NATIONAL INSTITUTE OF ACCOUNTANTS

MEDIA RELEASE
17 October 2002

NIA checklist helps Australia's 7million shareholders to assess corporate governance and accountability

With 2001-2 public company Annual Reports being issued and Annual General Meetings ahead, the National Institute of Accountants (NIA) today released a checklist on assessing corporate governance and accountability in an endeavour to assist the seven million Australians who either directly or indirectly own shares in listed companies.

According to NIA's National President, Mr Klaus Zimmermann, an annual report is one of the most valuable tools for shareholders to review the corporate governance of a company.

"Key information presented in an annual report is often difficult to interpret, so it is essential for shareholders and potential investors to be adequately informed on some of the more critical information.

"In recent times, the importance of corporate governance and accountability has received justified prominence. Good corporate governance should be one of the key considerations in investment decision making, and the information disclosed in an annual report is one indication to stakeholders of a company's culture and its commitment to accountability.

"While shareholders have a range of resources that can provide information about their investments, the NIA believes a better understanding of the corporate governance practices of a public company may give them greater confidence in the value of such information," Mr Zimmermann said.

According to the Australian Stock Exchange, 52 per cent of Australian adults are owners of shares, but this number increases significantly when you account for the growing number of employees whose superannuation funds have share investments.

"The NIA's checklist will assist shareholders to better understand corporate governance issues and to get greater value from attending an AGM where their Board can be questioned on the company's performance and corporate governance," Mr Zimmermann said.

A full copy of the NIA's corporate governance and accountability checklist is available on the NIA website www.nia.org.au (media copy also follows).

Enquiries
Klaus Zimmermann, NIA T (08) 8272 0599, M 0418 897 576
Roger Cotton, NIA T (03) 8665 3111 M 0418 177 765
Kim Gilliland, Corporate Kudos T (03) 9646 3444, M 0408 400 730

CHECKLIST ON CORPORATE GOVERNANCE AND ACCOUNTABILITY

Introduction

This document has been prepared by the National Institute of Accountants (NIA) to assist in increasing the understanding of some of the important issues relating to corporate governance. It is by no means a definitive checklist to good corporate governance, nor should a deviation or negative answer to any of these checklist items mean that a company has poor corporate governance or corporate governance below an optimal level. This checklist should be used only as a guide.

In preparing this checklist the NIA reinforces that shareholders are the owners of a company, therefore the Board of Directors is ultimately accountable to shareholders. Shareholders should encourage full and proper disclosure of information to all stakeholders to enable them to make informed decisions on the company.

Corporate Governance

- **What is the composition of the Board of Directors? How many of these directors are independent directors? What process does the company use to appoint independent directors? How many directorships does each of the independent directors have?**

  An independent director or non-executive director is a commonly used term, generally referring to directors who do not have any contractual relationship with the company other than being a director. Therefore they are assumed not to be subject to control or influence of any other director or directors, or to have any relationship with the company which could affect the exercise of independent judgment.

- **Has the Board of Directors set up an audit committee of the Board of Directors? If so, is the audit committee composed of independent directors and do any of the committee members have a financial/accounting background?**

  Audit Committees are not compulsory in Australia. However, companies listed on the Australian Stock Exchange (ASX) that do not have an audit committee are required to disclose in their annual report the reasons for not having one. Audit Committees provide boards with an additional avenue to assist in meeting their financial reporting responsibilities. The major functions of an audit committee are generally:

  1. Nominating external directors;
  2. Contributing to the development of the audit plan for the external auditors;

3. Reviewing the effectiveness of internal audits;
4. Reassessing the external and internal auditors evaluations of internal controls;
5. Reviewing the external auditor's management letter (report on the audit) and following up on the recommendations of the external auditor;
6. Reviewing the financial statements with the external auditor to the Board of Directors.

An audit committee of the Board of Directors should act as another independent "watchdog" over management and the non-independent directors.

- **Complement of Board members**

  Have there been any significant changes in the make up of the Board of Directors in the financial year? If so, were there any Directors who only remained in the position for a short period? If so, can such a short appointment be explained?

- **Does the company have in place procedures that allow employees to disclose concerns about the company's interpretation of accounting standards and other internal procedures?**

  If so, does this occur without fear of any action and does this procedure outline how the company will respond to such disclosures?

Accountability

- **Apart from the Annual General Meeting, through what other forums and methods can shareholders and other stakeholders raise questions to the Board of Directors and to the company?**

  Your interest in a company should not be limited to the AGM. Most accountable companies have avenues for shareholders to raise issues for resolution. All announcements made by a company during the year can be accessed through the ASX website.