

2007–2008 Audit Committee Member Survey Snapshot

KPMG LLP

Oversight of Risk Management is Top Agenda Priority for 2008

Confidence Tempered by Concerns, Risks in Current Environment

Audit committees continue to see improvement in their overall effectiveness and continue to grow more confident in their oversight of “traditional” financial reporting matters, according to the 2007–2008 Annual Audit Committee Member Survey.¹ At the same time, however, they cite room for improvement in a number of key areas—particularly oversight of risk management. Given the slowing economy, the “credit crunch” and other fallout from the subprime crisis, and general business volatility, it is little surprise that oversight of “risk” has become the number one agenda priority for audit committees.

Following are key findings from the Annual Audit Committee Member Survey—conducted by KPMG’s Audit Committee Institute (ACI) and the National Association of Corporate Directors—in which nearly 300 audit committee members of public companies shared their perspectives and priorities for the year ahead.

1. Audit committees see gains in effectiveness, but continued room for improvement.

- Nine out of every ten audit committee members say their audit committee is more effective than it was prior to the enactment of Sarbanes-Oxley—with nearly

half saying the committee is “much more effective.”

- Audit committee members, by and large, are most confident in their oversight of “traditional” financial reporting matters, including accounting judgments and estimates, and internal controls and 404 compliance.
- Many, however, say the committee’s effectiveness may be hampered—or negatively impacted—by overloaded agendas, compliance activities that at times detract from substantive discussion of issues, and inadequate communication and coordination of oversight activities with the board and other standing committees.

2. Oversight of risk management is agenda priority #1 (and IT risk isn’t far behind).

- Audit committee members identified risk management as their top oversight priority for the year ahead—and the survey results tell why: Only 28% of audit committee members are very satisfied that the audit committee understands management’s processes to identify and assess the significant business risks facing the company; and only 21% are very satisfied with the information and reports they receive from management on its risk management efforts.
- The prominence of risk management on audit committee agendas this year is likely fueled by a number of factors, including the fallout from subprime exposure and “credit crunch,” increasing awareness—particularly given the current volatility and economic conditions—of significant business risks and their potential impact on financial reporting and compliance, and heightened scrutiny of risk management and its oversight, particularly given the perceived

¹ The Audit Committee Member Survey is conducted annually by KPMG’s Audit Committee Institute and the National Association of Corporate Directors



shortcomings of risk management processes during the subprime crisis.

- These concerns about risk management were confirmed—and, in some cases, amplified—by audit committee members attending the 2008 Annual Audit Committee Issues Conference, who overwhelmingly identified “recession-related risks” as well as the quality of the company’s risk intelligence as their top two oversight “concerns” for 2008. They also expressed concern about “Capital R” risks—culture, tone, and incentives underlying the company’s risk environment: 43% said the board/audit committee needs to improve their effectiveness in addressing risks that may be driven by the company’s incentive compensation structure.
- Over half of the Annual Survey respondents expressed some concern that the audit committee has been assigned, or has assumed, too much responsibility for risk oversight (beyond financial reporting risk); and many said the communication and coordination of risk oversight activities among the audit committee, board, and other committees could be improved.
- Oversight of information technology (IT) has moved up to #3 on audit committee agendas, and IT risk is cited by survey respondents as the issue they are least effective in overseeing.

One quarter of respondents are not clear about which areas of IT risk the audit committee is responsible for, and an equal number said the board/audit committee is not effective in overseeing the company’s IT governance processes and that they are not satisfied with management’s reports on IT risks. (Boards today may not have members with a strong background in technology or a substantive understanding of IT systems.)

Audit Committee Priorities for 2008

1. Risk management
2. Accounting judgments and estimates
3. IT risk
4. Internal controls
5. Business strategy
6. Legal/regulatory compliance

3. Key oversight processes— including agendas, meetings, and coordination of oversight activities— could be improved.

- One in three audit committee members are only “somewhat satisfied” the committee spends enough time discussing issues and asking questions (versus listening to presentations). Also, pre-meeting materials could be

improved by more comparisons to industry statistics, better identification of important issues, and more timely delivery. Fewer than half said the committee allocates “white space” time to discuss issues that are on the minds of its members.

- As in 2007, the audit committee’s executive sessions with the external audit partner are still viewed as most productive, followed closely by internal audit and the CFO. (Executive sessions with the CEO and in-house general counsel, however, are viewed as less productive than in 2007—perhaps reflecting increased challenges posed by the current economic environment and related pressures on oversight and governance.)
- Nearly half say committee reports to the full board—which most audit committees say they rely on to stay apprised of oversight activities of other standing committees—are high quality only some of the time, or are “boilerplate” and compliance-oriented. More than half are not fully confident that the standing committees charged with primary oversight of the company’s significant business risks are sensitive to financial reporting implications of the risks they oversee.



4. Ensuring that the CFO and financial management team, including internal audit, have the resources, skills, and focus they need is a key area of concern.

- One third said the company's succession plans for the CFO—as well as for other key finance staff—need improvement. (Annual Issues Conference attendees said the skills, resources, and focus of the CFO and internal audit function are another top concern in 2008.)
- Fully one in five Annual Survey respondents said they are only “somewhat confident” that the company's chief audit executive would report controversial issues involving senior management to the audit committee. And one in five attending the 2008 Annual Audit Committee Issues Conference said the internal audit function does not deliver the value to the company that it should, while a full 25% said there is no “clear, shared vision” of internal audit's role.
- Audit committee satisfaction with its interaction and communication with management's disclosure committee increased markedly this year—up ten points, with 52% now “very satisfied.” A full 75% said the audit committee is very effective in resolving disagreements between management and the external auditor (and 24% said the committee is “somewhat effective”).

About the Survey

The 3rd Annual Audit Committee Member Survey was conducted by KPMG's Audit Committee Institute (ACI) and the National Association of Corporate Directors between November 2007 and February 2008. The results are based on responses of 281 audit committee members, who were asked to respond based on the largest U.S. public company (by revenue) for which they serve as an audit committee member. Detailed results of the survey will be published by ACI in May/June.

For more information, contact KPMG's Audit Committee Institute at auditcommittee@kpmg.com or 1-877-KPMG-ACI, or visit ACI online at www.auditcommitteeinstitute@kpmg.com.

5. Ongoing education and self-evaluation are still challenges.

- While nearly 50% of audit committee members say they are very satisfied with management's efforts to educate the audit committee about significant financial reporting and accounting developments affecting the company, an equal number cite room for improvement.
- More than half said their company does not have an “on-boarding” program for new audit committee members; and 77% said their company encourages them to attend external education programs.
- While most audit committee members expressed satisfaction with their self-evaluation approach (most often accomplished with a questionnaire), only 26% said they are “very satisfied” with their approach. More than half said evaluating individual members' performance would improve the committee's overall effectiveness; yet only one in three said they currently do so, or are considering it.
- More than 60% said their audit committee routinely solicits feedback on its performance from internal and external auditors.

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