



Audit Committee Institute

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Audit Committee Institute's Disclosure Survey 2008

Results and Main Messages



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Introduction

Welcome to the ACI's corporate governance disclosure survey. The ACI has assessed the corporate governance statements of all the companies within the FTSE 100, focusing on the following areas:

- types of committees;
- the "financial expert";
- internal control statements; and
- board performance evaluation.

This publication presents the results from the ACI's research, drawing out the main messages from the corporate governance disclosures of FTSE 100 companies.

If you require further information, the ACI web site (www.kpmg.co.uk/aci/index.cfm) provides additional information, including many other useful publications, surveys and information.



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Types of Committees

All companies in the FTSE 100 have an audit, remuneration and nomination committee. Seven Audit committees have the title "Audit and Risk Committee". 52 other uniquely named committees were disclosed within the FTSE 100. The most common is "CSR" with 19 disclosed in the FTSE 100.

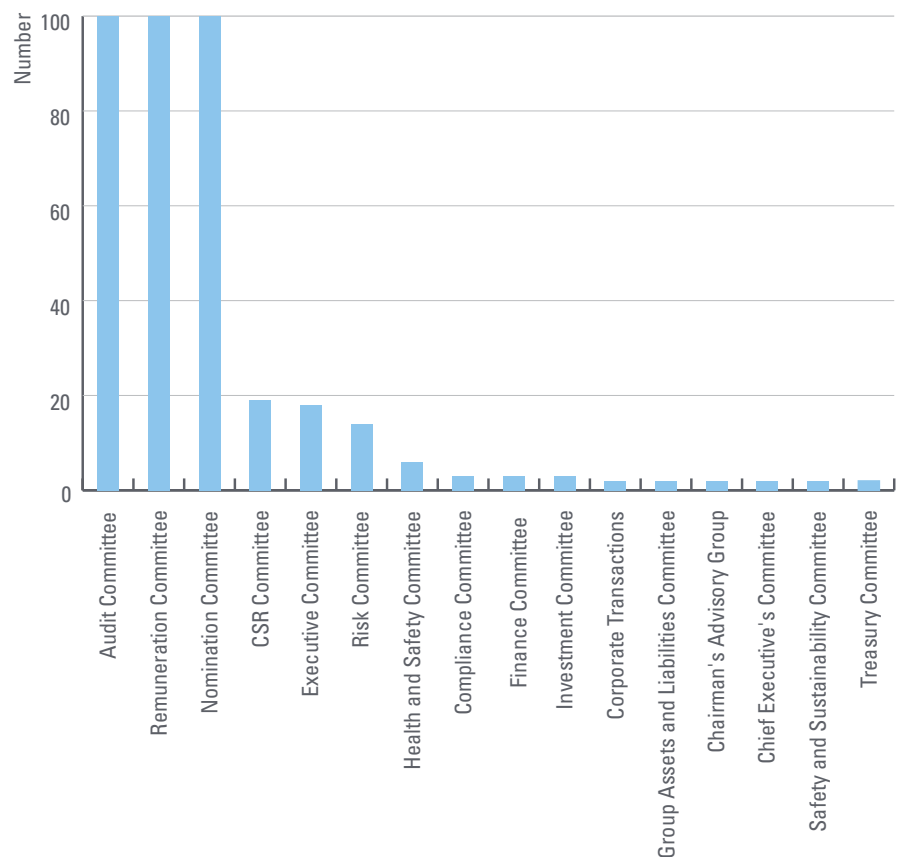
Many of the unique committees are industry-specific, with wide ranging functions from "Insurance compliance" to "Ethics and environment" to "Science committee."

The graph on this page shows the 16 most common committees within the FTSE 100.

18 FTSE 100 chairmen sit on the remuneration committee and one chairman sits on both the remuneration and audit committees. However, none are the chairmen of these committees. With nearly a fifth of the FTSE 100 chairmen sitting on the remuneration committee, it seems companies are taking advantage of the relaxations introduced in the June 2006 combined code.

For the 14 specific risk committees identified within the FTSE 100, 10 of these have executive members and four are entirely non-executive. Paragraph 4.5 of the Smith guidance on audit committees states that the audit committee should review the system of internal control, unless addressed by a board risk committee comprised of independent members or by the board itself.

Figure 1: Most common 16 committees within the FTSE 100



For the **14 specific risk committees** identified within the FTSE 100, **10** of these have **executive members** and **4** are entirely **non-executive**.

Financial Expert

Of the 100 annual reports reviewed, 78 specifically identify an individual with “recent and relevant financial experience”. Of these, four companies stated that all members of the audit committee have such experience. Of the 22 that do not specifically identify an individual, three stated that “at least one member of the audit committee” has such experience.

Only three companies cited this as a non-compliance with the combined code. These companies specifically referred to Code provision C.3.1 within their compliance statements, stating that they had not identified an individual with “recent and relevant” financial experience. We can assume that 97 companies are in compliance with this provision of the code.

44 companies disclosed the qualifications of the “financial expert” either within the audit committee report or within the Board members’ biographies. 80 percent of these are identified as chartered accountants. Of the 78 that have identified an individual, 71 are the chairmen of the audit committee.

Three companies stated that they relied on the collective experience of the committee as a whole.

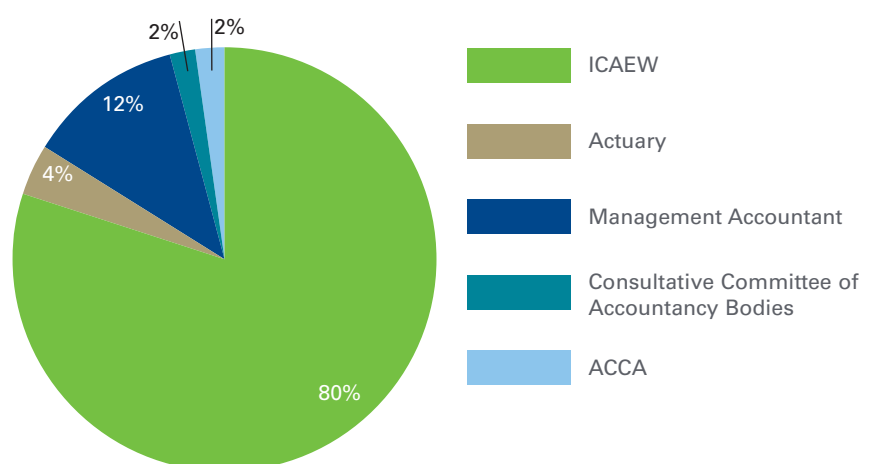
The advantages of “collective” audit committee financial experience might be:

- the audit committee has a wider pool of talent and experience in finance
- there is less reliance on a single individual

Conversely,

- there is no one individual of the audit committee with a thorough understanding of all financial areas, and therefore there may be misunderstandings between the auditors and audit committee over the finer points of the audit and financial control environment.

Figure 2: Identified financial expert: qualifications



Internal Control Statements

All 100 companies surveyed acknowledged the board’s responsibility for the company’s system of internal control and have conducted a review of internal control effectiveness during the period.

45 companies specifically disclosed that there are systems in place to report significant failings and weaknesses to the Board. Only one company disclosed a “significant” weakness during the period.

54 companies do not mention whether actions have or are being taken to remedy significant failings identified. 41 companies do mention such actions have or are being taken, but with no further detail given. Five companies provided further disclosure into how these actions are applied should a weakness be detected.



45 companies specifically disclosed that there are systems in place to report **significant failings** and **weaknesses** to the **Board**.

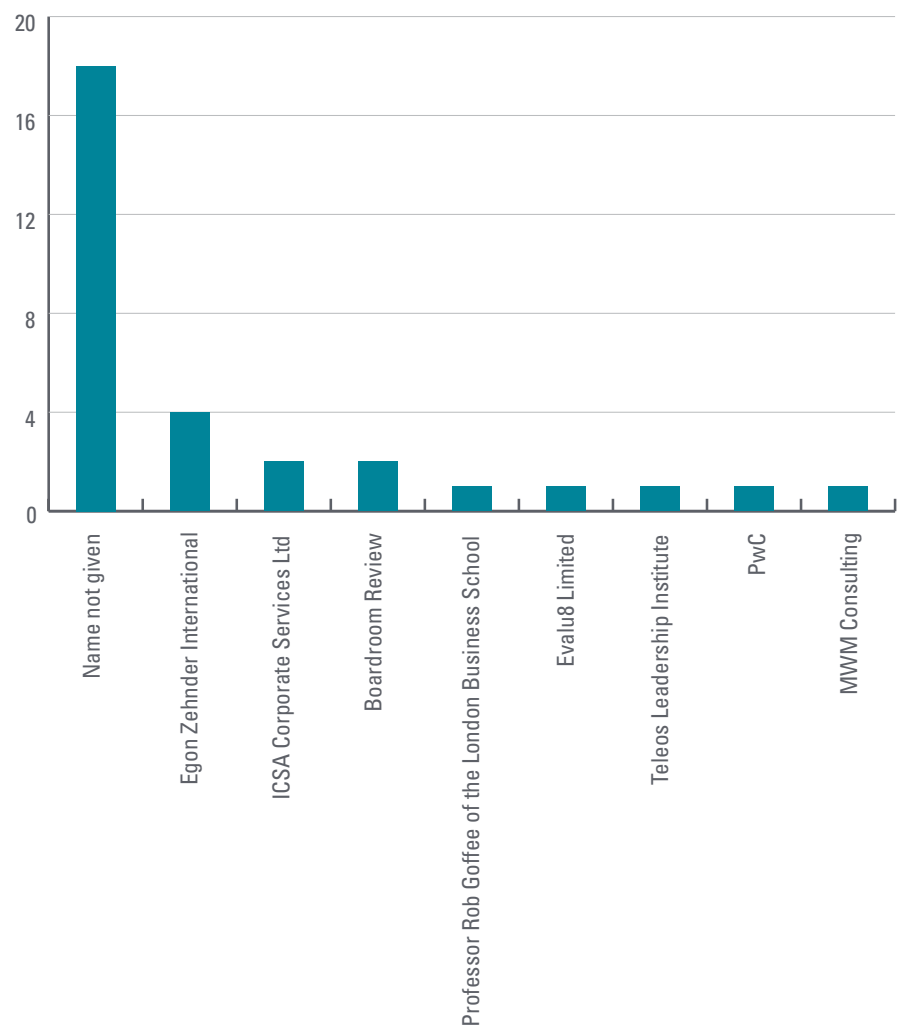
Board Performance Evaluation

Combined code provision A.6.1 states “The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors”

The importance of board, committee and director performance evaluation is clear within the FTSE 100, with nearly a third of companies (31) disclosing that they had employed the services of an external advisor to facilitate the Board performance evaluation during the period. The majority of these companies did not disclose which advisor provided this service. Of the 13 companies that did provide such information, Egon Zehnder International was the most frequently identified consultant.

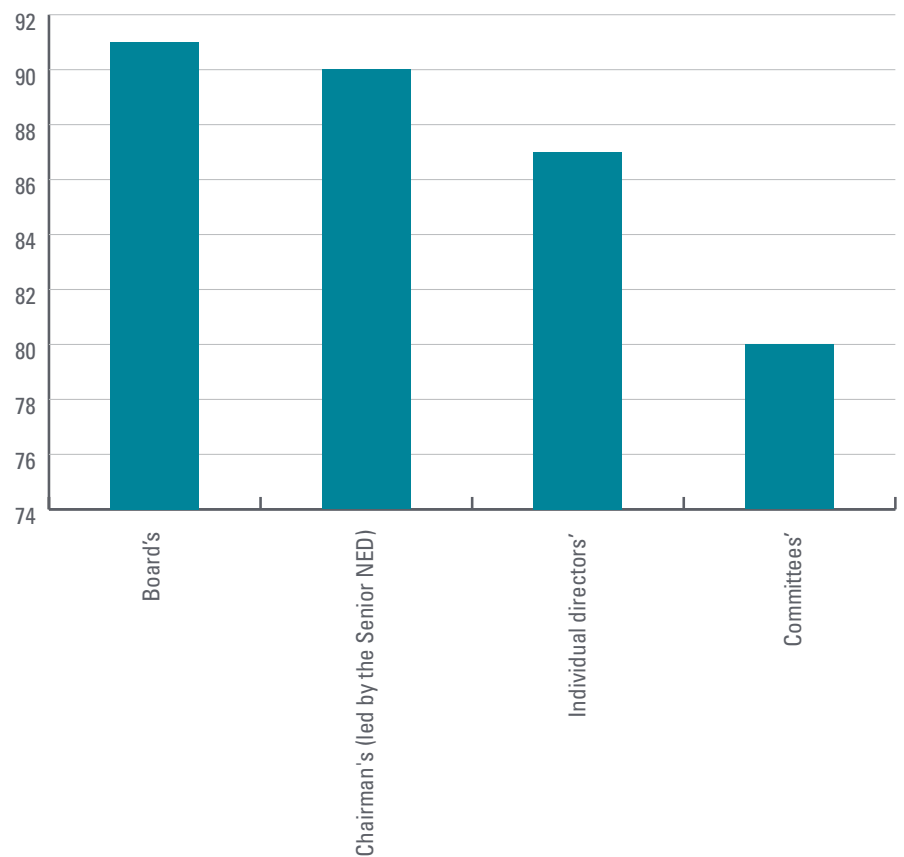
Nine of the FTSE 100 companies did not disclose that they conducted a performance evaluation during the period. Four of these companies identified this as non-compliance with code provision A.6.1. The remainder did not mention this as a non compliance despite appearing to fall foul of provision A.6.1 which requires the board to state how the performance evaluation has been conducted.

Figure 3: External consultants used to facilitate Board performance evaluation for the FTSE 100



Of the 91 companies that did refer to board evaluation, the following graph shows how many specifically referred to appraisal of the various elements of the Board (the full board, chairman, directors and committees). 76 companies disclosed that they assessed all elements of the Board. The ACI's recent global survey completed by audit committee members highlights the lack of performance assessment with only 22 percent of UK respondents stating that the audit committee individual members did undergo a performance assessment on a regular basis. Over half of AC member respondents in the UK answered that such a performance assessment would "improve somewhat" the overall effectiveness of the audit committee.

Figure 4: Performance evaluation of the FTSE 100



Over half of AC member **respondents** to the ACI's survey in the UK answered that such a performance assessment would **"improve somewhat"** the overall effectiveness of the audit committee.

About the Audit Committee Institute

The Audit Committee Institute (ACI) was created in 1999 to serve audit committee members and help them to adapt to their changing role. Sponsored by KPMG, the ACI exists to help audit committee members enhance their awareness, commitment, and ability to implement effective audit committee processes.

For more information on the work of the ACI please click on our web site www.kpmg.co.uk/kpmg/aci/index.cfm

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Designed and produced by KPMG LLP (UK)'s Design Services

Publication name: ACI Disclosure Survey 2008

Publication number: RRD-113782

Publication date: December 2008