

The audit committee role in financial communication

Introduction

On 7-8 April 2009, members of the European Audit Committee Leadership Network (EACLN) met in Paris for the network's 11th stand-alone meeting. For further information about the network, see [About this document, on page 12](#). Members discussed regulation with the chairman of the Autorité des marchés financiers (AMF)¹ and the funding and liquidity challenges companies are facing in the current economic environment with the CFO of Société Générale and the CEO of GE Capital France.²

Members also discussed the audit committee's role in financial communication and covered:

- **The audit committee role in financial reports**
- **The audit committee role in other financial communications**
- **The issue of earnings guidance**

The members of the network participating in the meeting sit on the boards of over 30 large-, mid- and small-cap public companies. Network members participating in the meeting included:

- Mr Aldo Cardoso, Audit Committee Chair, GDF SUEZ
- Mr Daniel Lebègue, Audit Committee Chair, SCOR
- Mr Anders Nyrén, Audit Committee Chair, Sandvik and SCA
- Sir Ian Prosser, Audit Committee Chair, BP
- Mr Pierre Rodocanachi, Audit Committee Member, Vivendi
- Ms Guylaine Saucier, Audit Committee Chair, Areva
- Mr Kees Storm, Audit Committee Chair, Anheuser-Busch InBev and Unilever
- Dr Bernd Voss, Audit Committee Chair, ABB
- Mr Lars Westerberg, Audit Committee Chair, Volvo
- Mr Mario Zibetti, Audit Committee Chair, Fiat Group

Ernst & Young was represented by Mr Tom McGrath, Managing Partner, EMEIA Financial Services, and Mr Christian Mouillon, Deputy Area Managing Partner, EMEIA.

ViewPoints reflects the network's use of a modified version of the Chatham House Rule whereby names of participants and their company affiliations are a matter of public record, but comments made before and during meetings are not attributed to individuals or corporations. Member quotations from the meeting are shown in italics.

¹ European Audit Committee Leadership Network, "The future of financial regulation: a discussion with the chairman of the AMF," *ViewPoints*, 8 May 2009. Available at http://www.tapestrynetworks.com/documents/Tapestry_EY_Euro_ACLN_May09_View18.pdf.

² European Audit Committee Leadership Network, "Funding and liquidity in today's capital markets," *ViewPoints*, 8 May 2009. Available at http://www.tapestrynetworks.com/documents/Tapestry_EY_Euro_ACLN_May09_View19.pdf.

Executive summary

During the discussion on the audit committee role in financial communication, members focused on three main topics, which are covered in more detail on the following pages:

- **The audit committee role in financial reports** (*Page 2*)

The role of audit committees in reviewing the financial reports of their companies has increased over the past decade, often prompted by the passage of new EU and US regulations. Company practices, however, continue to show a great deal of variability in approach. Some of these variations are attributable to differing national corporate governance codes and board structures. Members compared their experiences as audit chairs in reviewing financial reports and offered suggestions for ways to improve the review process, such as pushing management to deliver drafts earlier and ensuring changes to the documents are tracked during the fine-tuning process. Members also stressed the importance of the external auditor's input.

- **The audit committee role in other financial communications** (*Page 5*)

Most audit committee members pay special attention to earnings press releases, which they scrutinise for language and tone. They also pay attention to what is said in terms of guidance to the market. Fewer audit chairs play a role in other kinds of financial communications, such as listening to analyst calls or reviewing materials for annual investor days, which most see as management's responsibility. However, those who are involved look for consistency of messaging with the annual accounts and press releases. Members highlighted the importance of ensuring management does not release information in these fora that will affect share prices.

- **The issue of earnings guidance** (*Page 7*)

Current market volatility has made the provision of earnings guidance extremely difficult. Several prominent European companies have stated that they will not provide guidance at this time due to uncertainty. Audit chairs recognise the risk of providing guidance in this environment. Those companies that have withdrawn guidance have disclosed new and different information, typically linked to the long-term value drivers in the business.

The audit committee role in financial reports

The audit committee plays an important role in overseeing annual, half-yearly and quarterly financial reports, a role that has increased in the last decade with the passage of new EU regulations. Audit committees on the boards of European companies listed in the United States must deal with additional requirements.

The European Commission's Transparency Directive, issued in 2004, was aimed at converging the standards by which quoted companies file, distribute and store financial information across the EU. This directive requires annual and half-yearly reports, with comprehensive disclosure requirements, as well as quarterly reports with more limited disclosure requirements. It requires European companies to disclose this regulated information on both a fast and pan-European basis.³

The 8th Company Law Directive, issued in 2006, required for the first time that all public interest entities have an audit committee that monitors the financial reporting process and the effectiveness of the company's

³ "Transparency Directive," *Realir*, 19 September 2007. Available at <http://www.realir.net/printable/4805636/transparency-directive.thtml>.

internal controls and oversees the statutory audit of the annual and consolidated accounts, among other activities.⁴ Additionally, the Company Reporting Directive, issued in 2006, requires companies to publish a corporate governance statement that must describe the company's system of internal control and risk management.⁵

The national codes of the eight countries represented by companies on whose boards EACLN members sit provide further detail on national requirements for the audit committee regarding oversight of financial reports. The codes of Germany, The Netherlands and Switzerland simply require the board or audit committee to discuss the financial reports with members of management (or the management board, in the case of a two-tier system) before they are published. Other countries' codes are more specific and require the audit committee to review the accounts to ensure consistency with accounting methods (or to review accounting judgments) and to review the financial statements before publication to ensure their quality, integrity and accuracy. See Appendix 1 on pages 10–11 for a summary of what national codes say about the audit committee role in overseeing financial statements.

Companies registered with the US Securities and Exchange Commission (SEC) as foreign private issuers must also comply with the SEC's reporting obligations and submit a Form 20-F, the SEC's annual report for foreign private issuers. Companies listed on the New York Stock Exchange (NYSE) must comply with the corporate governance standards laid out in the NYSE's *Listed Company Manual*, which is more prescriptive in its requirements than EU member states' corporate governance codes.⁶

At the EACLN meeting, members discussed both their involvement in their companies' financial reports and their oversight of the data that is communicated in these reports. The conversation showed practices continue to be highly divergent. In the discussion, members focused on:

- Differences in national practices
- The influence of board structure on audit committee review
- The role of the audit chair
- Concerns about management practices

Differences in national practices

Some of the variation in practices can be attributed to differing legal requirements. A member who sits on the boards of companies in several countries said, *"In [one country], we review quarterly financial statements, including accounting options, in detail. We are responsible for approving these. In [another country], the audit committee has no legal responsibility. But the intensity is still there because it is linked to legal risk."*

⁴ Commission of European Communities, *Proposal for a Directive of the European Parliament and of the Council on Statutory Audit of Annual Accounts and Consolidated Accounts and Amending Council Directives 78/660/EEC and 83/349/EEC* (Brussels: Commission of the European Communities, 2004), page 30. Available at [http://www.europarl.europa.eu/meetdocs/2004_2009/documents/com/com_com\(2004\)0177_/com_com\(2004\)0177_en.pdf](http://www.europarl.europa.eu/meetdocs/2004_2009/documents/com/com_com(2004)0177_/com_com(2004)0177_en.pdf).

⁵ Neil Baker, "EU Auditors: EuroSox Misses the Mark," *Compliance Week*, 16 September 2008. Available to subscribers at <http://www.complianceweek.com/article/5056/eu-auditors-eurosox-misses-the-mark>.

⁶ NYSE Euronext, *Listed Company Manual* (New York: NYSE Euronext, 2009), 303A.07. Available at http://www.nyse.com/Frameset.html?nyseref=http%3A//www.google.com/search%3Fq%3DNew+York+Stock+exchange+listed+company+manual%26ie%3Dutf-8%26oe%3Dutf-8%26aq%3Dt%26rls%3Dorg.mozilla%3Aen-US%3Aofficial%26client%3Dfirefox-a&displayPage=/lcm/lcm_section.html.

The influence of board structure on audit committee review

Other differences are due to board structure. Audit committee members of supervisory boards in a two-tier system play a more limited role than their counterparts on a unitary board. One such director said, *“From what I know, most [supervisory] board members don’t read [financial reports]; they are too thick and not received enough ahead of time. So what do we do? The [answer] for me is to have good planning and reverse the burden by having management make presentations to the audit committee and then the board regarding the main accounting issues, the options and decisions taken, how the auditors and lawyers were involved and how internal [staff] are involved. The only way for me to define the role of the board in [reviewing financial reports] is to essentially focus on processes and to give comfort to the audit committee that things are processed.”*

However, one member said, *“I agree you need a good process. But if it goes wrong, and you just trust that you relied on the process and didn’t read it all, you will still be liable. Someone has to read [the financial report] cover to cover.”* Another member said, *“Our chairman told directors that we are responsible and that if we want to change [something], [we should] do it because we are responsible.”*

Some network members who work in this structure reported encountering some resistance from management when they asked to review financial reports. In a pre-meeting conversation, a member pointed out that, if the supervisory board has concerns about the company’s financial communications, it can always provide feedback after the fact to influence future communications.

The role of the audit chair

Members noted that the burden often falls to the audit chair to do the most comprehensive review of financial reports and expressed both their desire that other audit committee members also review the reports in full and their frustration that this is not common. A member said, *“I have the feeling I am the only one that reads the annual report from cover to cover ... Most of my colleagues on my boards don’t. On the audit committee, perhaps more do.”* Another said, *“I’m certain the audit committee members have read the preamble up to the P&L, but I’m not sure they read the 20 pages on derivatives and market risk. There is a danger [in this.]”* Another said, *“If you are listed in the United States, it makes a difference. The whole board reviews all of the documents.”*

One member suggested a division of responsibility among audit committee members: *“The audit chair should delegate the review of the management discussion and analysis and the accounting decisions [to other audit committee members], that way to share the burden.”*

Concerns about management practice

Some members raised concerns that the timing is often tight for the audit committee’s review. In order to address this, a member suggested, *“If you look at the processes within corporates to get the big reports out, [for those] issued in late February or early March, they are started in early December. The audit committee should push management to get a draft [to the committee] earlier.”*

Several members discussed a board process of fine-tuning reports in which a copy is reviewed, edited and re-circulated to the audit committee for approval. In a pre-meeting conversation, a member said, *“The audit committee, especially the chairman, looks at the report, which we get as soon as it’s finalised by the CFO. It’s then a process of reviewing and fine tuning – that process has been in place for a long time, and it works*

well.” Several members suggested a process of tracking changes during this fine-tuning process. A member said, *“How it’s done [is important.] The board looks at an [early] draft, and we look at all the detail. But then I know there are a lot of changes. We get a new draft and have to review it again. It is essential to track changes.”*

Members also discussed the importance of the external auditor’s involvement in the review and preparation of financial reports. One said, *“At the board meeting, we have an external lawyer, the external auditor, who makes his own report on accounting issues, and management, who does the same.”* In a pre-meeting conversation, another said, *“We ask [the external auditor] if they are comfortable with the financial numbers and if there is anything else they are not comfortable with.”* One member mentioned the importance of an annual meeting with the head of investor relations in order to discuss the annual accounts. This member said, *“We ask, ‘What are the main expectations of investors and financial analysts?’”*

The audit committee role in other financial communications

EACLN members report paying a great deal of attention to the review of earnings press releases. In addition, some also review scripts for earnings calls and financial communications provided by senior executives in other fora. However, those members who were not involved in such activities questioned whether audit committees should take on responsibility for those types of financial communications. One said, *“The question for me as the audit committee chair is, How can we spend enough time with limited resources to do the right things and explain why? We can’t do everything.”*

The following pages illustrate the variety in audit committee practice in reviewing:

- Earnings press releases
- Scripts and presentations for earnings calls
- Analyst calls, investor days, industry conferences and annual general meetings.

Earnings press releases

Most network members reported reviewing earnings press releases. One member said, *“Every audit committee has to be involved in press releases, full stop. They are extremely important.”* Another said, *“As far as press releases, the audit committee should take the lead.”*

Members sitting on supervisory boards in a two-tier board structure, however, report that the practice of reviewing press releases is less common. In a pre-meeting conversation, one such member said that when the audit committee does review press releases, they are *“not [focusing on] the details – that’s for the [management] board.”*

Those members who review press releases reported a focus on the adjectives used, the tone and the inclusion of guidance: *“Attention to adjectives, for example, [the use of] ‘better’ versus ‘best’ [is important], or whether to just get rid of them. And tone [is important] as well.”* In a pre-meeting conversation, another said *“The audit committee focuses on cases where management has talked down the results too much, [as well as hyperbole.] The committee wants to ensure the prose provides an accurate picture of the health of the company.”*

Scripts and presentations for earnings calls

In pre-meeting conversations, network members generally reported less frequent involvement in reviewing the presentations or scripts that are used in earnings calls, including the talking points for the question-and-answer session. However, some members are actively involved. One member described a board review of presentations to be used with analysts. Speaking before the meeting, another said, “In two of my audit committees, we also look at the management presentation. We don’t approve it but we look for the right tone, especially at this time.”

Other members report listening to earnings calls (either live or after the fact), and some also see value in having their external auditors listen in on earnings calls. One Ernst & Young partner said, “[*It is not required*] that we listen to analyst calls, but we often do.” External auditors look for consistency in messaging, as inconsistency would be a signal of potential trouble with the “tone at the top” of the company. Having senior executives maintain a consistent and ethical tone is an important element in fraud prevention.

Analyst calls, investor days, industry conferences and annual general meetings

At the EACLN meeting, members discussed:

- **Ongoing communication with analysts.** Many companies feel compelled to respond to analysts’ remarks and inquiries regarding their expected performance, outside of the earnings calls. When an analyst provides an opinion that is in conflict with a company’s expectations, the company may provide additional information to clear up misconceptions. However, in a pre-meeting conversation, a member said, “We never say the analyst is wrong, by principle. [They] could be right in a year, after all.” At the meeting, members said communication with analysts is the responsibility of management. However, experts suggest that both audit committees and the full board ought to understand how management is likely to respond to analyst coverage.
- **Annual investor days.** Most members report that they do not take an advance look at presentations for investor days, but some say they read them for informational purposes. One member who sits on a two-tier board stated that investor days are clearly the responsibility of management. A few members do report more involvement: “*These presentations are more and more important. The slides are used for presenting to shareholders, and it is more important [for the audit committee] to look at these than prospectuses. As the audit committee, we need to ensure there aren’t disconnects between the slides, the press releases and the financial reports. We should focus on the key issues.*” Another member pointed out how information presented in these kinds of presentations can differ substantially from information presented in annual accounts, an issue that can be a red flag for regulators.
- **Industry conferences at which management speaks directly to the public.** In a pre-meeting conversation, a member said, “A difficult issue is what gets issued between the [statements of the] accounts – like a speech by the CEO.” Most members said that they do not review executive speeches, but also noted, “*You need to put the fear of God into management to not go off the beaten path [as far as messages.]*” Another member said that management must be extremely aware of what information might have an effect on the share price if revealed and avoid communicating it at all costs.
- **Annual general meetings (AGM).** A member said, “*It’s important to distinguish the AGM – the official rendezvous of the company and the shareholders – from other meetings with analysts, which*

are up to management ... For the AGM, we should look at scenarios, the organisation of the [event] and the documents. It's a very important moment, and the role of the board is active in this." This member also mentioned the possibility that the audit committee may play a more active role in the AGM in the future.

The issue of earnings guidance

Earnings guidance typically appears in companies' quarterly or annual earnings press releases and may be general or specific in nature: some companies provide a generalised performance forecast, whereas others provide specific earnings-per-share (EPS) targets, often in a range. Guidance has been a controversial issue for some time, most commonly because of the view that it creates short-termism in the market-place. The financial crisis has made the question of whether or not to provide guidance even more salient, with market volatility making it very difficult to provide forecasts.

The most recent trends in earnings guidance

European analysts' demand for earnings guidance has increased in tandem with the US practice of providing this information, which began when the SEC decided in 1978 to allow companies to include forward-looking performance projections, as long as they were accompanied by the appropriate cautionary information.⁷ In the 1990s, almost all US public companies were issuing some form of quarterly forecast,⁸ with many issuing EPS targets in addition to generalised performance expectations. With their US competitors offering guidance, large-cap companies in Europe felt compelled to provide more forward-looking information as well, particularly those European companies that are listed in the United States. However, European companies typically issue generalised economic outlook information rather than specific targets, such as EPS.

A 2008 study by The Bank of New York Mellon found that the majority of global respondents (58%) provide earnings guidance, and 60% of those companies do so on a quarterly basis. According to this study, approximately 63% of Western European companies provide quarterly guidance, compared with almost 70% of North American companies.

⁷ Joseph McCafferty, "The Long View," *CFO.com*, 1 May 2007. Available at http://www.cfo.com/printable/article.cfm/9057969/c_9064230?f=options.

⁸ *Ibid.*

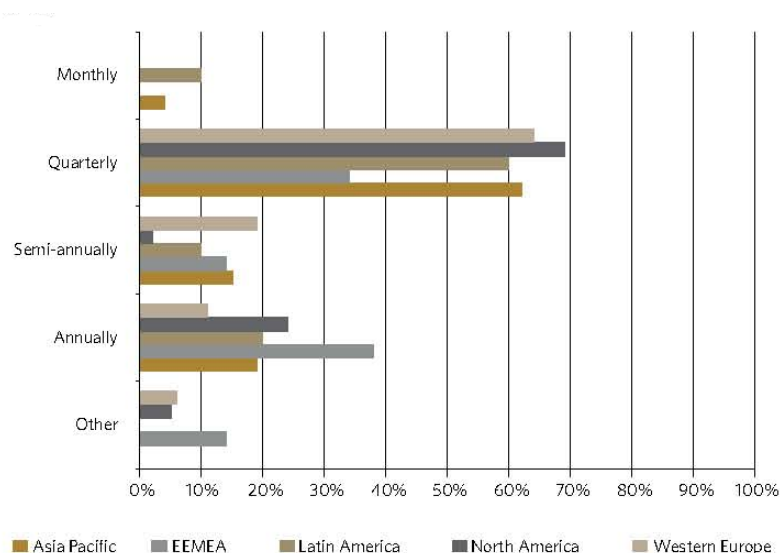


Table 1. Regional trends in the provision of guidance⁹

Although the provision of earnings guidance is common, EACLN network members have been vocal about their frustration with it. In a pre-meeting conversation, a member said, “I hate earnings guidance. It always creates problems: if you go over, [it’s a problem]; if you go under, [it’s a problem].” Several members said they regret the focus it places on short-term performance.

The financial crisis appears to be accelerating a trend away from the provision of short-term guidance. In a recent joint study by *CFO Europe*, Tilburg University and Duke University, senior finance executives listed accurate forecasting as their top internal concern: “As the uncertain economic environment wreaks havoc on budgeting and planning processes, finance chiefs now rank the ability to forecast effectively as their top internal concern.”¹⁰ Indeed, many companies are giving up issuing guidance. Recent prominent examples in Europe include Unilever¹¹ and GlaxoSmithKline.¹²

Members acknowledged that the crisis has spurred many European companies to stop providing guidance and that this trend may continue. One member declared, to general support, “*We should kill guidance.*” Another member, whose company has discontinued the practice, said, “*We [stopped] because of the crisis. It was acceptable to say we don’t know how it will affect us. We realised that it would be hard to make a good prediction.*”

⁹ The Bank of New York Mellon, *Global Trends in Investor Relations – Fifth Edition: A Survey Analysis of IR Practices Worldwide* (New York: Bank of New York Mellon, 2009), page 31. Available at <http://pdf.edocr.com/e4ddb9cc50b65c08ff26115a70368b2d8b4595c.pdf>.

¹⁰ Jason Karaian, “Top Ten Concerns of CFOs,” *CFO Europe.com*, 2 February 2009. Available at http://www.cfo.com/article.cfm/13046594/c_13047759?f=insidecfoeurope.

¹¹ Unilever, “2008 Full Year and Fourth Quarter Results,” press release, 5 February 2009, page 6. Available at http://www.unilever.com/Images/ir_q408_announcements_tcm181-161254.pdf.

¹² GlaxoSmithKline, “GSK delivers EPS of 104.7p before major restructuring Dividend increased 8% to 57p,” press release, 5 February 2009, page 2. Available at <http://www.gsk.com/investors/reports/q42008/q42008.pdf>.

The implications of eliminating guidance

Companies fear that giving up issuing quarterly guidance will provoke negative reactions from their investors and analysts. Evidence has shown that companies take a hit to their stock price¹³ when they stop providing quarterly earnings guidance, but some say this is a temporary, one-time hit. Additional reasons that companies fear giving up guidance include: the loss of analyst coverage; a broader range of analyst forecasts that are less accurate; and the fear of greater share price volatility.

A number of EACLN members reported attempting to broaden analyst views to take into consideration data other than profit and loss. One member said in a pre-meeting conversation, “Philosophically, we are trying to move shareholders to strategic thinking. It’s good to [communicate] that you’re not running the business on a quarterly basis.” Another member, also speaking before the meeting, said, “For whom do you write the interim report? When talking to investor relations, you would think you are writing it for the analysts, who are focused on growth or margins ... But I argue we are not – we are writing for the investors ... so we should try to be more elaborate in what we are describing.” This member recommended providing investors with information about the drivers of the company and the industry, as well as the likely environment impacting the drivers, so that investors can form their own opinions.

Indeed, many companies that stepped away from providing short-term guidance have made a commitment to providing more information in the form of additional metrics the company uses to gauge performance. For example, GlaxoSmithKline’s decision to stop providing numerical earnings guidance in February 2009 was accompanied by a commitment by the company CEO to communicate progress against the company’s strategic priorities on a regular basis.¹⁴ In short, if the company is not providing a figure or range, then it may give analysts the tools they need to develop their own models and forecasts.

Conclusion

Despite the passage of several European regulations in the past decade that provide a stronger legal framework for how public companies oversee and distribute financial information, audit committee practices of reviewing financial reports, whether issued quarterly, half-yearly or annually, continue to diverge significantly. This may change: as public and regulatory pressure to address corporate governance issues in financial institutions increases, it is likely to spill over to the broader economy and to impact the practices of other public company boards. One practice that may have been permanently changed in Europe as a result of the financial crisis is the provision of earnings guidance.

¹³ Shuping Chen, Dawn Matsumoto and Shiva Rajgopal, “Is Silence Golden?” working paper, October 2006. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=820644.

¹⁴ GlaxoSmithKline, “GSK delivers EPS of 104.7p before major restructuring Dividend increased 8% to 57p,” page 2.

Appendix 1: National governance codes address the audit committee's responsibility for overseeing financial communications

The audit committee's responsibility	
Belgium¹⁵	The audit committee should monitor the integrity of the financial information provided by the company, in particular, by reviewing the relevance and consistency of the accounting standards used by the company. This includes the criteria for the consolidation of the accounts of companies in the group. This review involves assessing the correctness, completeness and consistency of financial information. The review should cover periodic information before it is made public, and it should be based on an audit programme adopted by the committee.
France¹⁶	The main tasks of the audit committee are to review the accounts and ensure the relevance and consistency of the accounting methods used in drawing up the corporation's consolidated and corporate accounts and to ensure that in-house procedures for the collection and review of information lead to the achievement of these goals.
Germany¹⁷	The consolidated financial statements must be prepared by the management board and examined by the supervisory board. The supervisory board or its audit committee should also discuss half-yearly and any quarterly financial reports with the management board prior to publication.
Italy¹⁸	The internal control committee shall evaluate, together with the executive responsible for the preparation of the company's accounting documents and the auditors, the correct utilisation of the accounting principles and, in the event of groups, their consistency for the purpose of the preparation of the consolidated balance sheet.
The Netherlands¹⁹	The supervisory board oversees the work of the management board, including the financial reporting process. The audit committee prepares the board to make its decisions, and as such, supervises the activities of the management board regarding the company's provision of financial information (choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the financial statements, forecasts, work of internal and external auditors, etc.)
Sweden²⁰	The audit committee is responsible for the preparation of the board's work to ensure the quality of the company's financial statements. To ensure the quality of the financial statements, the committee normally has to consider all critical accounting issues and the financial reports presented by the company. The committee is expected to consider matters such as internal controls, regulatory compliance, material uncertainty in reported values, uncorrected errors, post-statement events, possible improprieties and other circumstances that may affect the quality of information in the financial statements.

¹⁵ The Belgium Corporate Governance Code for Listed Companies is available at http://www.ecgi.org/codes/documents/belgian_draft_code_2009_en.pdf

¹⁶ The French Corporate Governance Code for Listed Companies is available at http://www.ecgi.org/codes/documents/cg_oct03_en.pdf.

¹⁷ The German Corporate Governance Code is available at http://www.ecgi.org/codes/documents/cg_code_germany_june2008_en.pdf

¹⁸ The Italian Corporate Governance Code is available at http://www.ecgi.org/codes/documents/codiceautodisciplina_en.pdf.

¹⁹ The Dutch Code is available at http://www.ecgi.org/codes/documents/cg_code_netherlands_dec2008_en.pdf.

²⁰ The Swedish Corporate Governance Code is available at http://www.ecgi.org/codes/documents/swedish_cgc_jul2008_en.pdf.

The audit committee's responsibility, *continued*

Switzerland²¹

The audit committee should review the individual and consolidated financial statements, as well as the interim statements intended for publication. It should discuss these with the chief financial officer and the head of the internal audit and, separately, should the occasion warrant it, with the head of the external audit. The audit committee should decide whether the individual and consolidated financial statements should be recommended to the board of directors for presentation at the general shareholders' meeting.

United Kingdom²²

The main role and responsibilities of the audit committee should be set out in written terms of reference and should include monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgments contained in them.

²¹ The Swiss Code of Best Practice for Corporate Governance is available at http://www.ecgi.org/codes/documents/swiss_code_feb2008_en.pdf

²² The Combined Code on Corporate Governance is available at http://www.ecgi.org/codes/documents/combined_code_june2008_en.pdf.pdf.

Appendix 2: Questions for audit committees to consider on financial communication

- ? What is your company's philosophy on financial communication? Are you satisfied with the overall quality and degree of transparency? What would you like to see change?
- ? What are the respective roles of management, the (non-executive) board and the audit committee in the financial communication process? How does this differ for unitary and two-tier board structures?
- ? Are these roles clearly defined on your board? When the overall board is responsible for reviewing the press release, how is the audit committee's role differentiated?
- ? How does the audit committee work with management to agree on what to communicate? Does the head of investor relations (IR) participate in board or audit committee meetings? If so, what role does he or she play in the meeting?
- ? What particular concerns do you have about your financial reports and related disclosures given the financial crisis? Do you feel your internal reporting systems are meeting your company's needs for analysing and reporting information? How is the board or audit committee addressing these concerns?
- ? Did your company add specific disclosures at year-end, in particular, on liquidity management or on valuation assumptions and sensitivity?
- ? If audit committee members attend shareholder meetings, such as investor days, what role do they play at the meetings? Will the current economic situation increase the pressure on board members to attend these types of events and meetings?
- ? How involved are you in your company's decisions about guidance? What role does the audit committee play in helping a company determine whether or not to stop issuing guidance? How satisfied are you with the control environment around guidance? Where do you look for assistance: internal and or external audit, or both?
- ? What are the pros and cons for your company of providing guidance, given the industry and the current economic climate?

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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