Among the questions committee members should ask:

1. Should members be selected by nominating or governance committees?

2. Do the compensation committee members have adequate access to and control over the outside compensation consultants?

3. Are bonus programs structured to enhance long-term stockholder value?

4. How does the compensation committee measure executive performance?

5. Are the criteria tied to value creation and building? What role should nonfinancial criteria play in the measurement?

6. Are committee members able to effectively negotiate with the CEO over compensation?

7. Is there a mechanism that could enable the company to recover payments to executives who engage in improper conduct?

8. Does equity compensation align management’s interests with the stockholders’ interests?

9. Should executives be required to hold stock until after retirement?

10. How does the committee measure total compensation (i.e., salary, bonus, equity incentives, perquisites)? Such items all play a role in shaping an executive’s motivations.
To that end, for higher quality investor communications, these are among the recommendations we offer boards:

☐ Consult with top stakeholders, such as investors, lenders, customers, and suppliers, when board processes are reviewed, to factor in their interests and concerns.

☐ Review the way in which you communicate governance processes to your shareholders, both institutional and private, and determine whether and how improvements should made.

☐ Ensure that information is concise and timely and that it encompasses appropriate performance measures in keeping with strategic objectives.
As audit committees strive hard to watch the referee, they’re often hard pressed to pull their gaze back to the game taking place on the field. Directors at the KPMG spring 2003 audit committee roundtables expressed the flavor of some of these concerns:

- “Simply complying with all of the new rules takes up considerable audit committee time and can serve as a distraction from its central responsibilities.”

- “There is a fine line that distinguishes ‘oversight’ from ‘micromanagement.’ Where is that line? In a potential lawsuit, someone is likely to say, ‘Why didn’t you know this or that detail?’ How much must we know?”

- “It’s important to balance practicality and priorities with the new governance environment to ensure that we not only focus on the form [of the various requirements], but also the substance.”

- “There are too many pronouncements leading to too much checking off of requirements and not enough thinking.”

- “It’s hard to keep up with all the changes in NYSE and SEC reporting and rules, while trying to keep focused on substance rather than details.”
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Source: KPMG LLP © 2003
## The Three Legs of Financial Reporting

### Audit Committee
- Provide oversight, challenge, and influence
- "Tone at the top"
- Financial reporting risk management
- Adequacy of control environment
- Adequacy of financial reporting process
- Accounting policies and estimates
- Unusual transactions
- Financial management
- Internal auditors
- External auditors
- Encourage continual improvement

### External Auditor
- Audit of financial statements and related attestation on management's assertions on internal control over financial reporting in accordance with GAAS
- Render opinion on financial statements
- Attestation related to internal control over financial reporting
- Audit committee communications
- Test and challenge:
  - Financial reporting
  - Internal control over financial reporting
- Improvement suggestions

### Management
- "Tone at the top"
- Infrastructure to support financial reporting process
- Financial reporting and risks, including internal control over financial reporting
- Design
- Implement
- Maintain
- Communicate
- Evaluate and report
- Internal Auditor
- Evaluate internal control
- Test financial reporting
- Risk management process
- Improvement suggestions