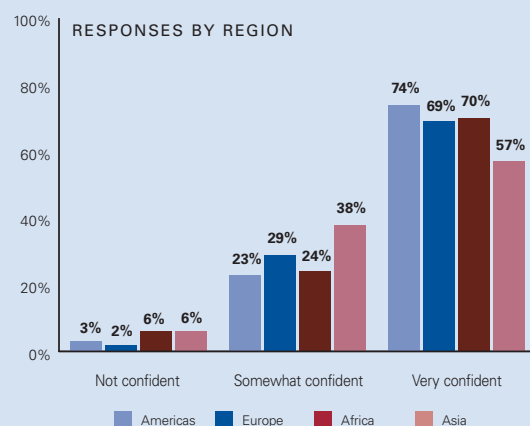|	Not satisfied	Somewhat satisfied	Very satisfied
Americas	9%	60%	31%
Europe	6%	63%	31%
Africa	11%	66%	23%
Asia	7%	58%	36%
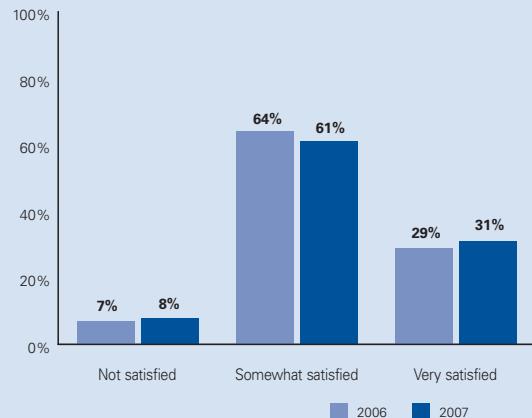
RELATIONSHIPS AND COMMUNICATIONS
Internal Audit Function

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

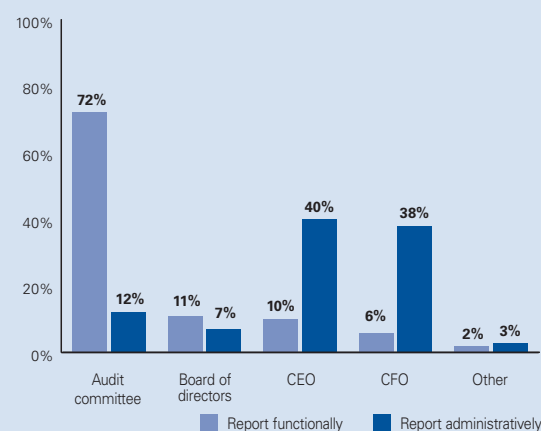|	Not confident	Somewhat confident	Very confident
2006	3%	28%	69%
2007	3%	27%	70%

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

RESPONSES BY REGION

	Not confident	Somewhat confident	Very confident
Americas	3%	23%	74%
Europe	2%	29%	69%
Africa	6%	24%	70%
Asia	6%	38%	57%

N How satisfied are you with the effectiveness of your company's internal audit function?

Not satisfied	Somewhat satisfied	Very satisfied
6%	52%	41%
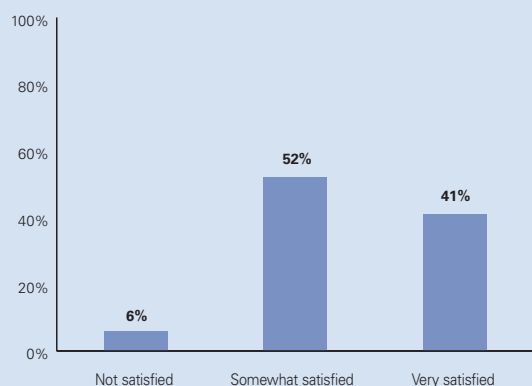
O To whom should the chief audit executive report functionally? To whom should he or she report administratively?

	Audit committee	Board of directors	CEO	CFO	Other
Report functionally	72%	11%	10%	6%	2%
Report administratively	12%	7%	40%	38%	3%

P To whom should the chief audit executive report functionally?

RESPONSES BY REGION

Audit committee: Americas 77%, Europe 62%, Africa 75%, Asia 85%
Board of directors: Americas 10%, Europe 12%, Africa 13%, Asia 9%
CEO: Americas 16%, Europe 5%, Africa 5%, Asia 4%
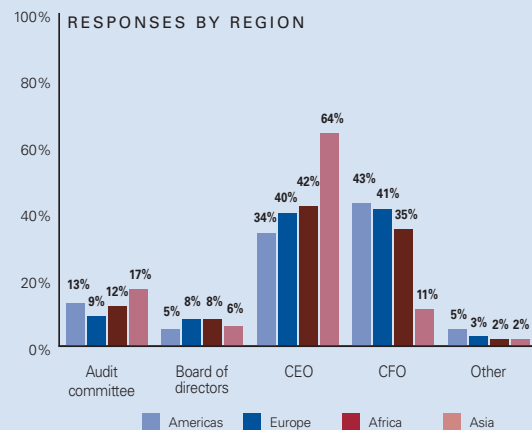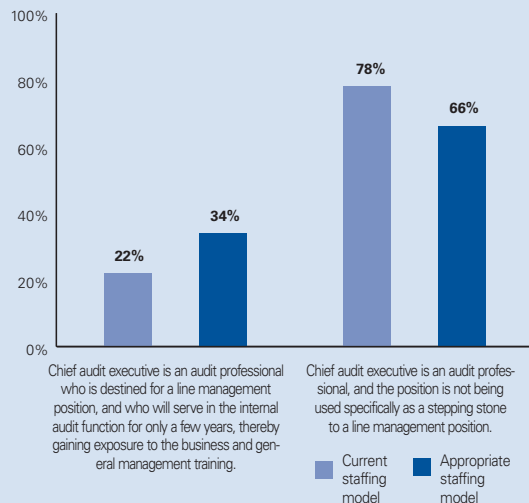CFO: Americas 5%, Europe 8%, Africa 6%, Asia 2%
Other: Americas 2%, Europe 2%, Africa 1%, Asia 0%

Legend: Americas, Europe, Africa, Asia
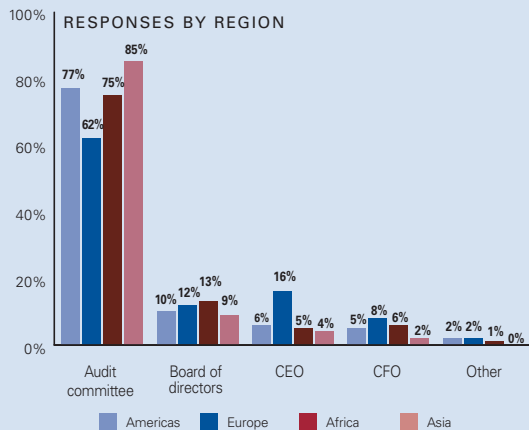
Q To whom should the chief audit executive report administratively?

RESPONSES BY REGION

Audit committee: Americas 13%, Europe 9%, Africa 12%, Asia 17%
Board of directors: Americas 5%, Europe 8%, Africa 8%, Asia 6%
CEO: Americas 34%, Europe 40%, Africa 42%, Asia 64%
CFO: Americas 43%, Europe 41%, Africa 35%, Asia 11%
Other: Americas 5%, Europe 3%, Africa 2%, Asia 2%
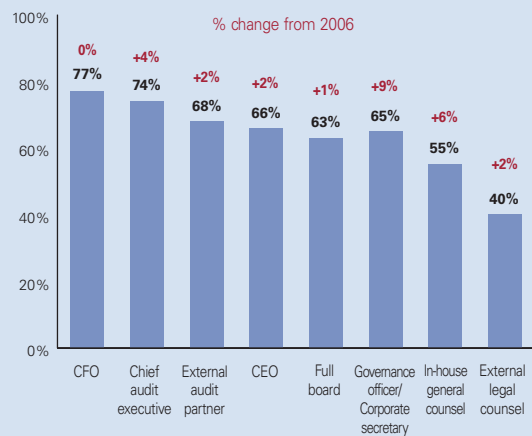
Legend: Americas, Europe, Africa, Asia

R Which of the following describes your company's internal audit staffing model for the position of chief audit executive, and which model is more appropriate for the position of chief audit executive at your company?
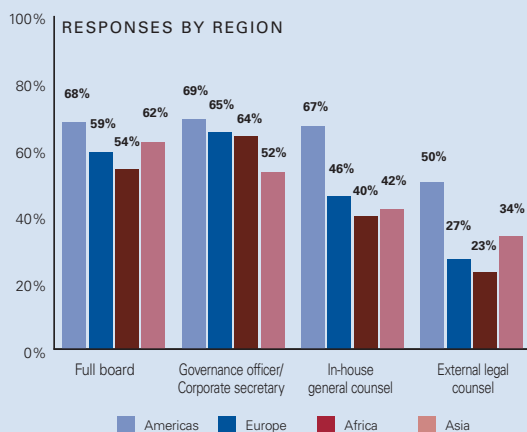
Chief audit executive is an audit professional who is destined for a line management position, and who will serve in the internal audit function for only a few years, thereby gaining exposure to the business and general management training. — Current staffing model 22%, Appropriate staffing model 34%

Chief audit executive is an audit professional, and the position is not being used specifically as a stepping stone to a line management position. — Current staffing model 78%, Appropriate staffing model 66%

Legend: Current staffing model, Appropriate staffing model
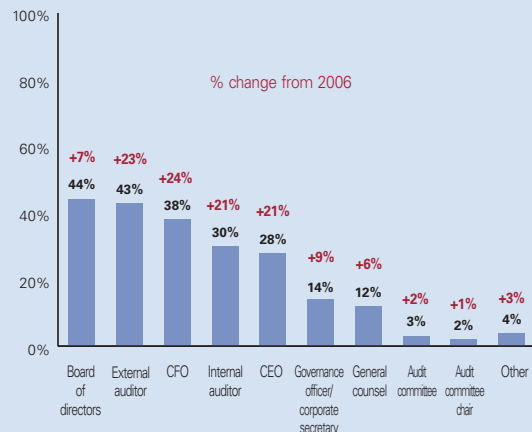
Interaction and Support

S How satisfied are you with the interaction and support the audit committee receives from each of the following? (% rating "very satisfied")

% change from 2006

CFO: 77% (0%)
Chief audit executive: 74% (+4%)
External audit partner: 68% (+2%)
CEO: 66% (+2%)
Full board: 63% (+1%)
Governance officer/Corporate secretary: 65% (+9%)
In-house general counsel: 55% (+6%)
External legal counsel: 40% (+2%)

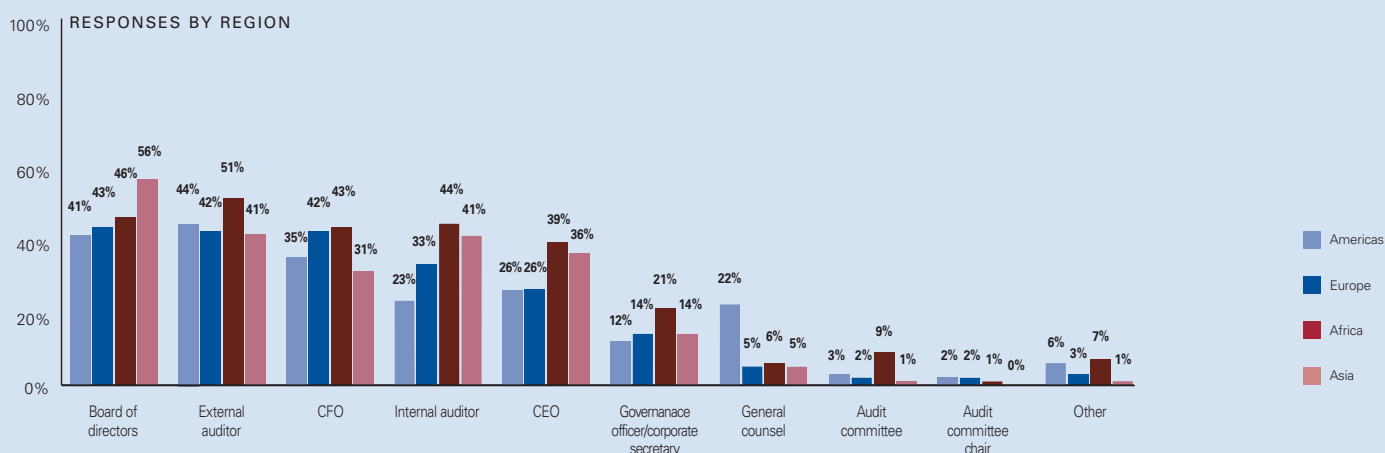**T** How satisfied are you with the interaction and support the audit committee receives from each of the following? (% rating "very satisfied")

RESPONSES BY REGION

Full board: Americas 68%, Europe 59%, Africa 54%, Asia 62%
Governance officer/Corporate secretary: Americas 69%, Europe 65%, Africa 64%, Asia 52%
In-house general counsel: Americas 67%, Europe 46%, Africa 40%, Asia 42%
External legal counsel: Americas 50%, Europe 27%, Africa 23%, Asia 34%

Legend: Americas, Europe, Africa, Asia

U Who has identified and communicated constructive suggestions to improve the audit committee's organization and activities as a result of their interaction with the audit committee? (multiple responses permitted in 2007)

% change from 2006

Board of directors: 44% (+7%)
External auditor: 43% (+23%)
CFO: 38% (+24%)
Internal auditor: 30% (+21%)
CEO: 28% (+21%)
Governance officer/corporate secretary: 14% (+9%)
General counsel: 12% (+6%)
Audit committee: 3% (+2%)
Audit committee chair: 2% (+1%)
Other: 4% (+3%)

Source for all charts: KPMG's Audit Committee Institute, 2007

V Who has identified and communicated constructive suggestions to improve the audit committee's organization and activities as a result of their interaction with the audit committee?
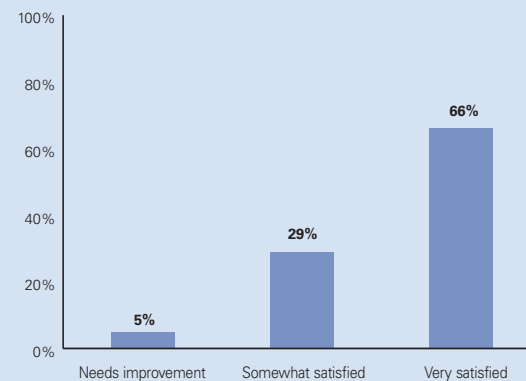
RESPONSES BY REGION

Legend: Americas, Europe, Africa, Asia

	Board of directors	External auditor	CFO	Internal auditor	CEO	Governanace officer/corporate secretary	General counsel	Audit committee	Audit committee chair	Other
Americas	41%	44%	35%	23%	26%	12%	22%	3%	2%	6%
Europe	43%	42%	42%	33%	26%	14%	5%	2%	2%	3%
Africa	46%	51%	43%	44%	39%	21%	6%	9%	1%	7%
Asia	56%	41%	31%	41%	36%	14%	5%	1%	0%	1%

External Auditor

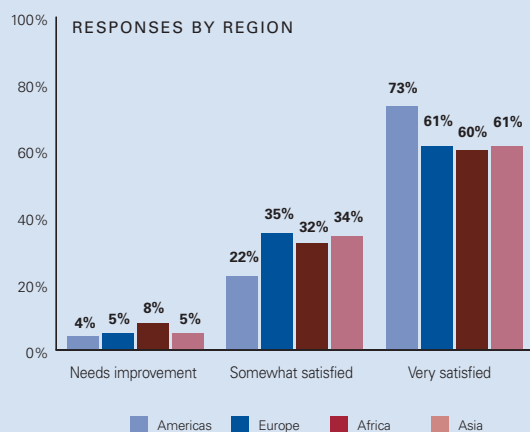W In your opinion, how productive are your audit committee's executive sessions with the following individuals?
(% rating "very productive")
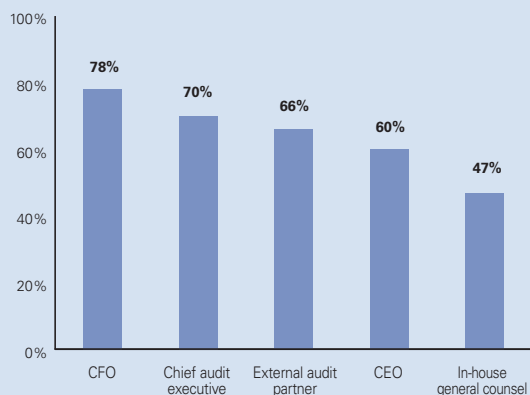
CFO	Chief audit executive	External audit partner	CEO	In-house general counsel
78%	70%	66%	60%	47%

X How satisfied are you with the communications between the audit committee and the external auditor?

Needs improvement	Somewhat satisfied	Very satisfied
5%	29%	66%

Y How satisfied are you with the communications between the audit committee and the external auditor?

RESPONSES BY REGION

	Needs improvement	Somewhat satisfied	Very satisfied
Americas	4%	22%	73%
Europe	5%	35%	61%
Africa	8%	32%	60%
Asia	5%	34%	61%

Legend: Americas, Europe, Africa, Asia

Source for all charts: KPMG's Audit Committee Institute, 2007

ABOUT KPMG'S AUDIT COMMITTEE INSTITUTES

First launched in the United States by KPMG International, KPMG's Audit Committee Institutes (ACIs) play 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	France	Northern Ireland
Austria	Germany	South Africa
Belgium	Hong Kong/ China	Spain
Brazil	India	Switzerland
Canada	Ireland	Thailand
Chile	Malaysia	United Kingdom
Colombia	Mexico	United States
Denmark	Netherlands	

To learn more about ACIs around the world, go to www.kpmgauditcommitteeinstitute.com.