



INSTITUTE
OF CORPORATE
DIRECTORS

AUDIT COMMITTEE INSTITUTE

The Audit Committee Journey Looking Back, Thinking Ahead

2005–06 Public Company Audit Committee Member Survey

KPMG IN CANADA

Contents

Introduction	1
Methodology	2
Findings and observations	3
Specific findings	3
Overall effectiveness	4
Major areas of oversight	5
Oversight processes	12
Relationships and communications	16
How does your audit committee compare?	18

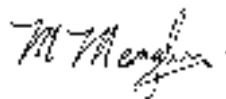
Introduction

Gauging an audit committee’s “effectiveness” is no simple matter. A financial reporting error or discrepancy may have little to do with the audit committee’s abilities; conversely, the most sophisticated oversight policies and processes—applied with the highest integrity—are no guarantee that a problem won’t occur. Ultimately, shareholders, regulators, the courts—and audit committees and their full boards—must measure a committee’s effectiveness by the thoroughness, soundness and rigour of its policies, processes and activities.

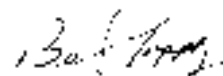
Almost two-thirds of the audit committee members we polled in this national survey rate their audit committees as “very effective,” and the same proportion said their audit committees had become “more effective” in the past year—both very promising findings for investors and the corporate governance community. That said, many audit committee members identified room for improvement in several critical areas of oversight—including internal control over financial reporting, risk management, and employees feeling comfortable to report questionable behaviour.

Basically, many survey respondents appear to feel their audit committees have adapted well—and rapidly—to a dramatically new corporate governance environment; yet, as our survey results suggest, their journey continues.

By providing a snapshot of today’s audit committee environment, our hope is that these survey findings will help audit committees—working with their boards, management, auditors and other participants in the financial reporting process—create a road map for refining their activities and approaches and ensuring a thorough, sound and rigorous process going forward.



Michael Meagher
Executive Director
Audit Committee Institute



Beverly Topping
President and CEO
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Methodology

Between December 2005 and January 2006, we invited audit committee members of public companies across industries and across Canada to answer more than 90 questions about their audit committees. From the broad (How effective is your audit committee?) to the narrow (What would most improve the audit committee's pre-meeting materials?), these queries were all aimed at one thing: identifying the biggest challenges and concerns affecting today's audit committees.

More than 100 audit committee directors who serve on the audit committee of at least one Canadian public company participated in the survey. They were asked to answer the survey questions based on the largest public company (by revenue) for which they serve as an audit committee member.

Findings and observations

By and large, the respondents to this survey rate their audit committees as very effective—and they feel their committees have become even more effective over the past year. Most are confident in their ability to ensure the independence of the external auditor from management, and most believe their oversight activities result in the appropriate level of knowledge and interaction without taking on the role of management.

Still, many audit committee members cite room for improvement in substantive areas of oversight (such as accounting judgments and estimates, financial reporting implications of taxes, internal control over financial reporting, whistleblower procedures, and risk management), key oversight processes (such as agenda setting and allocation of meeting time to discussion and questions), and the support they receive from management and auditors.

These survey findings suggest that many audit committees will continue to focus on processes, activities, and approaches that can further enhance their effectiveness, including agenda setting, audit committee self-evaluation and educational programs, as well as effective communications and constructive relationships with others in the financial reporting process.

Specific findings

This report outlines the survey findings, beginning with the overall effectiveness of audit committees, and then focussing on major areas of audit committee oversight, oversight processes, and relationships and communication with various participants in the financial reporting process. When respondents' views appear to differ significantly by size of company, we have noted those differences.

Overall effectiveness

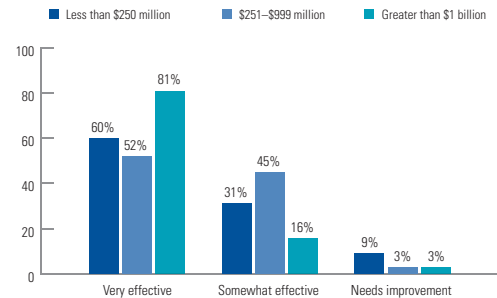
Overall, almost two-thirds of the audit committee members who responded rated their committees as being very effective. Respondents from companies with revenues over \$1 billion rated their committees more highly than respondents serving smaller companies. [Q 1]

More than two-thirds of the respondents also indicated that they felt their audit committees had become more effective over the past year. [Q 2]

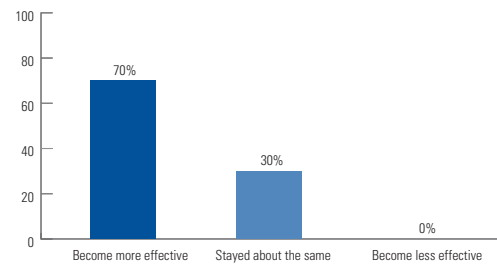
One critical element of an audit committee's effectiveness is its ability to provide proactive oversight without infringing on management's responsibility. Survey participants were asked whether they believed their committee's activities resulted in the appropriate level of knowledge and interaction implicit in the concept of "oversight," without taking on the role of management. Most respondents felt that their audit committees have maintained an appropriate oversight role and have not assumed the role of management. [Q 3]. A small proportion of respondents indicated that their committees needed to increase their activities to fulfill their oversight role.

The audit committee functions, of course, on behalf of the board of directors, and the board can affect the audit committee's performance. Almost two-thirds of the respondents were very satisfied that their board of directors is sufficiently engaged in considering the audit committee's membership and its effectiveness. [Q 4]

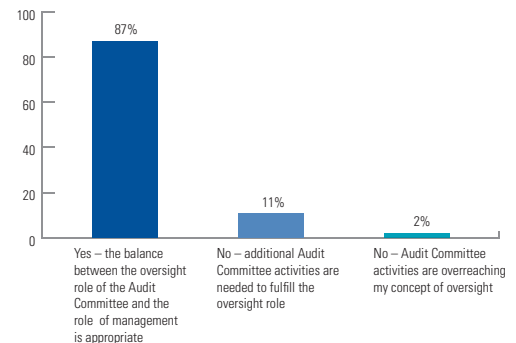
Q 1: How would you rate the overall effectiveness of your audit committee?



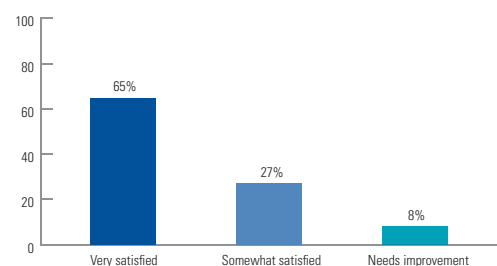
Q 2: In the past year, how would you say the effectiveness of your audit committee has changed?



Q 3: In your opinion, do your audit committee's activities result in the appropriate level of knowledge and interaction implicit in the concept of "oversight," without taking on the role of management?



Q 4: How satisfied are you that your board of directors is sufficiently engaged in the consideration of the audit committee's membership and effectiveness?



Major areas of oversight

Overseeing financial reporting

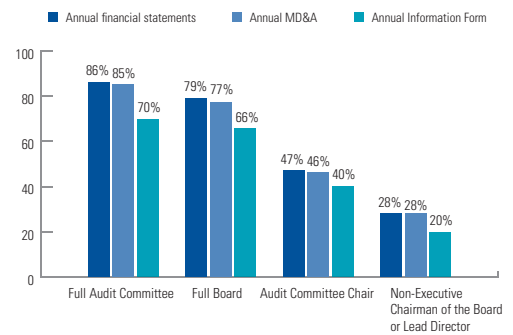
We asked who reviews various financial documents before they are issued—the full audit committee, full board, audit committee chair or non-executive chair / lead director. Respondents indicated that the full audit committee most often conducted reviews of the quarterly and annual financial statements and MD&A as well as earnings press releases before issuance. Fewer respondents said their audit committees also review the company’s Annual Information Form before it is issued. [Q 5a]

In less than half the companies, the audit committee chair also reviews these financial documents, while in about a quarter, the non-executive board chair or lead director also performs a review. [Q 5b]

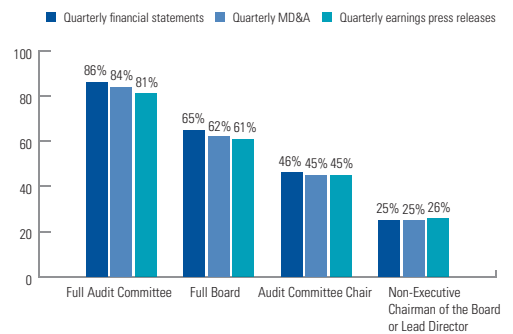
For roughly eight of ten companies, respondents indicated that the full board also reviews the annual financial statements and MD&A. Fewer respondents (approximately six of ten) said that the board reviews the AIF and the quarterly financial statements, MD&A and press releases.

Q 5: Which individual or governance body reviews the following financial documents prior to their issuance? (Multiple choices permitted)

a) Annual documents



b) Quarterly documents



The survey asked respondents how satisfied they were with specific aspects of their audit committee's financial reporting oversight. Their satisfaction varied, with significant differences by size of company.

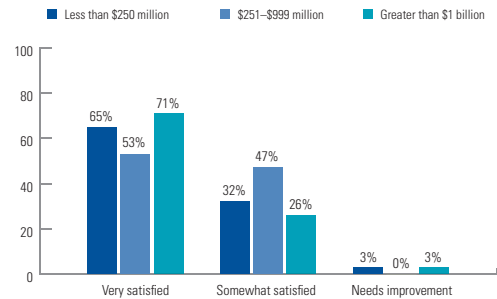
For example, almost half the respondents from companies with revenues between \$250 million and \$1 billion said they were only somewhat satisfied with the committee's oversight of management's accounting judgments and estimates. [Q 6]

Many audit committees indicated that they have asked outside service providers for advice concerning the application of accounting principles. Respondents from companies with revenues from \$250 million to \$1 billion sought this advice most often—57 percent versus 42 percent of smaller and larger companies.

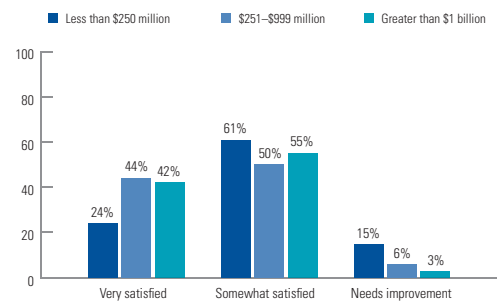
Overseeing the financial reporting implications of taxes appears to be another area in which many audit committees feel they would like to do better. In this case, respondents from companies with revenues less than \$250 million appear to feel least satisfied with their current oversight. [Q 7]

In answering a subsequent question, most respondents from companies in this size range also indicated that the tax director almost never attends their committee meetings. For companies with revenues over \$1 billion, about half the respondents suggested that the tax director occasionally attends their committee meetings.

Q 6: How satisfied are you with the audit committee's oversight of management's accounting judgments and estimates?



Q 7: How satisfied are you with the audit committee's oversight of the financial reporting implications of taxes?



Overseeing internal control

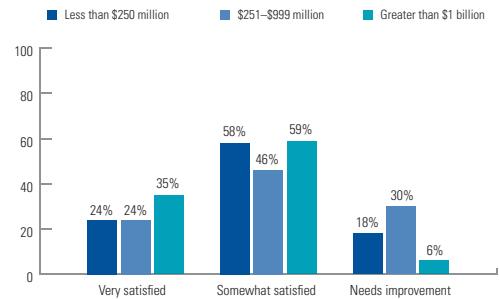
Overall, more than 70 percent of audit committee respondents are not fully satisfied with their oversight of internal control over financial reporting, and about one-third of those respondents definitely thought that their oversight needed improvement. [Q 8]

At the time of this survey, although Canadian SEC registrants were subject to the requirements of the *Sarbanes-Oxley Act*, the CSA had proposed, but not fully defined, the Canadian rules on internal control over financial reporting. Relatively few Canadian audit committees had begun to think seriously about their oversight of internal control.

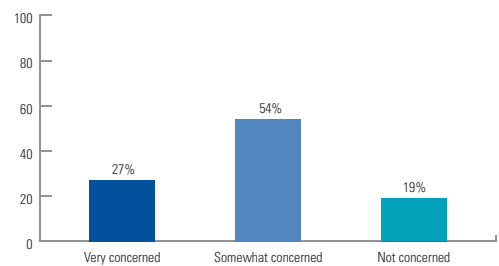
Perhaps reflecting their discomfort, internal control over financial reporting was another area in which audit committees had been seeking advice from outside service providers. In this area, large companies appear to have sought advice more than smaller ones—roughly half of companies over \$250 million, compared with one-third of companies under that threshold.

Respondents also indicated they were concerned that essential compliance activities—including Section 404 of the *Sarbanes-Oxley Act* (S-O 404)—may detract from substantial discussions of company issues and adversely affect the audit committee’s overall effectiveness by requiring an inordinate amount of time and attention. [Q 9]

Q 8: How satisfied are you with the audit committee’s oversight of internal control over financial reporting?



Q 9: How concerned are you that “compliance activities” detract from substantial discussion concerning company issues, resulting in a negative impact on the overall effectiveness of the audit committee?



Overseeing whistleblower procedures

Canadian audit committees are responsible for establishing procedures for dealing with complaints, potentially made confidentially or anonymously by employees, regarding accounting, internal accounting controls or auditing matters.

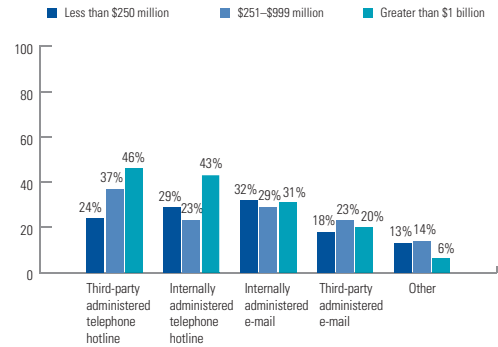
Respondents indicated that companies are using a variety of approaches to capture complaints about such matters—larger companies appear to use hotlines more than smaller ones. [Q 10]

Audit committees receive information on such complaints from different sources. The majority (60 percent) of respondents indicated that their audit committees receive, unfiltered, all whistleblower communications. A smaller group of respondents said their audit committee receives any whistleblower communications from internal sources other than the CEO or CFO—general counsel, compliance officer, internal auditor or risk officer. The remaining respondents suggest that their audit committee receives this information from one of four sources—external parties (such as external legal counsel or a third-party service provider who is not a lawyer), the CEO, CFO or another party. [Q 11]

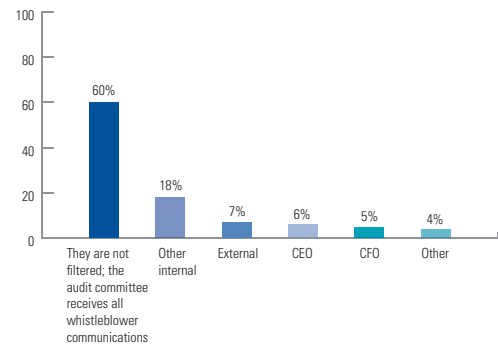
Procedures appear to differ significantly by size of company—very different people hold primary responsibility for coordinating the evaluation, investigation and resolution of whistleblower communications.

For companies with revenues less than \$250 million, the audit committee or its chair and external legal counsel were the choices of half the respondents. For the next group of companies (revenues between \$250 million and \$1 billion), over two-thirds of the respondents indicated general counsel or the audit committee or its chair. For the largest companies (revenues over \$1 billion), respondents noted a multiplicity of choices, with general counsel highlighted more frequently than the other options. [Q 12]

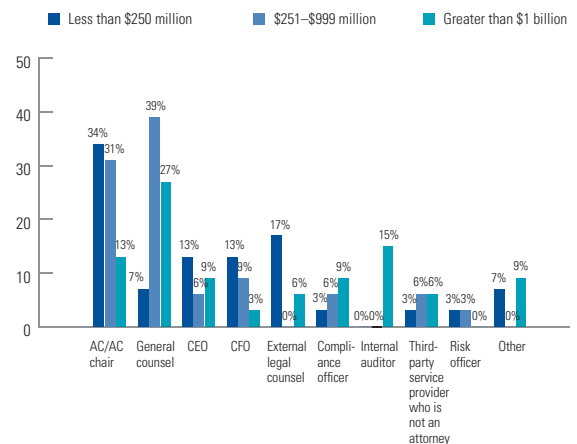
Q 10: What approaches does your company use to capture confidential, anonymous complaints regarding accounting, internal accounting controls or auditing matters? (Multiple choices permitted)



Q 11: Who has primary responsibility for evaluating which whistleblower communications are sent to the audit committee?



Q 12: Who has primary responsibility for coordinating the evaluation, investigation and resolution of whistleblower communications?



Respondents do not appear, however, to be assured that their whistleblower process is achieving the desired results. Most respondents (87 percent overall) were either somewhat confident or not confident that employees are comfortable reporting questionable behaviour, i.e., being a “whistleblower.” [Q 13]

Some audit committees may be acting to reduce their discomfort. In answering another survey question, just under half the respondents indicated that their audit committees had asked an outside service provider for advice on the company’s compliance, ethics or whistleblower communications programs. In this area, large companies appear to have sought advice more than smaller ones—half the companies with revenues over \$250 million, compared with one-third of companies under \$250 million.

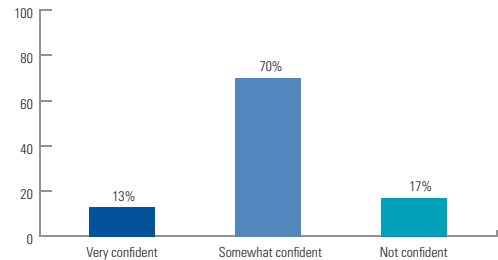
Overseeing the external auditor

Respondents suggest that Canadian audit committees are effective in helping ensure the external auditor’s independence from management and accountability to the audit committee—80 percent saw their audit committees as very effective, while only 2 percent felt their process needed improvement.

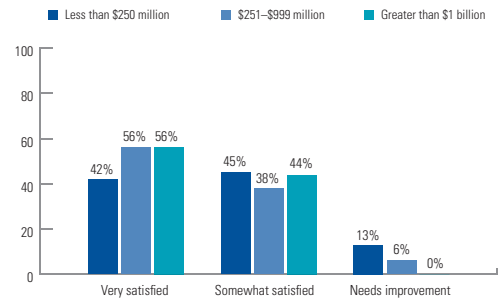
Respondents are also satisfied—but less strongly—with how their audit committees are evaluating the external auditor’s performance. In this question, just over half the respondents indicated they were very satisfied. [Q 14]

In many companies, compensation for the external auditor does not appear, however, to be the domain of the audit committee. For approximately half the companies, respondents indicated that the CFO or CEO has the most influence over auditor compensation. [Q 15]

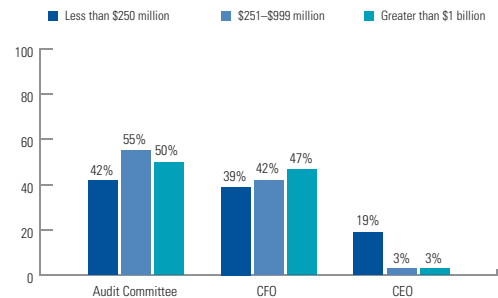
Q 13: How confident are you that employees feel comfortable reporting behaviour they believe is questionable?



Q 14: How satisfied are you with the audit committee’s approach to evaluating the performance of the external auditor?



Q 15: In your opinion, who has the most influence over the compensation of the external auditor?



Overseeing risk management

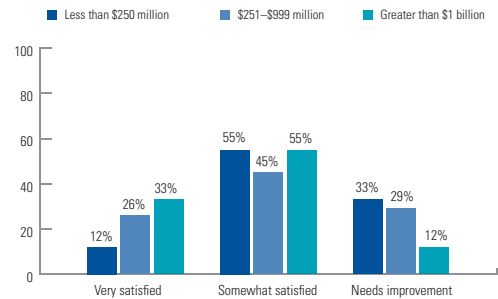
On average, only one in four respondents indicated they are very satisfied with the board’s or audit committee’s oversight of risk management, and respondents from companies with revenues over \$1 billion appear to be more generally satisfied than those from smaller companies. [Q 16]

Respondents were only slightly more positive about the processes that management uses to identify and manage its risks. Again, the respondents for smaller companies appear to be significantly less satisfied than their fellow directors on audit committees of larger companies. [Q 17]

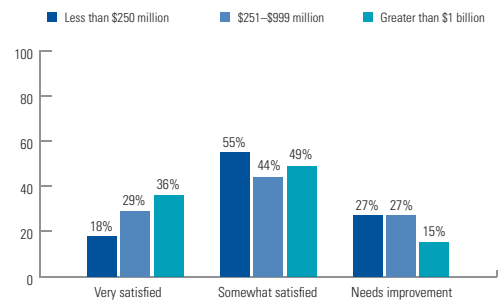
Unlike the New York Stock Exchange, Canadian regulations do not specifically require audit committees to be responsible for discussing guidelines or policies to govern the process for risk assessment and risk management.

Respondents were asked who currently takes the lead in helping to ensure that the board or its committees assumed oversight responsibilities for all areas of enterprise risk. Just over half the respondents said their full board has this responsibility, however, a significant minority indicated that the responsibility has not been clearly defined in their companies. [Q 18]

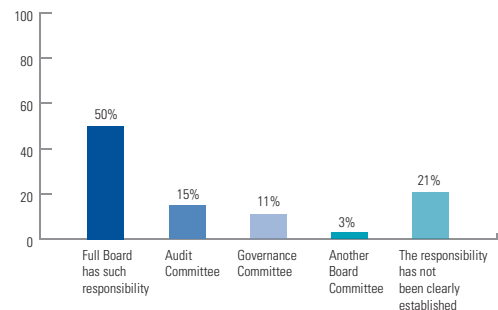
Q 16: How satisfied are you with the board and/or committee oversight of enterprise risk management?



Q 17: How satisfied are you with management’s process to identify and appropriately address all areas of enterprise risk, including financial and non-financial risk?



Q 18: Who takes the lead in helping to ensure that oversight responsibilities for all areas of enterprise risk are assigned to board committees or retained by the full board?



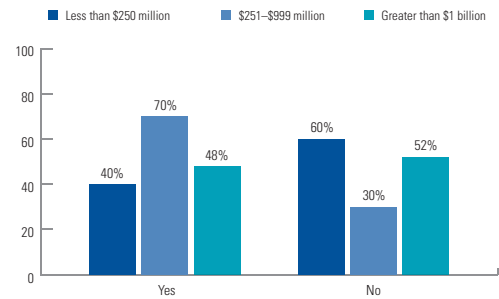
The survey respondents did not have a consistent view on whether the audit committee should or should not have primary responsibility for oversight of the company’s entire risk management program. More respondents from companies in our middle size range, between \$250 million and \$1 billion, appeared to favour the audit committee’s assuming this responsibility. [Q 19]

In answering another survey question, less than one-quarter of the respondents indicated that their audit committees had asked an outside service provider for advice on the company’s risk management policies and practices.

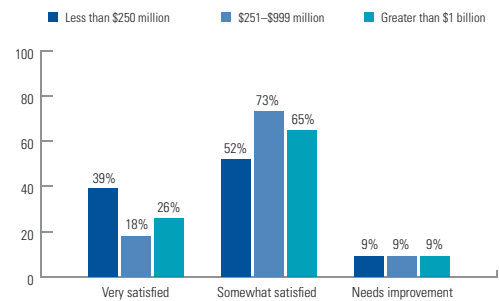
Overseeing specific financial reporting risks

As part of their financial reporting oversight responsibilities, audit committees do consider specific risks such as fraud risk or information security. The responses to questions about the audit committee’s oversight of these risk areas suggest that many committees still have work to do—on average, only one in four respondents indicated that they are very satisfied with their committee’s oversight of both these risk areas. [Q 20 & 21]

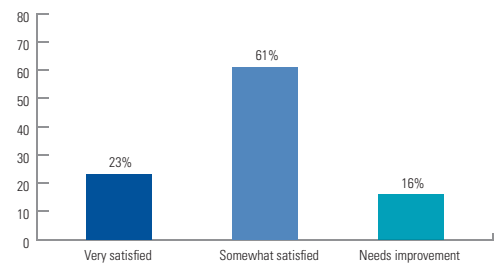
Q 19: Do you believe the audit committee should be primarily responsible for the oversight of enterprise risk management?



Q 20: How satisfied are you with the audit committee’s oversight of fraud risk?



Q 21: How satisfied are you with the audit committee’s oversight of information security?



Oversight processes

Agenda setting and issue prioritization

Approximately one in three audit committee members responding to this survey feel that the approach used to establish the audit committee's work plan/agenda can be improved. [Q 22]

The majority of respondents indicated that the CFO has the primary responsibility for helping the audit committee chair to establish the company's agenda. A significant minority of respondents from smaller companies (under \$100 million in revenue) said the CEO or external audit partner provides that assistance. [Q 23]

As noted earlier, most respondents expressed concerns that over-emphasis on compliance activities may detract from the overall effectiveness of the audit committee. Audit committees should think about this potential concern as they plan their agendas.

Audit committee meetings—pre-meeting materials

Respondents said that their pre-audit committee materials are generally of good quality, but a larger proportion of respondents from the largest companies (over \$1 billion in revenues) rated their materials as high quality. [Q 24]

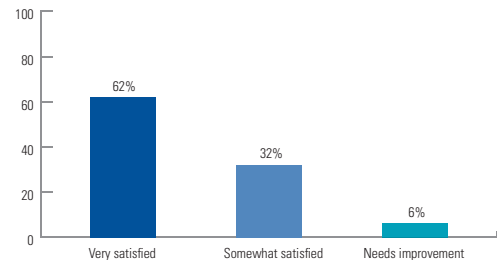
Pre-audit committee materials appear to be distributed on a timely basis—slightly more than one-third of respondents noted receipt two to three days before the meeting, another third received materials three to five days ahead, and a quarter indicated a five- to seven-day window. Larger companies (over \$500 million in revenue) tended to distribute their materials earlier.

Despite their generally positive ratings on the quality of pre-audit committee meeting materials, respondents clearly indicated some areas in which they see room for improvement. [Q 25]

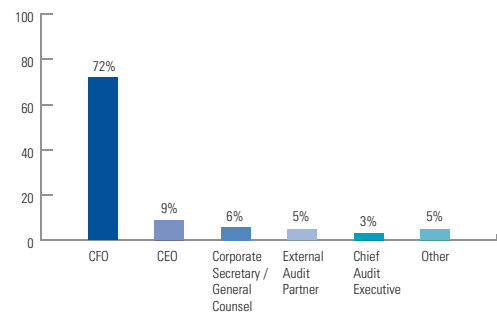
In particular, almost half the respondents noted two major areas to improve:

- better identification of important issues
- more comparison to industry statistics.

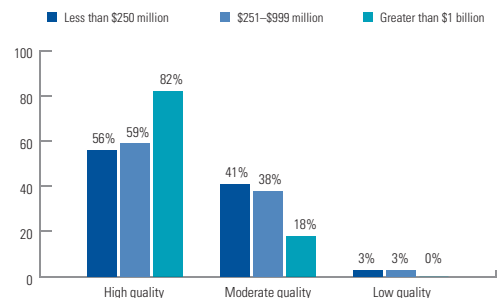
Q 22: How satisfied are you with the approach used to establish the audit committee's agenda/work plan?



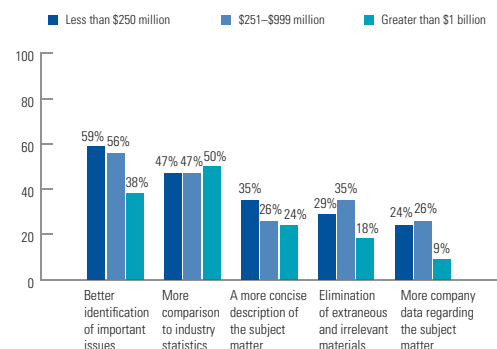
Q 23: Who has primary responsibility for supporting the audit committee chair in establishing the audit committee's agenda?



Q 24: How would you rate the quality of the pre-audit committee meeting materials provided to your audit committee?



Q 25: What improvements would you most like to see in the pre-audit committee meeting materials? (Multiple selections permitted)



Audit committee meetings—attendance by others

The practice of having other individuals attend audit committee meetings appears to vary with the person’s position.

CFOs are definitely the most frequent participants—99 percent of respondents indicate the CFO almost always attends their committee’s meetings.

On average, three of four respondents noted that the external audit partner is the second most frequent participant, but audit partners appear to participate much more often at the largest companies and less often at companies with revenues less than \$250 million. [Q 26]

The CEO also participates relatively frequently—two-thirds of respondents said the CEO almost always attended, while one in four suggested occasional attendance.

The controller appears to attend committee meetings regularly—especially in larger companies. [Q 27]

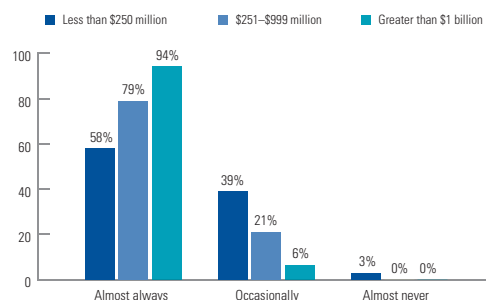
For companies with an internal audit function, over half the respondents suggested the chief internal auditor almost always attends their meetings, while almost a quarter said attendance was either occasionally or almost never.

Other independent directors participate in audit committee meetings much less often—only 10 percent of respondents said they almost always attend, while almost half noted only occasional attendance.

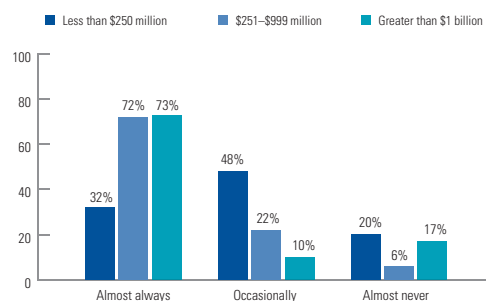
Larger companies likely have in-house legal counsel more often than smaller ones, and over half of the respondents from companies with this in-house capability said that this professional almost always attends their meetings.

The tax director appears to attend committee meetings least frequently, but having this professional participate even occasionally is more evident at companies with more than \$250 million in revenue.

Q 26: How often does the external audit partner attend audit committee meetings?



Q 27: How often does the controller attend audit committee meetings?



Audit committee meetings— *in camera* sessions

Respondents’ views also vary on how productive their audit committee’s *in camera* or executive sessions are with different executives.

Executive sessions with the CFO were reported to be most consistently productive—on average nine of ten respondents indicated their sessions with the CFO were productive. More surprising, perhaps, were the respondents whose audit committees do not hold *in camera* sessions with the CFO on a regular basis. [Q 28]

Respondents reported *in camera* sessions with the CEO to be less consistently productive—on average about half noted very productive and slightly more than a quarter (especially companies in the middle size range) rated these sessions somewhat productive. Roughly one in five respondents said they do not hold such sessions on a regular basis. [Q 29]

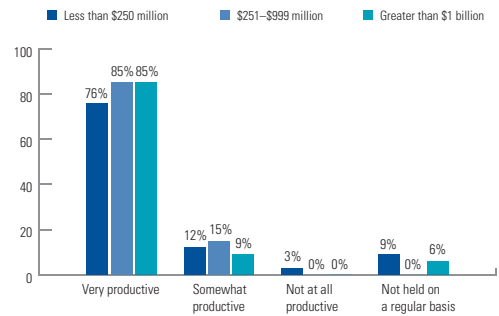
When asked about their *in camera* sessions with the external audit partner, respondents from larger companies appear more likely to be very satisfied. Respondents from smaller companies suggest that their meetings are less productive or not held on a regular basis. [Q 30]

Company size also affects the respondents’ perceptions of *in camera* sessions with the chief internal auditor. Almost half the respondents to this survey indicated that their company did not have an internal audit function. The accompanying graph therefore aggregates the responses for companies that do have this function. [Q 31]

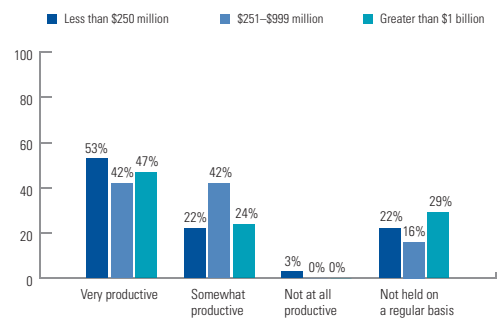
Companies with revenues over \$1 billion appear to be more likely to have an internal audit function and also to be very satisfied with those sessions.

Conversely, companies with revenues less than \$1 billion appear less likely to have an internal audit function. If the company does have one, respondents indicated most often that they do not hold *in camera* sessions with the chief internal auditor, and, next most frequently, that those sessions were only somewhat productive.

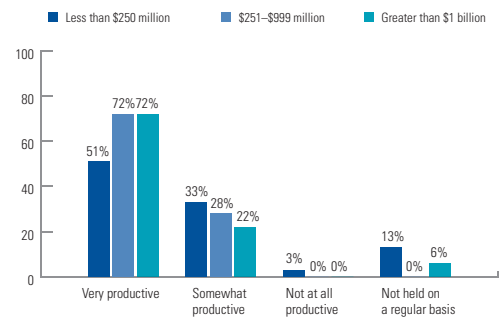
Q 28: In your opinion, how productive are your audit committee’s executive or *in camera* sessions with the CFO?



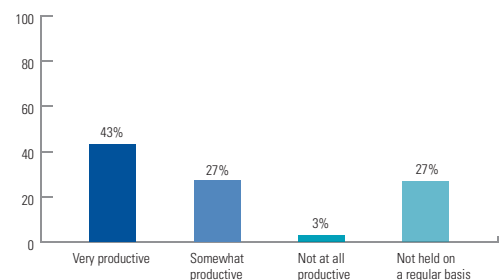
Q 29: In your opinion, how productive are your audit committee’s executive sessions with the CEO?



Q 30: In your opinion, how productive are your audit committee’s executive sessions with the external audit partner?



Q 31: In your opinion, how productive are your audit committee’s executive sessions with the chief internal auditor?



Audit committee meetings—minutes

Respondents from large companies (revenues over \$1 billion) appear to be most satisfied that the audit committee’s meeting minutes appropriately documented the committee’s activities. [Q 32]

Self-evaluation and ongoing education

Continuous improvement remains a concern for many audit committees. Almost half the respondents indicated that their audit committees have not implemented a self-evaluation process.

Among those companies with a self-evaluation process, larger companies are more likely to conduct that process in writing. [Q 33]

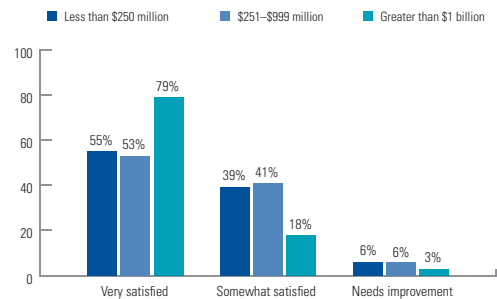
For the companies that have implemented a self-evaluation process, only one in five respondents appears to be very satisfied that the committee’s self-evaluation approach enhances its effectiveness. The remaining respondents said they saw room for improvement in that linkage. [Q 34]

In-house audit committee education programs do not appear to be well established—two-thirds of respondents said their company did not conduct periodic in-house education for audit committee members. Of those who do attend in-house education programs, two-thirds devote four to six hours or less per year to that activity. [Q 35]

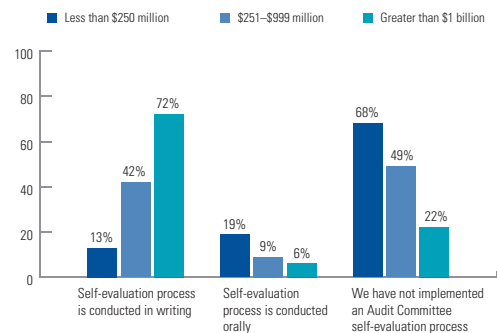
In answering another survey question, about 20 percent of respondents indicated that their audit committees sought the advice of external providers regarding audit committee education.

With the growing complexity of financial reporting issues and related risks, it is likely that audit committee members will increase their focus on the self-evaluation process and educational opportunities. Clearly, both are important tools for supporting the audit committee’s effectiveness and helping members address their “duty of care” obligations.

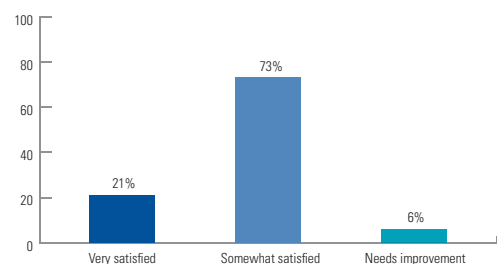
Q 32: How satisfied are you that the audit committee’s minutes appropriately document the committee’s activities?



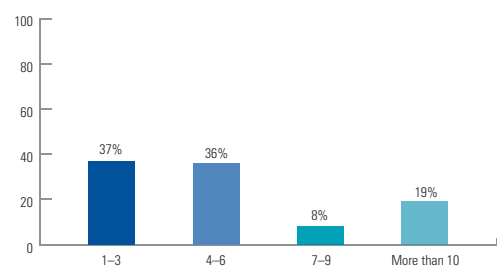
Q 33: What approach is taken when conducting the audit committee’s annual self-evaluation process?



Q 34: How satisfied are you that your audit committee’s current self-evaluation approach enhances its effectiveness?



Q 35: On average, approximately how many hours did each audit committee member devote to in-house education programs last year?



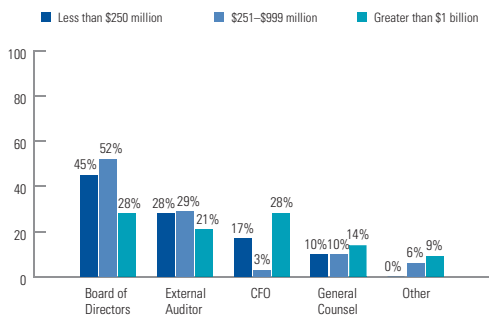
Relationships and communications

Respondents rated most highly the interaction and support they receive from the CFO.

When asked the same question for other executives and the auditors, although many audit committee members said they generally are very satisfied, a considerable number cited room for improvement. Approximately one in three respondents were only somewhat satisfied or not satisfied with the support they receive from the CEO, external audit partner, in-house and external legal counsel, corporate secretary, and the full board. [Q 36]

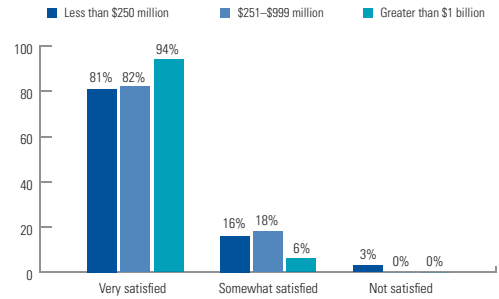
The most constructive suggestions for improving the audit committee’s effectiveness, according to respondents, have come primarily from the full board, followed by the external auditor, CFO and general counsel. [Q 37]

Q 37: Who has identified and communicated the most constructive suggestions to improve the audit committee’s organization and activities as a result of their interaction with the committee?

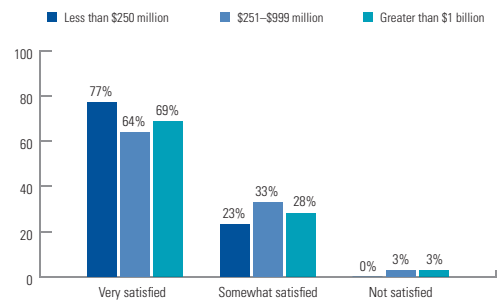


Q 36: How satisfied are you with the interaction and the support that the audit committee receives from

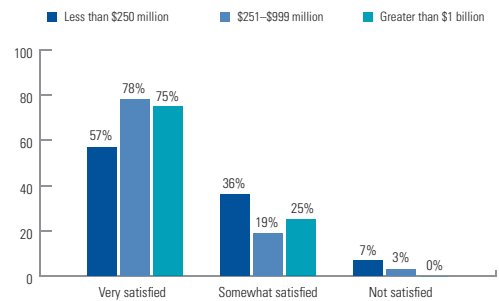
... the CFO?



... the CEO?



... the external audit partner?



Internal audit

In Canada, the internal audit function currently appears to be most concentrated in larger companies. Almost half the respondents to our survey said that their companies did not have an internal audit function. For those companies with an internal audit function, the survey results suggest that the chief audit executive most frequently had a direct reporting relationship to the audit committee. [Q 38]

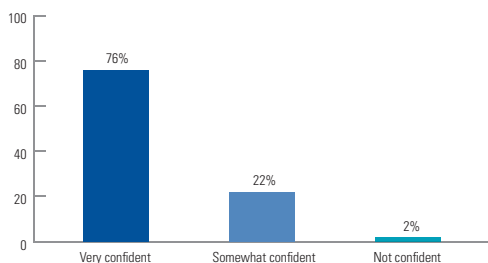
Respondents indicated that their audit committee maintains its involvement with the internal audit function by reviewing and approving many facets of its operation. Most committees appear to address internal audit's work plan, but the committee's involvement appears to diminish for internal audit's budget, and continues to drop significantly for the performance and the compensation of its leader. [Q 39]

While respondents also noted that they are generally satisfied with the resources allocated to the company's internal audit function, their satisfaction levels appear to be moderate, not strong. [Q 40]

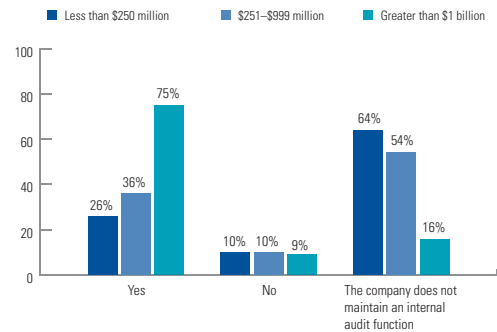
The ultimate authority to hire or fire the chief internal auditor appears to be held by either the audit committee or the CEO. For companies with revenues over \$500 million, half the respondents indicated that the audit committee held this authority, compared with the third who said the CEO is ultimately responsible. [Q 41]

Finally, three of four respondents indicated they were fully confident that the company's chief internal auditor would report controversial issues involving senior management directly to the audit committee. [Q 42]

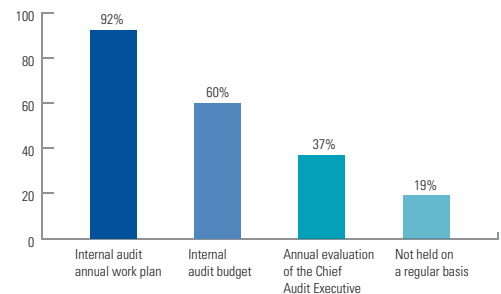
Q 42: How confident are you that your company's chief internal auditor would directly report any controversial issues involving senior management to the audit committee?



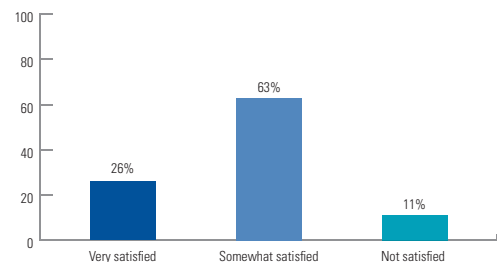
Q 38: Does your audit committee have a direct reporting relationship with the chief internal auditor?



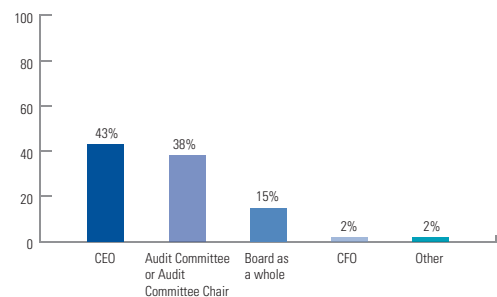
Q 39: Please indicate those documents related to the internal audit function that the audit committee reviews and approves before they are finalized?



Q 40: How satisfied are you with the resources allocated to the company's internal audit function?



Q 41: Who has the ultimate authority to hire/fire the chief internal auditor?



How does your audit committee compare?

What today's audit committees look like and how they carry out their responsibilities will, of course, vary widely—by company size, industry, risk profile, and the resources available to them. Such variations notwithstanding, the following results from the 2005–06 Public Company Audit Committee Member Survey offer a snapshot of “typical” audit committees today—their likely composition, members’ professional backgrounds and motivations, the “mechanics” of their oversight activities, and other attributes that can affect—positively or negatively—their oversight efforts.

Composition

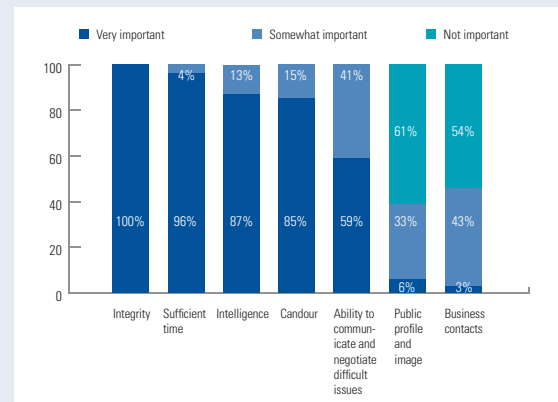
Today's audit committees typically comprise three to four board members—most likely to have backgrounds as a professional director, CEO/president, CFO, or external auditor—and are usually chaired by individuals with experience as a CFO, a CEO/president, a professional director or an external auditor.

From the survey responses, very few audit committees appear to have set maximum years of service for audit committee members or established a rotation policy that limits the number of years an audit committee member may serve on the committee.

Qualities/Attributes

Today's audit committee members believe that the most effective members are those who have integrity, sufficient time, intelligence, candour, and communication and negotiation skills. The least-cited determinants of success are public profile and business contacts. [Q 43]

Q 43: How important are the following personal characteristics for an audit committee member to have?



Respondents also noted the importance of audit committee members having broad business experience or specific industry experience. [Q 44]

In responding to another question, nearly all respondents (97 percent) felt it is very important for the committee to have one or more members with a strong understanding of financial reporting and accounting.

When asked a series of questions about financial experts on the audit committee, about half the respondents indicated that their committees have designated at least one “audit committee financial expert.” Those respondents were evenly split on whether their committee will too often defer to such an expert—one half felt there was a risk, and the other half felt their risk was not real.

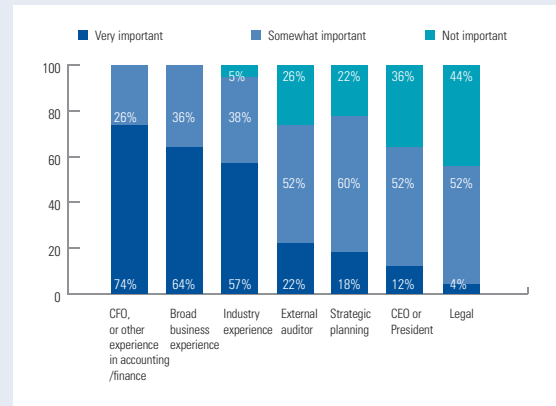
Meeting frequency and duration

Survey respondents indicate that most audit committees tend to meet at least five or six times per year, either face-to-face or via teleconference. For all respondents, the average number of meetings was six. [Q 45]

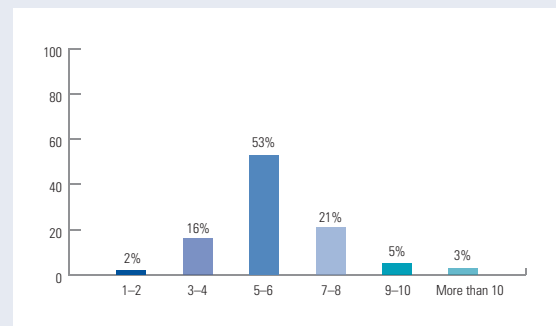
Face-to-face meetings are most commonly two to four hours long, while teleconference meetings are shorter—an hour or perhaps two.

According to the survey, the amount of time that respondents expect to spend on their audit committee duties varies by size of company—larger companies appear to require more time from their audit committee members. [Q 46]

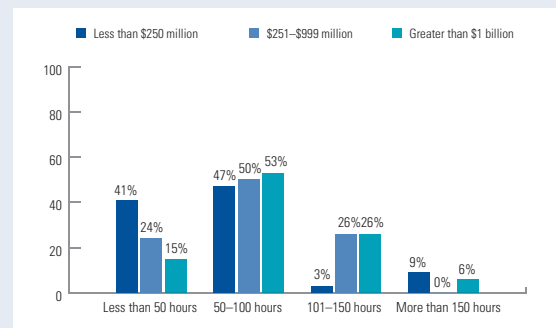
Q 44: How important are the following types of backgrounds and experiences for an audit committee member to have in general?



Q 45: How many audit committee meetings, including teleconferences, were held last year?



Q 46: How much time do you expect to spend in 2005 fulfilling your role as an audit committee member (excluding other board responsibilities), including all related meetings and preparation time?



Most respondents from larger companies also appear to be very satisfied that their audit committee devotes an appropriate amount of time and attention to its duties. For companies with revenues less than \$250 million, respondents suggest they see more room for improvement in this area. [Q 47]

Exposure

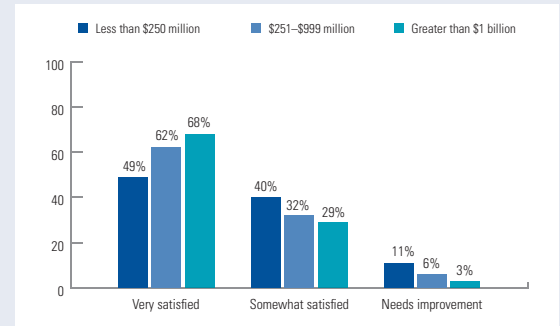
Today's audit committee members, according to survey respondents, tend to believe that, since the recent regulatory reforms have been enacted, their legal obligations and financial exposure are greater than those of other board members.

Although a small group of respondents indicated that they are not concerned about potential personal financial exposure, more than four of five respondents appear to have concerns. [Q 48]

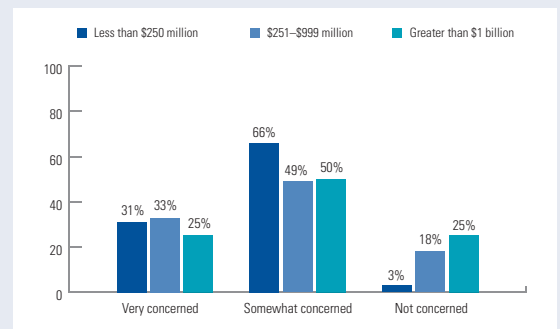
Most respondents also have concerns whether their directors and officers (D&O) insurance adequately minimizes their personal financial exposure—again, almost four of five respondents indicated that they were somewhat satisfied, suggesting they see room for improvement.

As a result of these potential exposures, respondents indicate that they tend to be less willing to serve on a public company audit committee. [Q 49]

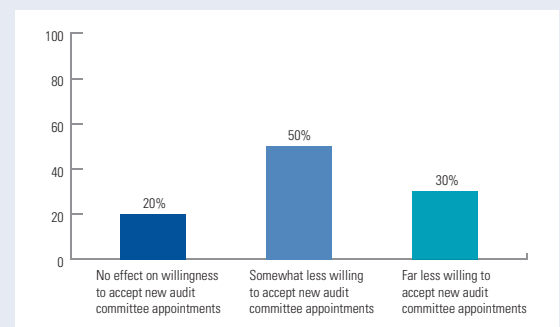
Q 47: How satisfied are you that the audit committee devotes an appropriate amount of time and attention to its duties?



Q 48: How concerned are you about the potential for personal financial exposure as a public company audit committee member?



Q 49: How has your willingness to serve on a public company audit committee changed since the passage of the Sarbanes-Oxley Act and the other corporate accountability reforms?



About the Survey Sponsors

Audit Committee Institute

Recognizing the challenges that audit committees face in meeting their demanding responsibilities, KPMG created the Audit Committee Institute in 1999 to serve as a resource for audit committee members and senior management. Its primary mission is to communicate with audit committee members and enhance their awareness, commitment, and ability to implement effective audit committee processes. Audit Committee Institute initiatives include roundtable discussions, periodic distribution of time-sensitive information, and on-line information and resources.

www.kpmg.ca/auditcommittee

Institute of Corporate Directors

The Institute of Corporate Directors (ICD) is a member-based organization that represents the director community in Canada. As a member institute of the Global Director Development Circle, the ICD sets the standards for Canadian directors that are recognized both nationally and internationally. The ICD certifies directors to the community standard with the ICD.D, and educates directors through events, continuing education and formal education through its Director Education Program.

With a view to enhancing the quality of directorships in Canada, the ICD acts as a valuable resource for public, private, crown and not-for-profit directors, providing members with timely updates on governance trends and benchmarking tools.

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