

Increasing audit committee effectiveness

Introduction

On 28 March 2008, the European Audit Committee Leadership Network met in Milan for its ninth meeting. Members discussed two topics: increasing audit committee effectiveness and the consequences of the credit crunch.¹ In a private session, members also discussed other issues they are currently addressing, including how to deal with the increased focus on risk management that the credit crunch has stimulated, and the impact of the economic situation on their companies.

For further information about the network, see *About this document* on page 9.

During their discussion of audit committee effectiveness, members focused on five major drivers:

- 1. The audit committee's scope**
- 2. The quality of audit committee members**
- 3. The skills of the chairman**
- 4. The relationship with other board directors and committees**
- 5. The use of feedback for continuous improvement**

The members of the network participating in the session sit on the boards of more than 40 large-, mid-, and small-capitalisation public companies. Network members participating in the meeting included:

- Mr John Buchanan, Audit Committee Chair, AstraZeneca
- Mr Per-Olof Eriksson, Audit Committee Chair, Volvo
- Prof Guido Ferrarini, Audit Committee Member, Atlantia
- Mr Wim Kok, Audit Committee Chair, ING
- Mr Daniel Lebègue, Audit Committee Chair, SCOR
- Mr Pierre Rodocanachi, Audit Committee Member, Vivendi
- Ms Guylaine Saucier, Audit Committee Chair, Areva
- Dr Klaus Schlede, Audit Committee Chair, Lufthansa and Deutsche Telekom
- Mr Kees Storm, Audit Committee Chair, Unilever and InBev
- Dr Bernd Voss, Audit Committee Chair, ABB

Members from Ernst & Young participating in the meeting were:

- Mr Tom McGrath, Managing Partner, NEMIA Client Service and Accounts
- Mr Christian Mouillon, Managing Partner, CWE Client Service and Accounts

ViewPoints reflects the network's use of a modified version of the Chatham House Rule, whereby names of members and their company affiliations are a matter of public record, but comments made before and during meetings are not attributed to individuals or companies.

¹ European Audit Committee Leadership Network, *Consequences of the Credit Crunch*, *ViewPoints*, 21 April 2008. Available at: http://www.tapestrynetworks.com/documents/Tapestry_EY_Euro_ACLN_Apr08_View15.pdf.

Executive summary

Over the past decade, the European audit committee has evolved. The high-profile accounting scandals of the early 2000s, the resulting changes to national corporate governance codes, and a new European directive have all raised the status of the audit committee and increased its role.

See the appendix on pages 10–12 for a summary of what a selection of national corporate governance codes, the European Union 8th Company Law Directive and the New York Stock Exchange (NYSE) listing requirements say about audit committee purpose and membership.

During the meeting, members discussed the evolution of their own audit committees and the five factors that drive audit committee effectiveness:

1. The audit committee's scope (page 3)

Many members report a broader audit committee scope as a result of changes to national corporate governance codes and the new 8th Directive. They report that audit committees have an increased role in risk management and compliance. In general, members ensure that the audit committee charter is updated annually to reflect any changes in scope, and changes are also reflected in the agenda.

2. The quality of audit committee members (page 4)

Country codes have different requirements regarding the independence of audit committee members. However, members believe that independence of mind and a spirit of “*robust challenge*” are as important as any legal requirements. Members also agree that it is essential to have diversity of experience on the audit committee, including financial, risk management, business and industry expertise. International diversity is also increasingly seen as valuable. Recruiting and educating members is an important part of ensuring quality, and knowledge sessions are used to keep committee members up-to-date.

3. The skills of the chairman (page 6)

A 2006 study by Ernst & Young reported that audit committee chairs typically spend 39 hours more per year than other audit committee members on audit committee duties.² Members say this additional time is critical to ensuring the efficacy of the committee, which they seek to increase through holding pre-meetings with essential contributors, directing and managing information flow, and streamlining meetings.

4. The relationship with other board directors and committees (page 7)

The number of European corporate board committees is reported to have nearly doubled.³ Members are concerned about the impact additional committees have on the effectiveness of the full board. Members recommend joint meetings and open meetings, as well as formal and informal communication between committee chairs as a means to improve overall effectiveness. Audit chairs also take care to involve other board directors in the work of the audit committee through effective board reporting.

² Ernst & Young, *Audit Committee Perspectives: 2006 Audit Committee Survey and Industry Insights*, page 2, 2007. Available at: [www.ey.com/global/download.nsf/Luxembourg_E/Audit_Committee_Perspectives_06/\\$file/EY_Audit_Committee_Perspectives%202006.pdf](http://www.ey.com/global/download.nsf/Luxembourg_E/Audit_Committee_Perspectives_06/$file/EY_Audit_Committee_Perspectives%202006.pdf).

³ Heidrick & Struggles International, *Raising the Bar: Corporate Governance in Europe, 2007 Report*, page 11, 2007. Available at: http://www.heidrick.com/NR/rdonlyres/666FC928-1933-4F4B-B184-FBBE141313A9/0/HS_CorpGovEurope2007.pdf.

5. The use of feedback for continuous improvement (page 8)

Most members' national corporate codes recommend self-evaluation by the board; members question whether evaluation is *"just for show"* or to stimulate real improvements to process or behaviour. Audit committee evaluation is most often linked to overall board evaluation and generally takes the form of one-to-one interviews with audit committee members, questionnaires (often by a third party), input from non-committee members, and discussion at board and audit committee meetings.

The audit committee's scope

In pre-meeting discussions, members cited the scope of the audit committee as a primary determinant of its effectiveness. According to a 2006 Ernst & Young survey of global audit committees: "The majority of audit committees report their primary responsibilities include understanding the implications of significant transactions with respect to financial reporting (84%); internal controls (84%); implementing the succession plan (i.e., coordinating partner rotation) for the external auditor (74%); understanding the company's emerging key risks (67%); and evaluating the director of internal audit (65%)".⁴

Audit committee scope and board structure

One member posed the question: *"Is there a fundamental difference of scope based upon whether you have a one-tier or two-tier board?"* Members debated whether a unitary board, with management and independent directors working together, would have a very different impact on scope to a two-tier board, in which there is a supervisory board made up of independent directors and a separate management board made up of executives. Members came to the conclusion that there were *"too many exceptions"* to any possible generalisations regarding board structure, and one member said: *"I don't think the scope is different; I think how you go about achieving the scope is different"*.

An increasing role in risk management and compliance

Members reported that many of their audit committees now have additional or enhanced responsibility for aspects of risk management and compliance. The audit committee's increased responsibility for risk oversight results from:

- **Changes to national corporate governance codes.** One audit chair said: *"[Risk management] is in [the] Swedish code, and the audit committee has a specific role, so we had to include that in the charter"*. German audit committees now have to oversee compliance issues, about which one member noted: *"The latest change to the audit committee charter was the addition of a compliance report"*.
- **Changes brought about by the 8th Directive.** The 8th Directive states that the external auditor needs to report weaknesses in internal controls to the audit committee, but it is not yet clear how the auditor should fulfil this requirement. One member said: *"We ticked the SOX [Sarbanes-Oxley] boxes we had for a while, and now we have the 8th Directive boxes"*.
- **Changes in company practice.** Another member commented: *"Risk management has changed, and we look at that in more detail than we did"*.

⁴ Ernst & Young, *Audit Committee Perspectives: 2006 Audit Committee Survey and Industry Insights*, page 2.

Members report that the role of audit committees given responsibility for risk oversight is to ensure that the risk management process is robust: *“Lately, risk management has been added to the audit committee’s role, [and our job] is to make sure there is a process there”*. Members stress, however, that responsibility for risk management should remain with senior executives: *“There is a distinction between governance [of risk] and risk management. A way to avoid [any confusion] is to get management to set up a management risk committee”*.

In situations where there is a separate board-level risk committee, one member said that *“even if the audit committee has a pure scope [around financial reporting and internal controls], it still has to coordinate with the other committees handling risk in order to discharge its responsibilities”*. Another member, who has experience on boards where risk oversight is in the audit committee charter and there is a separate board-level risk committee, proposed that one way of dealing with any ambiguity regarding roles is to ensure the composition of the two committees is largely the same: *“The main consequence is that we have two meetings [one after the other]”*.

Agendas reflect charters

Almost all members review the audit committee charter yearly and put together an agenda for the year ahead based on it. Setting the audit committee agenda is a task that can fall to:

- **The full (supervisory) board.** In some cases, the board sets agendas for all of the board committees, to ensure nothing falls in the gaps between them. One member commented: *“It is for the board to decide what the strategic risks are and whether there should be committees or not and what they will cover. The audit committee is a sub-committee of the board. The audit committee remit should be explicit and written down, and the charter updated every year”*.
- **The audit committee.** Several members have an annual year-end review and agenda-setting session for the year ahead. The output is a programme of agenda items by quarter or by audit committee meeting.

Although agendas tend to be created a year in advance, members agree that flexibility is important. One member said: *“We have a programmed agenda, but the world changes fast, and none of us are smart enough to guess what will happen next, so the agenda includes white space ... to ask what’s on people’s minds. That clears the air. Otherwise, you can be too process-driven”*.

Another member said there is a strong need to rank items on the agenda so that the committee can focus on fewer items in more depth, but acknowledged that *“in today’s world, the penalties for being wrong are so great, it’s hard to leave things out”*.

The quality of audit committee members

Differences in national corporate governance codes translate into differences in the composition of the audit committee. France, Italy, Sweden and Switzerland state that a majority of members must be independent, while the Netherlands and the UK require all of the members to be independent, non-executive board members. In Germany, the audit committee, like the supervisory board, is impacted by co-determination: half of the members represent shareholders, while the other half represent employees. Regardless of what the codes say, members are clear: *“It is like any other walk of life: quality and capability are key”*.

Diversity of experience versus financial expertise

With the exception of Sweden's, all of the national codes we examined call for at least one member of the audit committee to be a financial expert, or at least financially literate. According to a November 2006 global study by Ernst and Young, 69% of all responding audit committees have two or more financial experts, as defined under Sarbanes-Oxley.⁵ However, a 2007 global study showed that "34% of audit committee financial experts appeared to lack either an accounting or finance background".⁶

Members differ on what it means to be a financial expert. One stated: *"As former CEOs, yes, we are financial experts. We know the right questions to ask"*. Others said that changes in accounting rules and standards posed a significant challenge to ensuring current financial expertise on the audit committee: *"Who is the financial expert with respect to IFRS [International Financial Reporting Standards]? Former accountants who sit on boards today are obviously obsolete"*. Another concurred: *"Things have changed so much; how do you keep current? You need to know more rules than in the past"*. One member noted before the meeting that having deep financial expertise on the committee can improve its effectiveness: *"I have two new members who are financially savvy ... [and our] financial sophistication has improved"*.

Members strongly support the idea of diversity on the audit committee. One member said: *"Financial expertise is not unique ... [you should also have] accounting and audit, risk management, business and industrial [expertise]. You need one member from each type"*. In pre-meeting discussions, a UK member commented: *"Most audit committees are both risk and audit committees, and therefore it is important to have people who have IT and operational experience. That is just as important as financial experience. It is more often the case that the big black holes [companies face] are to do with operational matters than flawed accounting"*. Other members observed that in heavily regulated industries a former regulator is a real asset on the audit committee.

While valuing diversity of experience, members worry about whether their boards or audit committees are large enough to sustain non-financial experts on the audit committee. The corporate governance codes for Italy, Sweden and the UK specify a minimum of three members on the audit committee, whereas other codes do not recommend a particular number or size. Members' audit committees have between three and five members.

One UK audit chair predicted: *"[International] diversity will be a bigger requirement as businesses become more global, but sharing the travel time and cost will be an issue"*. According to a 2007 Heidrick & Struggles research report, Swiss boards are the most international in Europe, with 45% of directors being non-nationals. The Netherlands reported 36% and the UK 31%. In contrast, the figures are 7.9% in Italy and 7.3% in Germany.⁷

Recruiting and educating members

Several members said that the pool for audit committee membership is limited in two important respects. First, it is hard to recruit board directors with financial expertise. Second, it is difficult to get

⁵ Ibid, page 3.

⁶ Huron Consulting Group, *2007 Audit Committee Research Report*, page 3, 2007. Available at: http://www.huronconsultinggroup.com/library/auditcomreport_web.pdf.

⁷ Heidrick & Struggles, *Raising the Bar: Corporate Governance in Europe, 2007 Report*, page 14.

existing members of the board to serve on the audit committee. One member, however, reported a process in a French company that requires *“each new board member ... [to be] on the audit committee for a minimum of two years”*. Reflecting upon the need to recruit members with both technical expertise and the right style, one member said: *“I want someone on the committee [to offer] robust challenge ... [I want them to] ask the tough questions. We’re not here to make friends”*.

Audit committees must also deal with the challenge of keeping members up to speed on constantly changing topics and educating members who are not financial or accounting experts. Ernst & Young’s survey points out that 63% of audit committee members whose boards have a formal continuing education process spend 10 hours or less per year on continuing education.⁸

One member said: *“We do have fixed in our agendas at least once a year education with our external auditors ... [and, if their job does not keep them refreshed] the others attend seminars to stay up-to-date”*. Another member reported: *“We ask our [external auditors] what our weaknesses are”*. That member’s audit committee uses the information to drive an education programme. Another member suggested that the committee should be flexible enough to schedule an urgent ad hoc education session.

The skills of the chairman

Audit committee chairs need to ensure that the committee’s work is conducted efficiently and productively. Members noted that the chair can increase committee effectiveness by:

- Conducting pre-meetings with essential contributors
- Directing and managing information flow
- Streamlining meetings

Conducting pre-meetings with essential contributors

A member noted: *“I learned from my predecessor the rules of thumb of being a good audit committee chairman: to have preliminary meetings with internal audit, external audit, the chief risk officer and the chief financial officer. I have open and frank meetings with them ... to dig deeper and provide an expression of independence”*. Other members agreed that these pre-meetings are valuable, especially when participants are pushed to provide their opinions on key matters.

Directing and managing information flow

It is essential that audit committee members read the prepared materials before the committee meeting. One audit chair mentioned that *“the main issue for me [is getting the material] ahead of time so we can prepare – the quality is good, but you cannot add material two days before the meeting and expect us to read, understand and reflect”*.

The audit chair plays a critical role in ensuring that relevant materials are made available and that what the committee receives is organised, summarised and easy to digest. Audit chairs work with the senior executives and the internal and external auditors to make reports more usable and timely. One member is working with the internal auditor *“to get [internal audit’s reports] into a format that makes it easier to*

⁸ Ernst & Young, *Audit Committee Perspectives: 2006 Audit Committee Survey and Industry Insights*, page 26.

pick out trends and spot particularly negative [audits]”. Another member said: “It’s important to distinguish between comprehension and comprehensiveness”.

Members also discussed the time pressures involved in approving quarterly and annual financial statements and other financial communications, and the stress this places on the committee to rapidly review and discuss information. One member complained: *“It’s a race in every company to get statements out the door – and we are dealing with more and more complexity. What is the balance between doing our job and getting the information to the market?”.*

Streamlining meetings

As the workload of the audit committee has grown, so have the number and length of meetings. Across the network, the number of audit committee meetings during the year can range from five to 12, with most lasting a minimum of three hours, and many lasting up to six hours. However, members are torn between wondering *“how we can eliminate waste from the meeting”* and wishing to ensure there is enough time for open dialogue on whatever questions committee members might have.

Members’ practices to help streamline audit committee meetings

- **Time limits.** *“What is important is to plan the meeting with time frames for each point and stick to them. We have skipped a point if one becomes longer than we thought, but topics can go on forever unless you have someone pushing the time frame”.*
- **Attendance limits.** The sheer number of people at audit committee meetings can make it hard for the chair to streamline the meeting. *“At one point ... our audit committee meeting included 20 people (between members, experts and management), so we decided to divide our meetings into sessions on particular items and topics [with only those who need to be present for that item in the room] to keep the size down”.*
- **Presentation limits.** In order to preserve time for discussion, one audit chair limits presenters to a three-slide maximum to avoid what another called *“death by PowerPoint”*.
- **Discussion by exception.** *“The routine papers that we rely on are presented well ahead of time and discussed by exception, instead of going through papers we have already read”.*

The relationship with other board directors and committees

Members discussed the importance of the audit chair understanding what to communicate to the full board regarding the audit committee’s work, so that responsibility for that work is shared with non-committee members on the board. Members agreed that engagement is important: *“I’m worried ... when the rest of the board relaxes and sits back, I think this is a danger”.*

Audit chairs recognise that sending out the audit committee meeting minutes to the full board does not constitute sufficient communication: *“You can’t rely on [distributing] the audit committee minutes. I pass on minutes from our meetings, but they don’t really read them. So I’ve turned back to a precise oral report”.* Some members address the problem by inviting the full board to an audit committee meeting, perhaps once a year.

Members agree that the audit chair must determine what is needed: *“You have to be pragmatic. It’s up to the chairman to appreciate what to give to the full board. It could be very different from meeting to*

meeting”. Another said: “I pick one or two things where I want their participation, for example, big impairments”.

Changes in European corporate governance have led to a near doubling in the number of board committees.⁹ Network members voiced concern that having too many committees could dilute board effectiveness, especially if communication across committees is ineffective.

Members made the following suggestions for ensuring cross-committee communication:

- **Joint meetings.** One member reported: “Once or twice a year, we have a joint meeting of the audit committee and the safety, ethics, and environment committee”.
- **Open meetings.** “We always have [committee meetings] the day before the board meeting, so everyone can attend”.
- **Formal and informal communication between committee chairs.** Another member’s board holds no joint meetings, but the member reported feeling concerned if the remuneration committee does not talk to the audit committee.

The use of feedback for continuous improvement

Ernst & Young’s survey showed that “more than two-thirds (69%) of the respondents indicate their audit committee conducts an annual, formal written self-assessment to gauge the committee’s effectiveness. 23% assess individual committee members”.¹⁰ Most members’ national corporate codes recommend self-evaluation by the board. For European foreign private issuers, the NYSE mandates that boards of directors and their committees must conduct annual self-assessments.¹¹

Members debated whether audit committee evaluations truly add value or whether they are “just for show” for company stakeholders. One member said: “The common feeling in [my country] is that they are just for show, but I am fond of them. If you are interested in performance ... there should be an autonomous evaluation of the audit committee”.

Most members reported using audit committee evaluations as part of a broader board review process. Diverse methodologies are being applied, and some audit committees are using more than one approach. One member gave an example: “Last year, we had an external Big Four consultant do an assessment with in-depth interviews and questionnaires. It was very intense. This year, I will do it myself, with interviews with audit committee members and senior management”.

Other methods used by members include:

- **One-to-one interviews with audit committee members.** These may be conducted by the board chair, the corporate secretary, the audit chair, or an external consultant. External assessment is not often conducted yearly, even by its most avid proponents, but is typically rotated with a form of internal assessment every few years.

⁹ Heidrick & Struggles, *Raising the Bar: Corporate Governance in Europe, 2007 Report*, page 11.

¹⁰ Ernst & Young, *Audit Committee Perspectives: 2006 Audit Committee Survey and Industry Insights*, page 31.

¹¹ For additional information, please see Section 303A(7)(c)(ii) of the listing standards, page 15. Available at: http://www.nyse.com/pdfs/section303A_final_rules.pdf.

- **Questionnaires.** A questionnaire can be managed either internally or by an outside vendor. One member prefers the questionnaire method because it is “*extensive and detailed*” and weakness easily stands out as “*your eyes are drawn to it*”. Another member reported that while a written evaluation can work well initially, it loses impact with time.
- **Input from non-committee members.** A member said: “*We do a self-assessment, and we encourage executives to comment, the internal and external auditor too, so you get close to 360-degree feedback*”.
- **Discussion at board or audit committee meetings.** Typically, these are closed sessions of the board or audit committee, and performance is evaluated through informal discussion. Several members recommended the audit committee undertake a process of reviewing the charter each year with the board and discussing how the audit committee is fulfilling its mandate.

One contentious question is whether the assessments should focus purely on process and content, or also on people. Most audit chairs felt it was their job, alongside the board chair, to identify and deal with any individual under-performance. One member recalled an audit committee member being asked not to apply for re-appointment after a poor evaluation. That said, as one member noted of all of the evaluation techniques: “*The questions are really about whether [the board or audit committee] is happy with the chairman*”.

Conclusion

Reading different European countries’ corporate governance codes can easily create an impression of a convergence of standards across Europe. However, those codes lack the detail of actual audit committee practice, which more often emerges from discussions between audit committee chairs. It is the audit chair who questions the value of each audit committee activity and ensures that the precious time and expertise of audit committee members is maximised and matched to the precise needs of the company. At the level of actual practice in audit committee effectiveness, there is still a great deal of variation between companies and thus between countries: convergence may still be the preferred way forward for many audit chairs, but it is still some way off for most of them.

About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is convened by Ernst & Young and orchestrated by Tapestry Networks to access emerging best practices and share insights into issues that dominate the new audit committee environment.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management and their advisers as they endeavour to fulfil their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Anyone who receives *ViewPoints* may share it with those in their own network. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

The views expressed in this document represent those of the European Audit Committee Leadership Network, a group of audit committee chairs drawn from Europe’s leading companies committed to improving the performance of audit committees and enhancing trust in financial markets. They do not reflect the views nor constitute the advice of network members, their companies, Ernst & Young or Tapestry Networks. Please consult your advisers for specific advice. Ernst & Young refers to all members of the global Ernst & Young organisation.

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Appendix: Audit committee purpose and membership requirements, as outlined in select national corporate governance codes, the 8th Directive and NYSE listing requirements

	Purpose and oversight	Membership
Belgium¹²	The audit committee is responsible for monitoring the integrity of financial information, reviewing internal controls and risk management systems, reviewing the internal auditor’s work programme and effectiveness, and recommending the external auditor and monitoring their independence.	At least a majority of the audit committee members should be independent. The committee should have sufficient relevant expertise to fulfill its role effectively, notably in financial matters.
France¹³	Each board should appoint an audit committee, the duties of which are inseparable from those of the board of directors, which is responsible for approving the corporate accounts and preparing the consolidated accounts. The committee does not act in the place of the board, but rather as an extension of the board, facilitating its work. The audit committee must review the accounts and control processes, supervise the offer to the Statutory Auditor (SA), ensure SA independence and obtain SA disclosure fees.	Two-thirds of the audit committee should be made up of independent directors, and this should not include any corporate officers.
Germany¹⁴	The audit committee handles issues of accounting, risk management and compliance, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points, and fee agreements.	The audit committee chairman should have specialist knowledge and experience in the application of accounting principles and internal processes; he should also not be a former member of the management board.
Italy¹⁵	The Internal Control Committee (ICC) should ensure that its evaluations and decisions regarding internal control systems, approval of balance sheets and half yearly reports, and the relationship between the issuer and the external auditor are supported. The ICC defines the guidelines and evaluates the internal control systems, as well as identifying an executive director for supervising the functionality of internal controls. Also, the ICC is responsible for due diligence and preparatory activity.	The ICC should be made up of non-executive directors, the majority of which are independent, and at least one member must have an adequate experience in accounting and finance.

¹² The Belgium Corporate Governance Code is available at: http://www.ecgi.org/codes/documents/bel_code_dec2004_en.pdf.

¹³ The French Corporate Governance Code for Listed Companies is available at: http://www.ecgi.org/codes/documents/cg_oct03_en.pdf.

¹⁴ The German Corporate Governance Code is available at: http://www.ecgi.org/codes/documents/corgov_endfassung_e.pdf.

¹⁵ The Italian Corporate Governance Code is available at: http://www.ecgi.org/codes/documents/codiceautodisciplina_en.pdf.

	Purpose and oversight	Membership
The Netherlands ¹⁶	The audit committee supervises the operation of the internal risk management and control systems, the provisions of financial information, compliance with recommendations and observations of the internal and external auditors, the role and function of the internal auditor, the policy on tax planning, relations with the external auditor (with focus on independence and remuneration), the financing of the company and applications of IT.	The audit committee should not be chaired by the chairman of the supervisory board or a former member of the management board. At least one member should be a financial expert, within the meaning of best practice.
Sweden ¹⁷	The audit committee is responsible for preparation of the board's work to ensure quality of financial statements. The audit committee should meet the auditors to discuss coordination between external and internal audit and views on risks, establish guidelines to audit, evaluate audit work (including advising on the appointment of auditors), and assist recommendations on audit fees.	The audit committee must consist of at least three directors, the majority of whom are independent of the company and senior management, and at least one of whom is independent of major shareholders.
Switzerland ¹⁸	The audit committee should form an impression of the effectiveness of the external auditor, assess the quality of the internal control systems (including risk management and the state of compliance), review individual and consolidated financial statements, decide whether financial statements should be recommended for presentation to the General Shareholders' Meeting, and assess the performance and fees charged by the external auditor, ensuring their independence.	The audit committee should consist of non-executive, preferably independent, members and the majority, including the chairman, should be financially literate.
United Kingdom ¹⁹	The role and responsibilities of the audit committee should include monitoring the integrity of financial statements, reviewing internal financial controls, and reviewing the effectiveness of the internal audit function. The audit committee should recommend the appointment, re-appointment and removal of the external auditor, as well as monitoring the external auditor's independence.	The audit committee must have at least three members, who should all be independent non-executives. At least one member should have recent and relevant financial expertise.

¹⁶ The Dutch Tabaksblatt Code is available at: <http://corpgov.nl/page/downloads/CODE%20DEF%20ENGELS%20COMPLEET%20II.pdf>.

¹⁷ The Swedish Corporate Governance Code is available at: http://www.ecgi.org/codes/documents/swedish_cg_070913_en.pdf.

¹⁸ The Swiss Code of Best Practice for Corporate Governance is available at: http://www.ecgi.org/codes/documents/swisscodeofbestpractice_english.pdf.

¹⁹ The Combined Code on Corporate Governance is available at: http://www.ecgi.org/codes/documents/frc_combined_code_june2006.pdf.

	Purpose and oversight	Membership
EU 8th Company Law Directive²⁰	The audit committee is responsible for monitoring financial reporting processes, as well as the effectiveness of the company's internal controls, risk management systems, and internal audit where applicable. It is also responsible for recommending the appointment of the statutory auditor, and monitoring their annual and consolidated accounts and independence.	At least one member should be independent, and at least one member should have competence in accounting and/or auditing.
NYSE listing requirement²¹	The audit committee must have a written charter that addresses the committee's purpose – which, at a minimum, must be to assist board oversight of the integrity of the listed company's financial statement, the listed company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence, and the performance of the listed company's internal audit function and independent auditors. It should also prepare an audit committee report, as required by the Securities and Exchange Commission, to be included in the company's annual proxy statement.	All members must satisfy the requirements for independence. The audit committee must have a minimum of three members. Each member must be financially literate and at least one member must have accounting or related financial management expertise.

²⁰ The EU 8th Company Law Directive is available at: <http://www.8th-company-law-directive.com/Article41.htm>.

²¹ The New York Stock Exchange's Listed Company Manual (Section 303A Corporate Governance Rules) is available at: http://www.nyse.com/pdfs/section303A_final_rules.pdf