



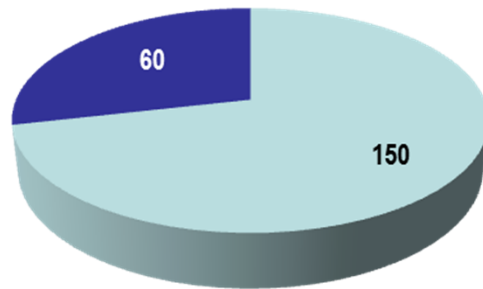
Australian Government
Financial Reporting Council

A background image showing a grid of financial data, including numbers, percentages, and dollar signs, in shades of blue.

Results of Survey on the Financial Literacy of Australian Directors

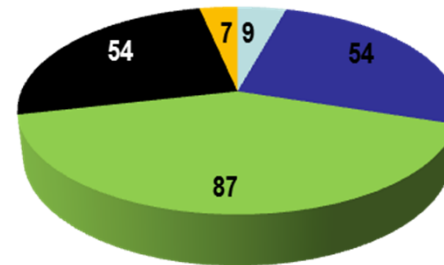
Directors survey – 210 respondents

Gender



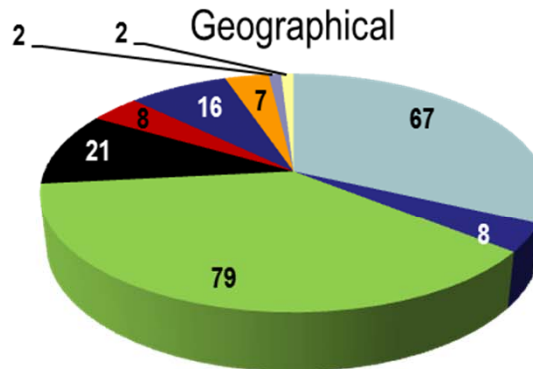
Male Female

Age



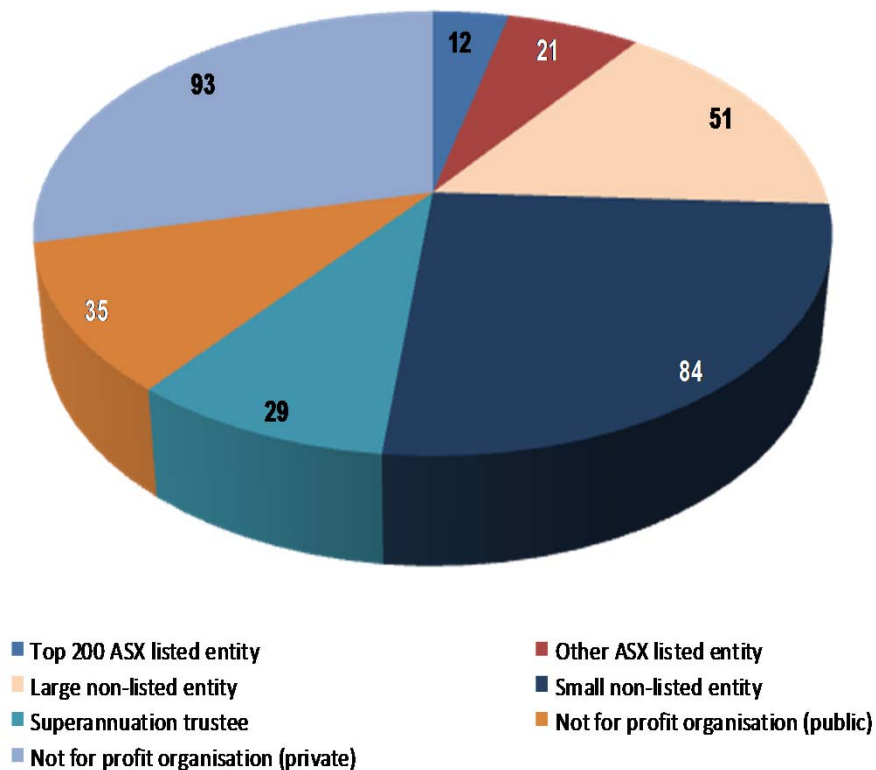
30-39 40-49 50-59 60-69 70 and over

Geographical



NSW ACT VIC QLD SA WA TAS NT Outside Australia

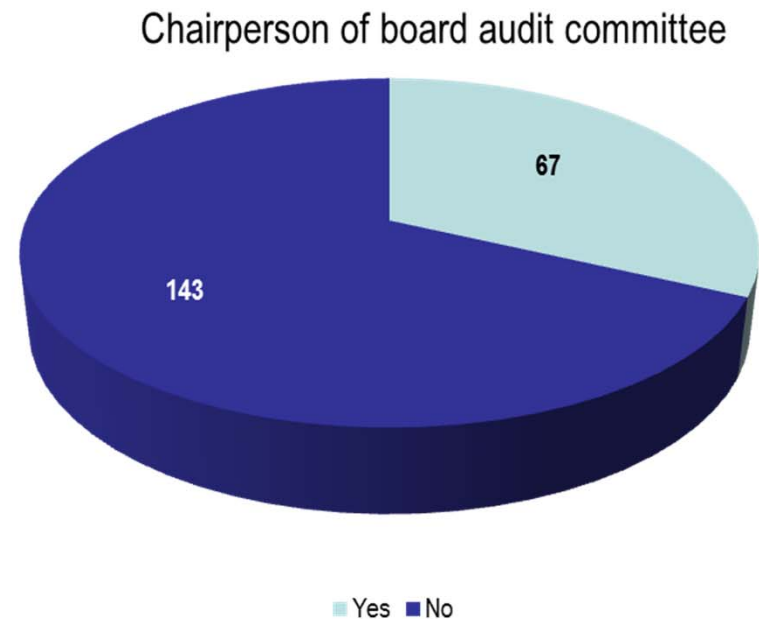
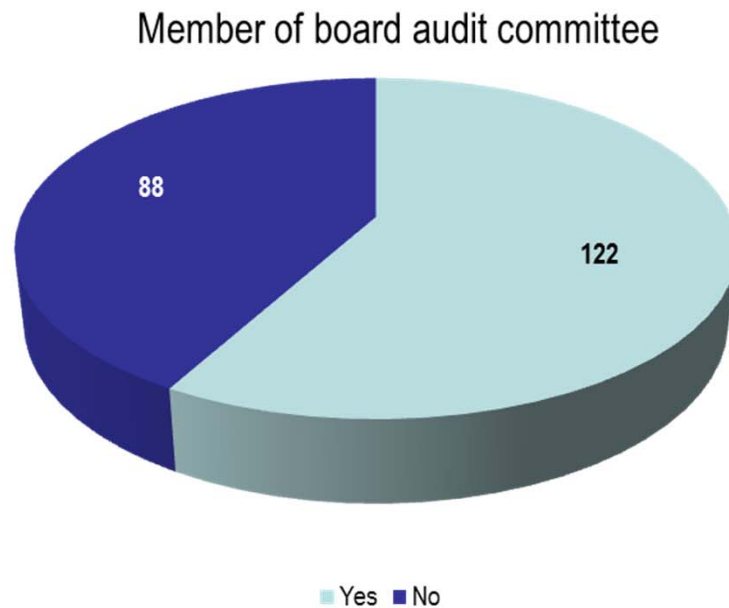
What type of organisation are you a director of?



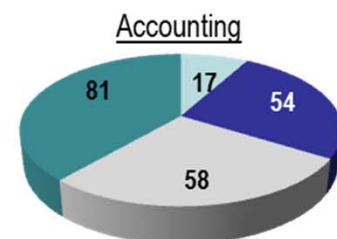
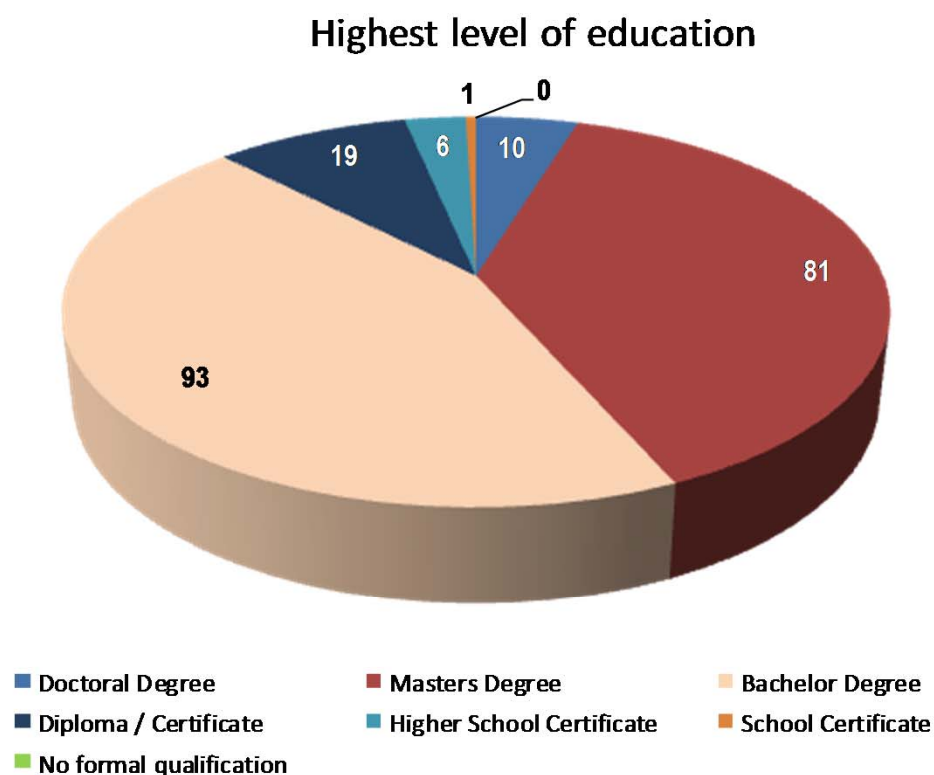
Responses were also received from directors of:

- a large consumer co-operative
- various government authorities
- an NSX listed entity
- an SGX Singapore REIT
- various professional services firms
- a Euronext listed entity

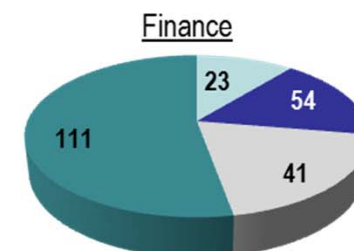
Are you a member or chairperson of a board audit committee on any entity of which you are a director?



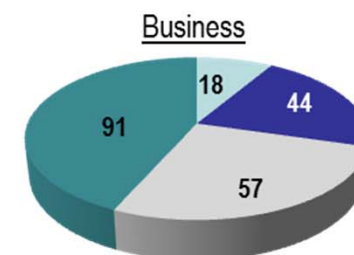
Highest level of formal education? Formal qualifications in accounting, finance, business or management?



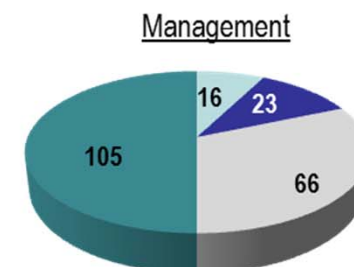
■ Diploma/Certificate ■ Bachelor ■ Post Grad ■ None



■ Diploma/Certificate ■ Bachelor ■ Post Grad ■ None

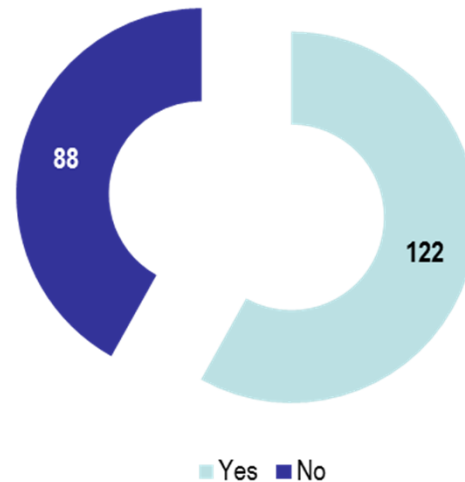


■ Diploma/Certificate ■ Bachelor ■ Post Grad ■ None



■ Diploma/Certificate ■ Bachelor ■ Post Grad ■ None

Have you undertaken any other training on accounting/finance issues for Australian directors?



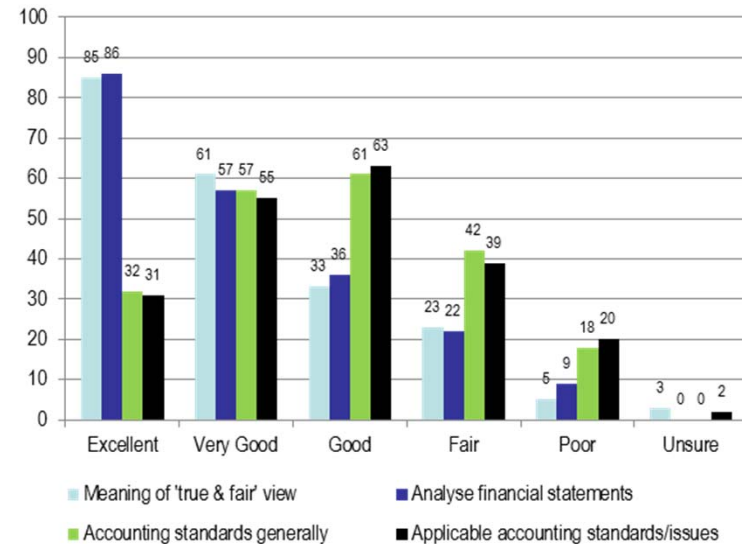
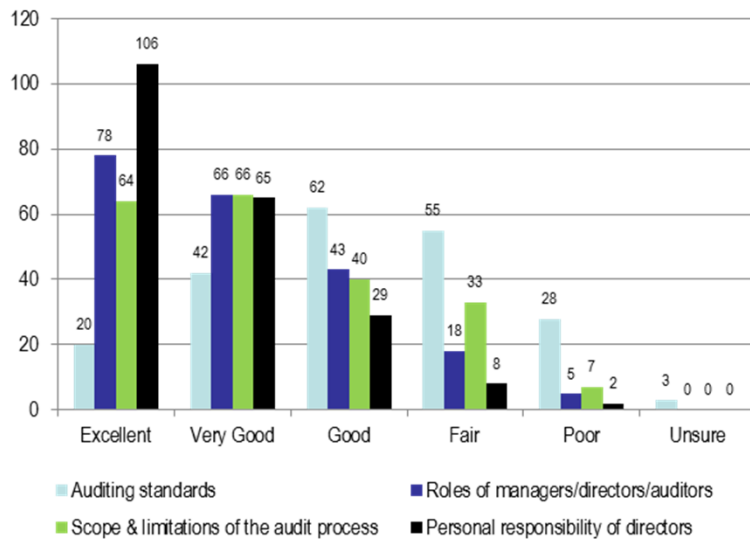
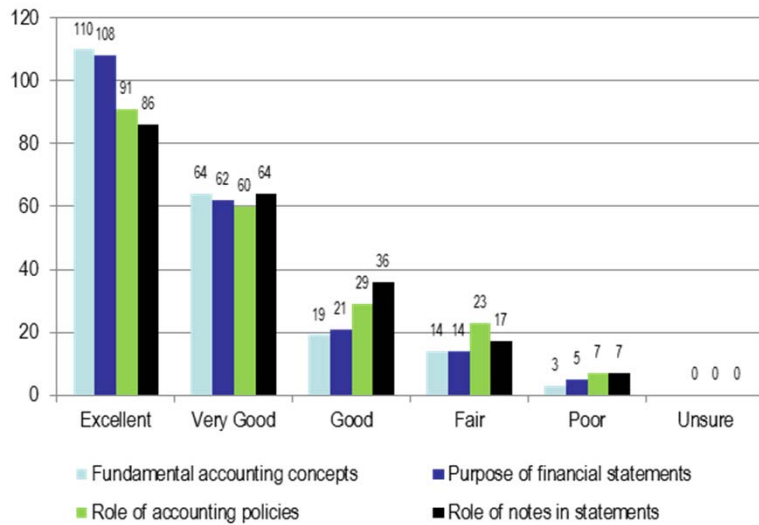
Numerous respondents mentioned having undertaken:

- various courses for directors run by the AICD
- short courses or education events run by the Institute of Chartered Accountants, CPA Australia and the Institute of Public Accountants

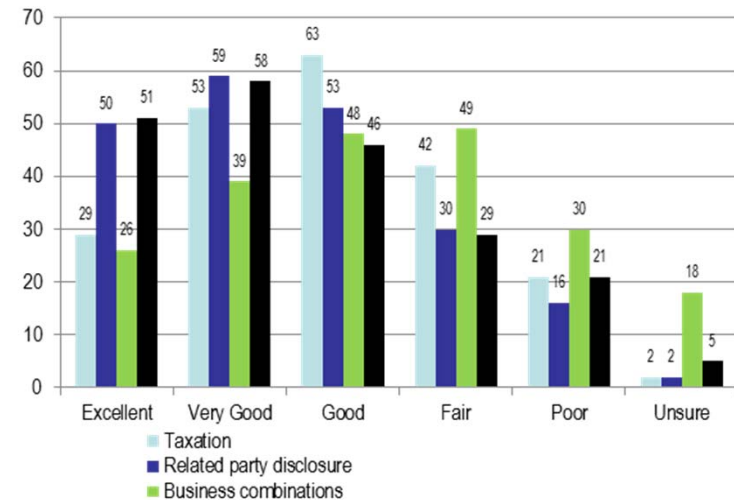
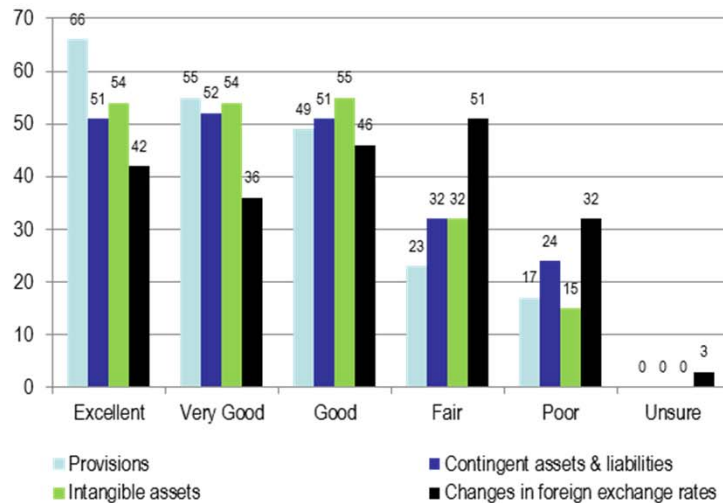
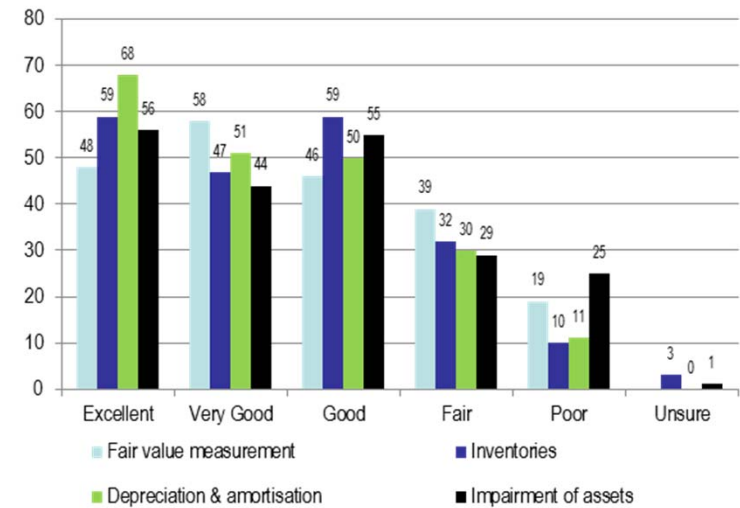
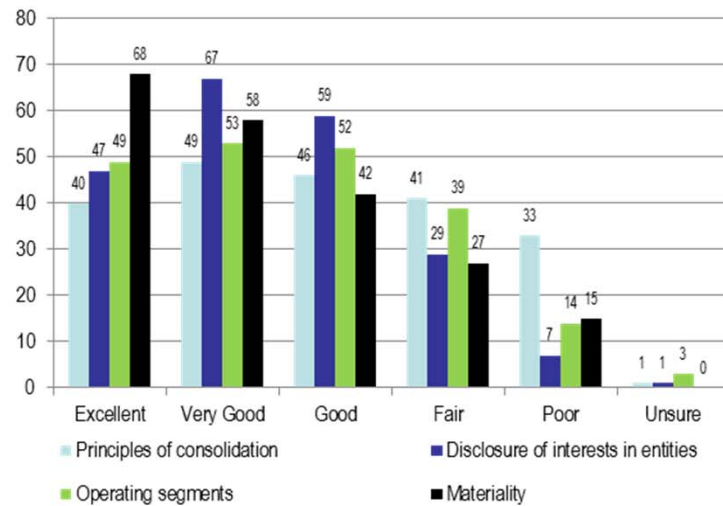
Respondents also mentioned having undertaken:

- post-graduate degree and diploma courses offered by universities and business schools
- courses run by other bodies such as FINSIA, the Institute of Chartered Secretaries and the Australian Institute of Management
- training sessions run by the company of which they were a director

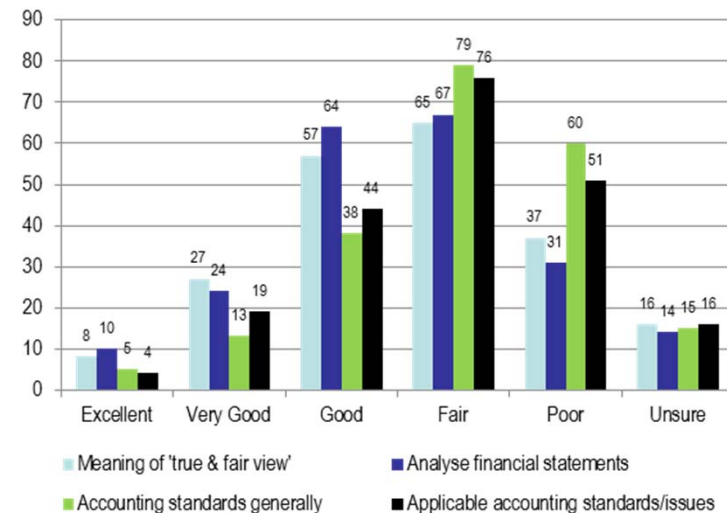
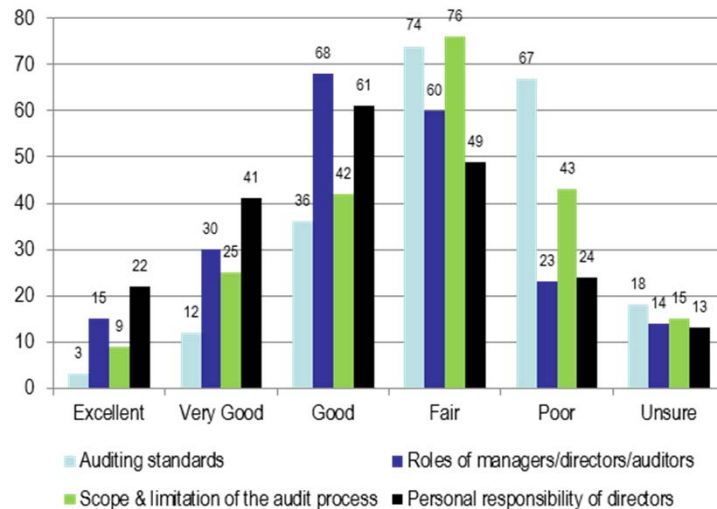
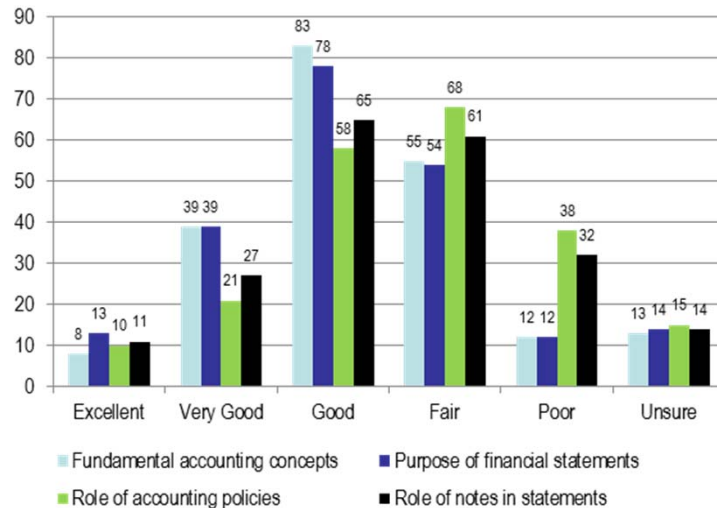
How would you rate your personal understanding of the following general accounting matters?



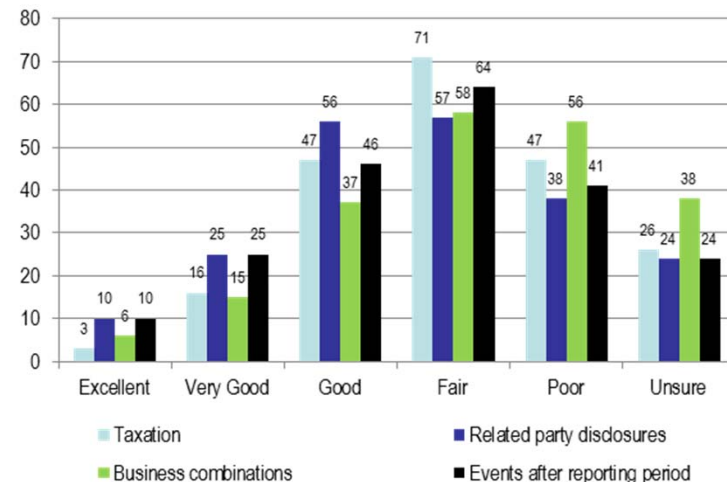
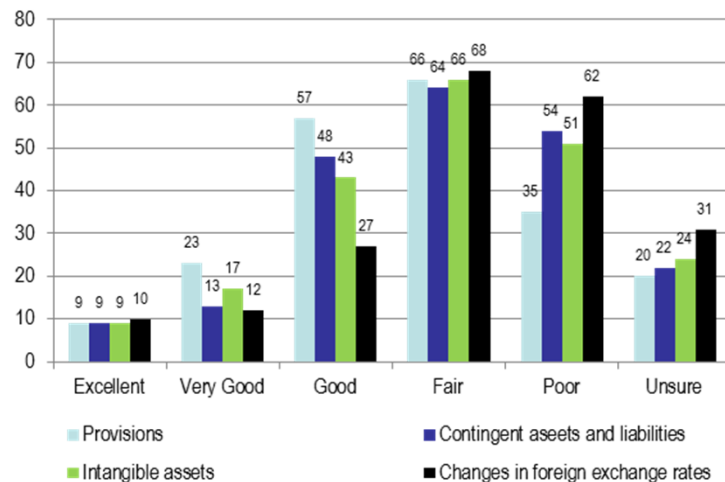
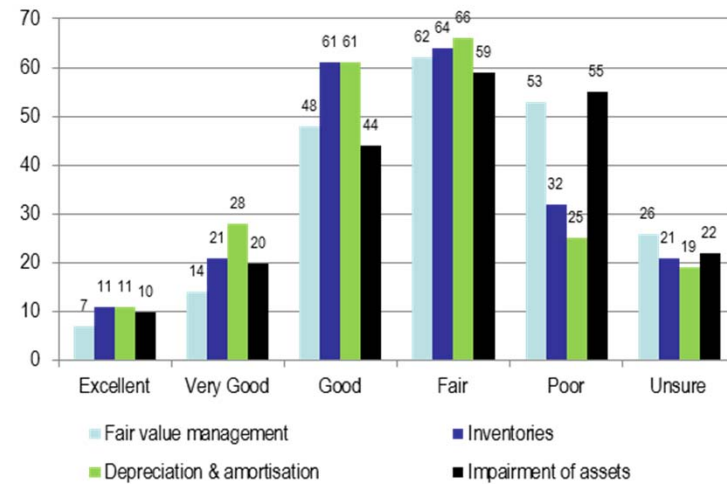
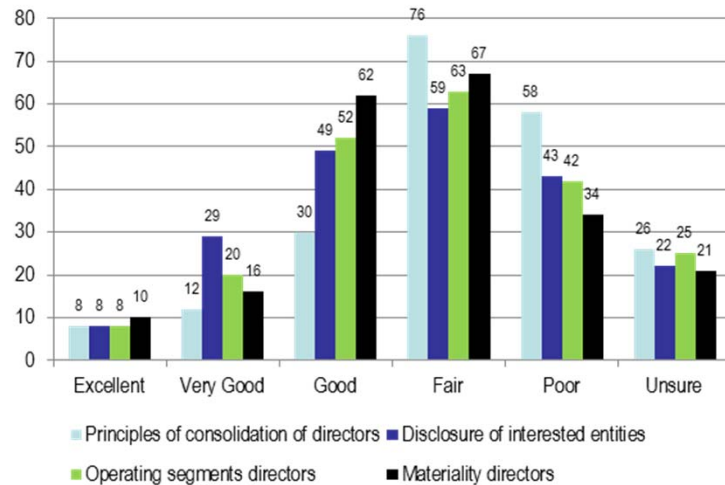
How would you rate your personal understanding of the following specific accounting issues?



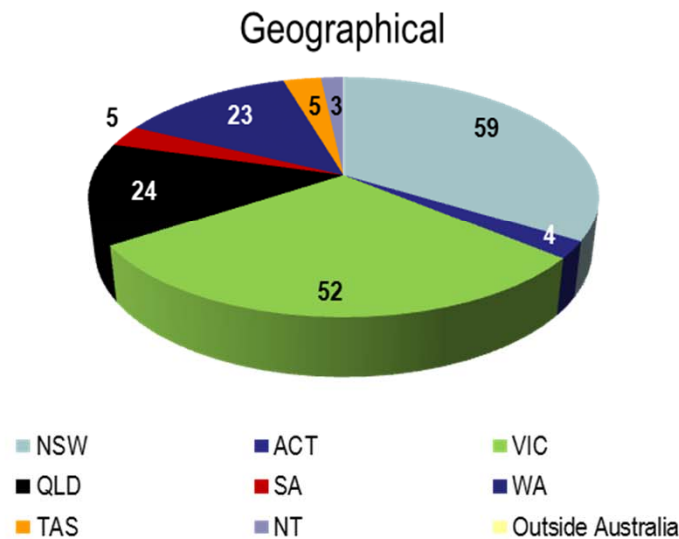
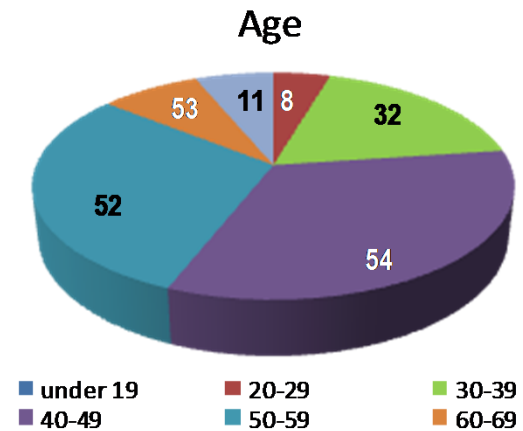
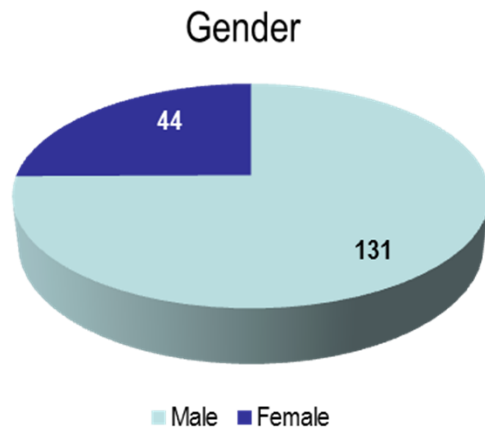
How would you rate the overall understanding of your fellow Australian directors (on average, as a group) on the following general accounting matters?



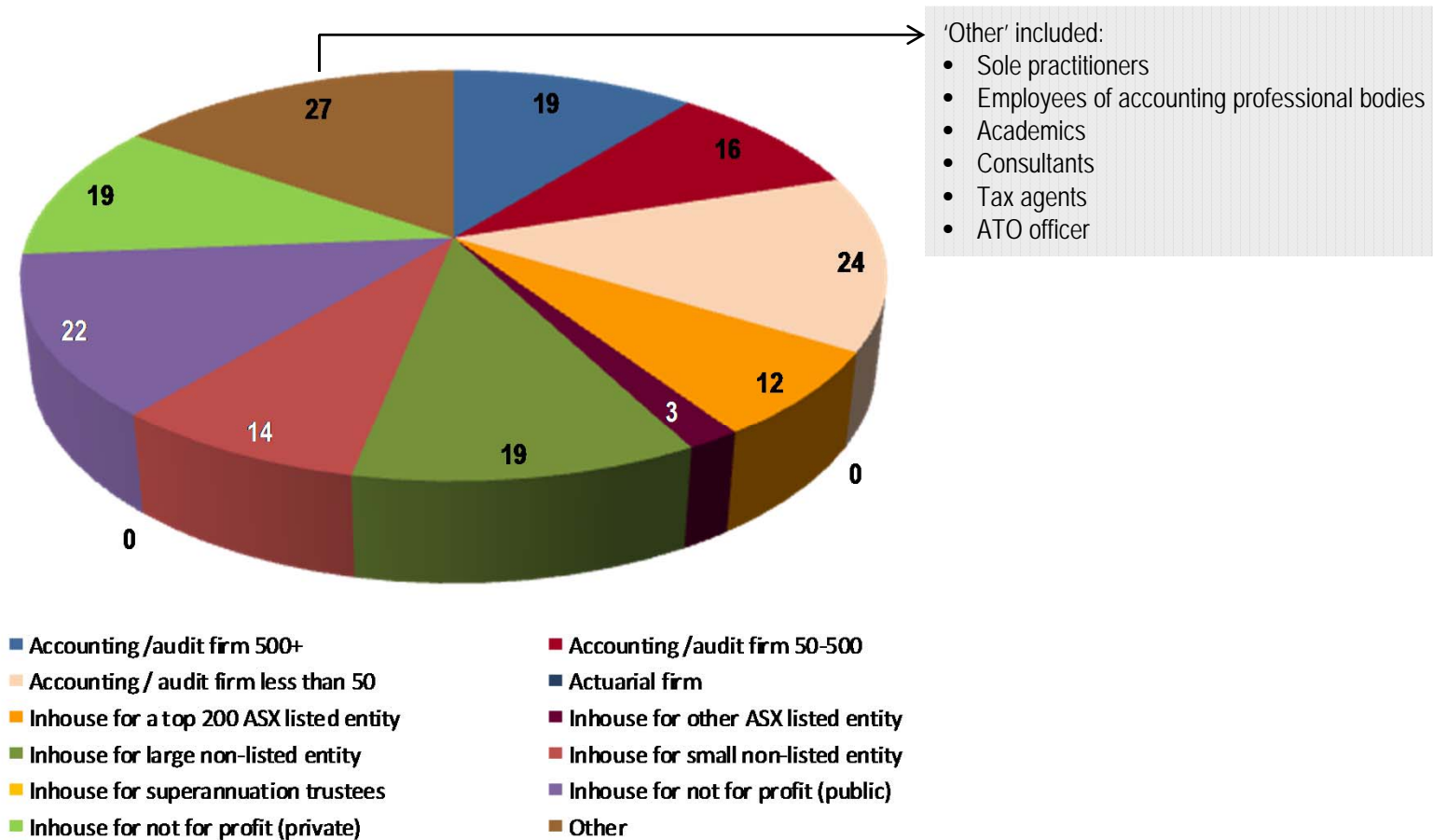
How would you rate the overall understanding of your fellow Australian directors (on average, as a group) on the following specific accounting issues?



Financial professionals survey – 175 respondents



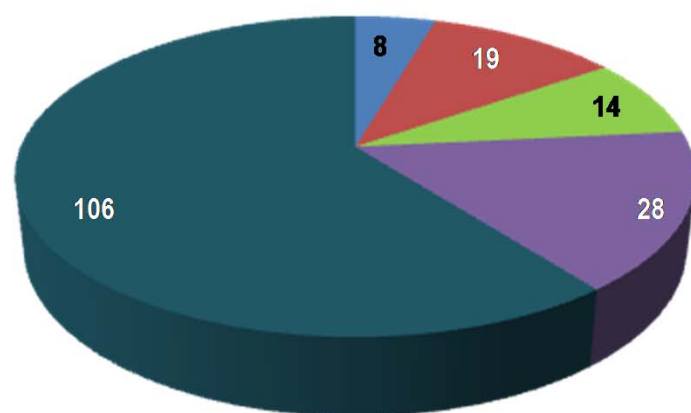
What type of organisation do you currently work for?



How many years have you been working as a financial professional?

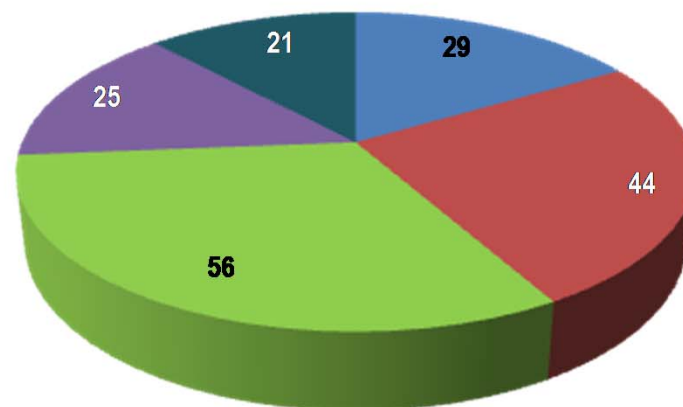
How many boards of directors do you directly deal with in your current professional role?

Years as a Financial Professional



0-5 years 6-10 years 11-15 years 16-20 years 21+ years

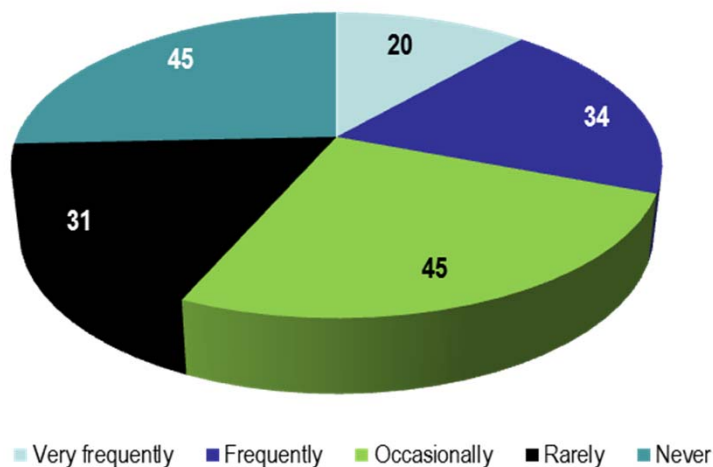
Directly deal with number of boards of director



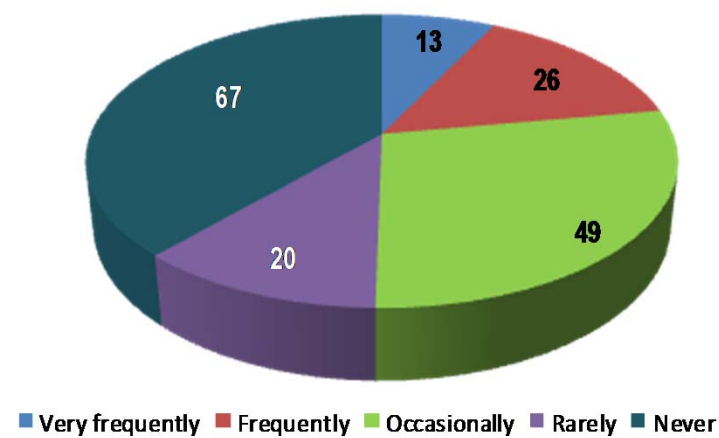
0 one two - five five - ten more than 10

How often would you interact with directors personally on financial matters over the course of a year?

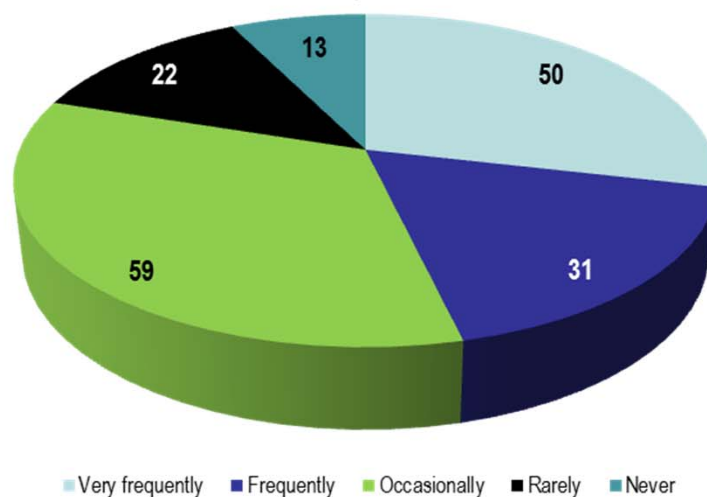
Board Meetings



Audit Committee Meetings

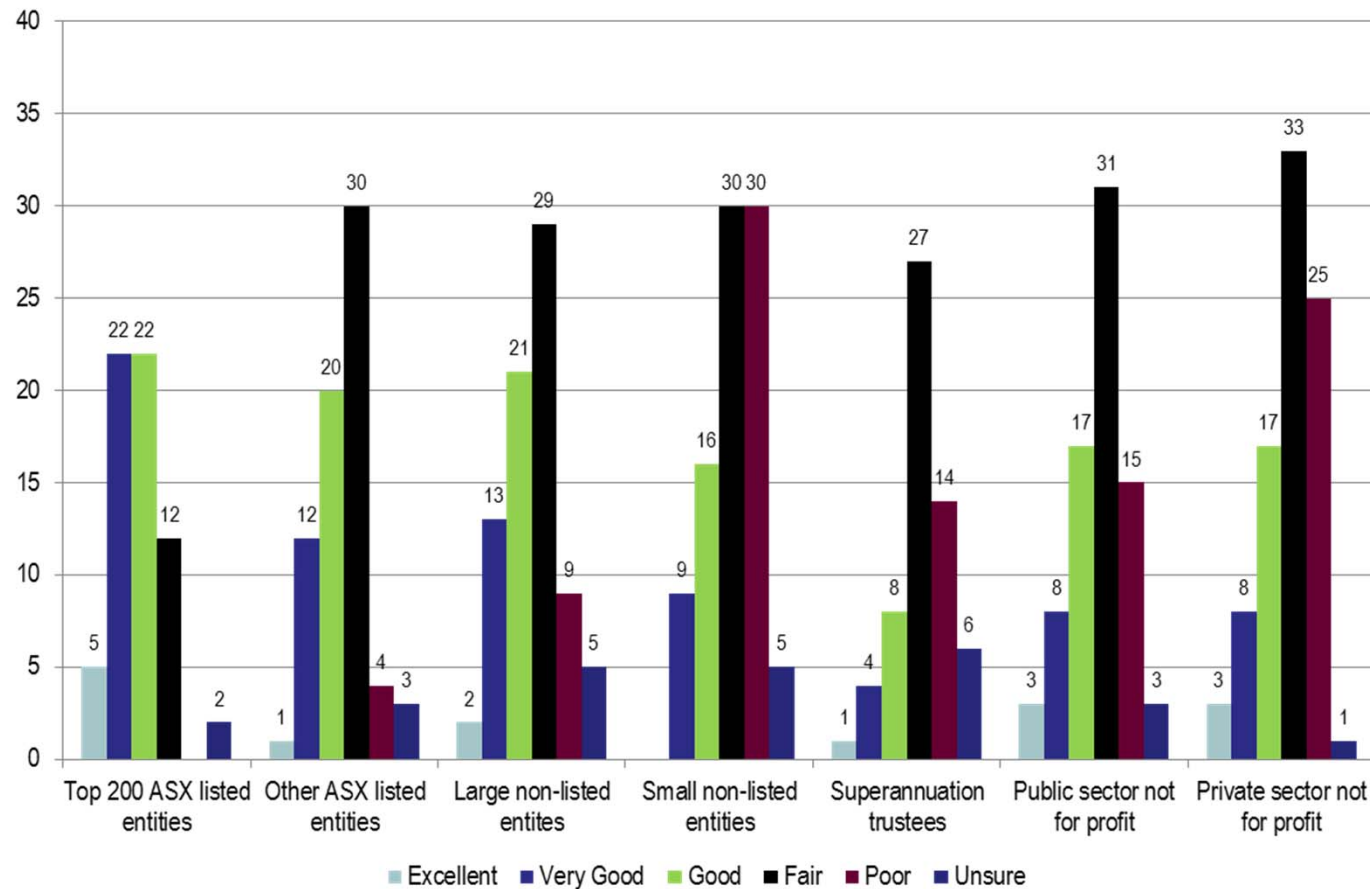


Individually / One-on-one

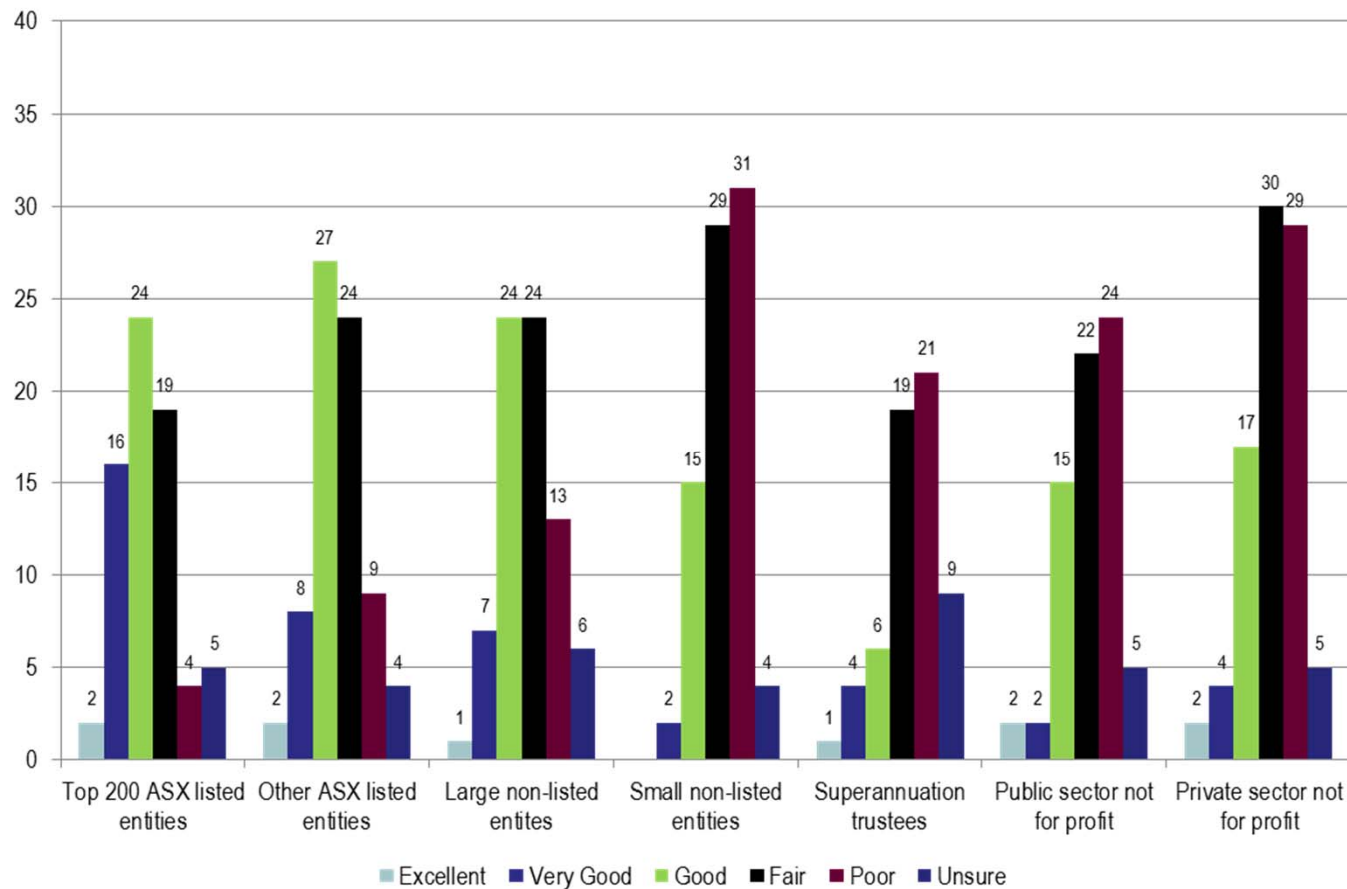


Very frequently: 12+ times a year
Frequently: 7-12 times a year
Occasionally: 2-6 times a year
Rarely: once a year

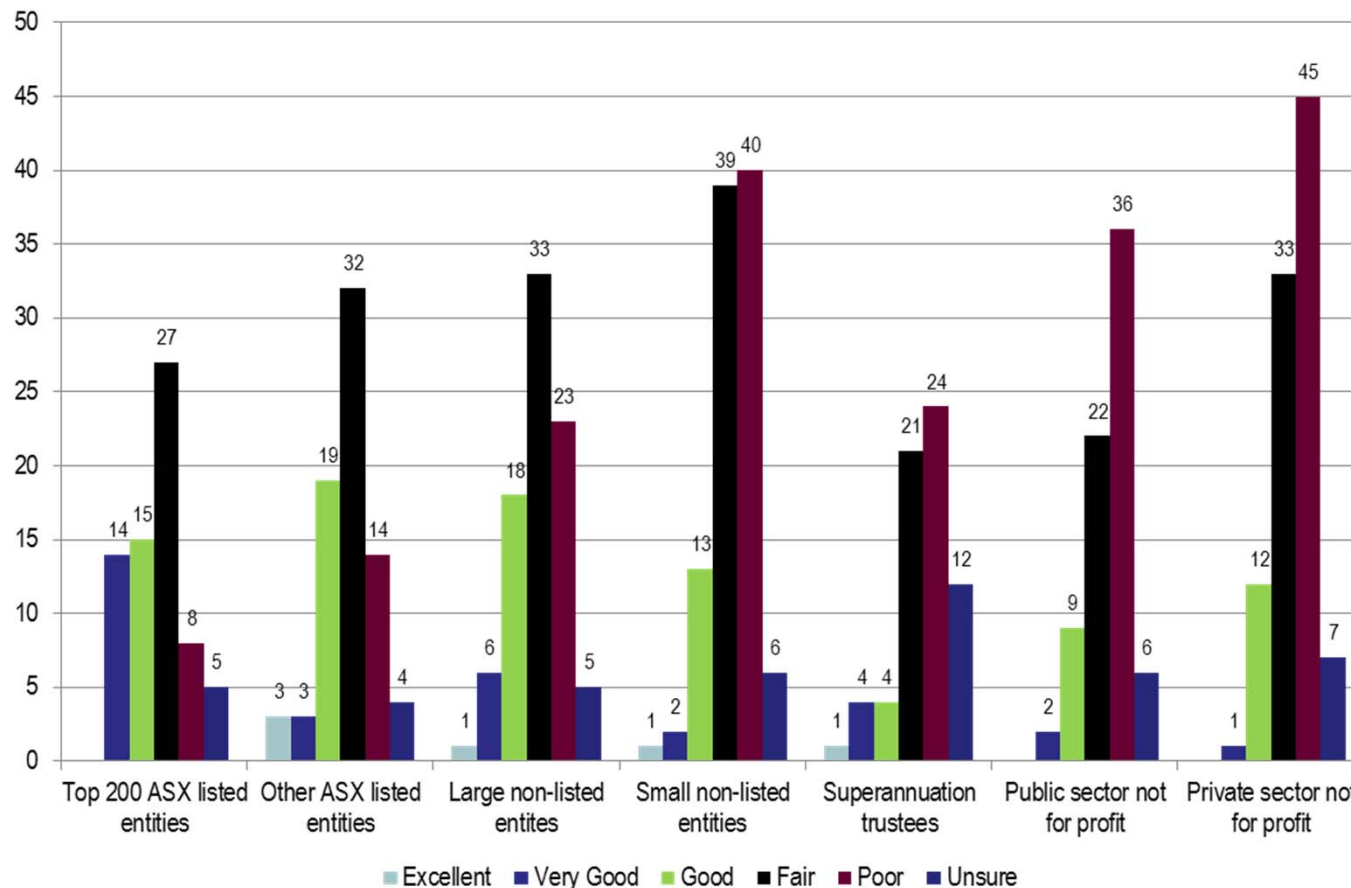
How would you rate the overall financial literacy of the Australian Audit Committee Chair(s) you deal with (on average, as a group)?

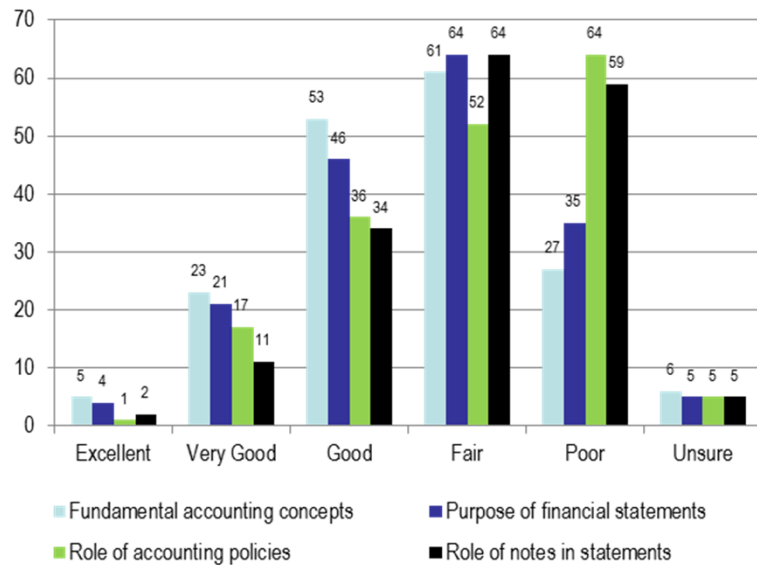


How would you rate the overall financial literacy of the Australian Audit Committee member(s), other than Audit Committee Chair(s), you deal with (on average, as a group)?

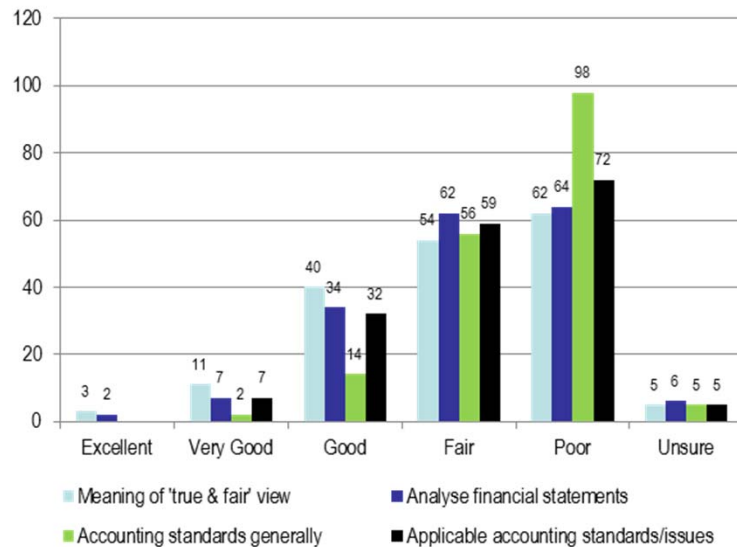
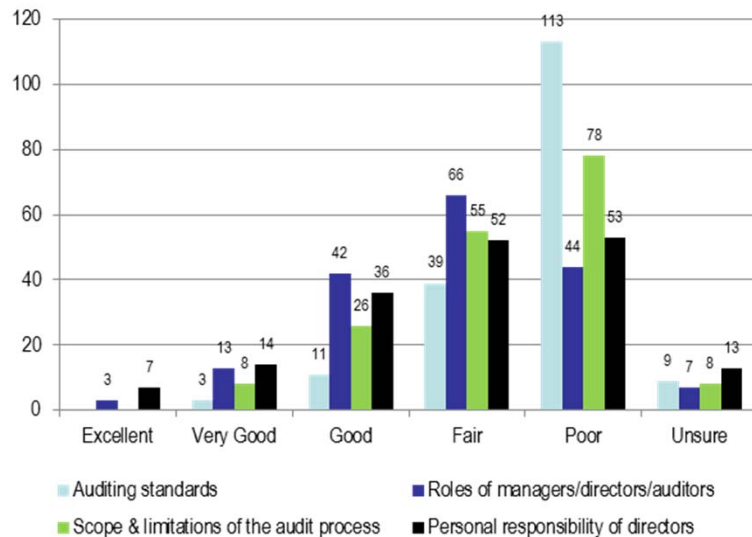


How would you rate the overall financial literacy of the Australian directors you deal with who are not members of the Audit Committee (on average, as a group)?

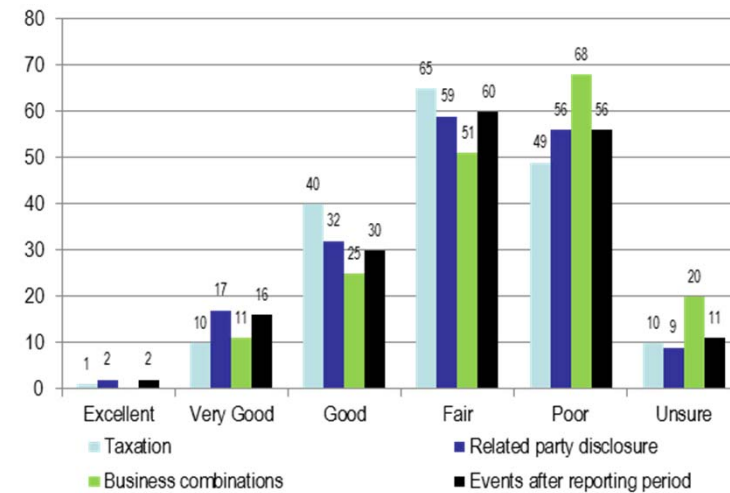
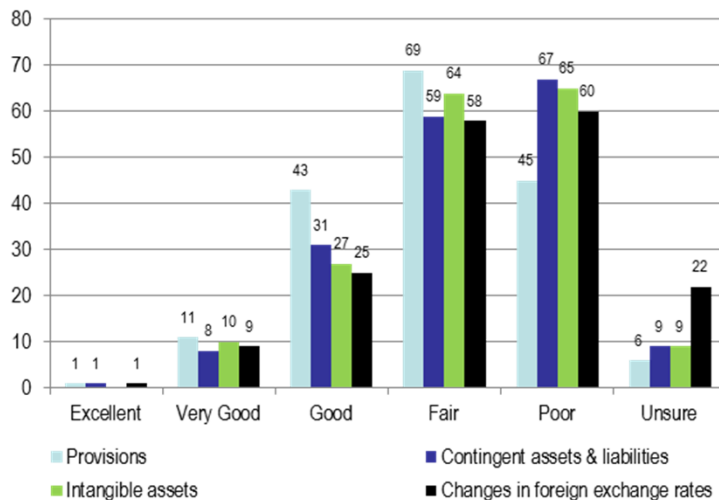
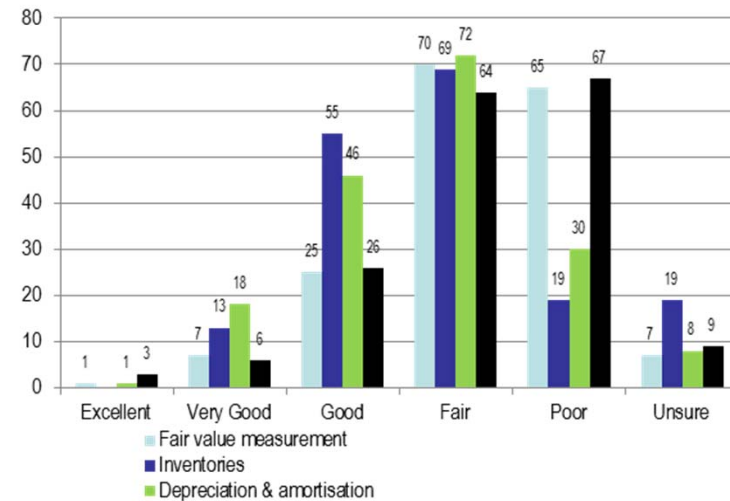
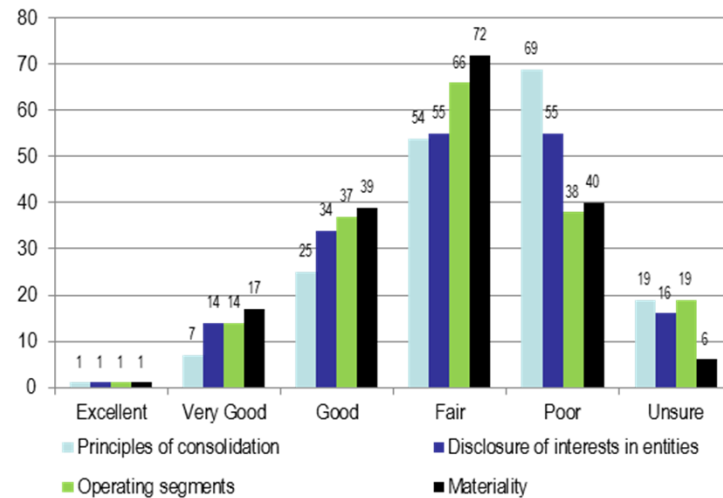




How would you rate the overall understanding of Australian directors of the following general accounting matters (on average, as a group)?



How would you rate the understanding of Australian directors of the following specific accounting issues (on average, as a group)?



Some observations* regarding the survey results

- There was a diverse range of respondents to the two surveys, including directors, and financial professionals who deal with directors, from larger (ASX 200) and smaller ASX listed companies, larger and smaller non-listed companies, not-for-profit organisations and superannuation trustees. This diversity was reflected in their commentary on the financial literacy of directors and in their suggestions on how to improve it.
- Notwithstanding this diversity, almost all respondents acknowledged in their commentary that there were concerns about the level of financial literacy of directors in Australia.
- Directors generally rated their personal level of financial literacy marginally higher than the financial literacy of their fellow directors. The financial professionals who deal with directors rated their financial literacy at notably lower levels than the directors themselves.

The FRC would note that this result is not surprising since, in many cases, directors would have rated their personal level of financial literacy from the perspective of someone without professional accounting training, whereas financial professionals would have judged it from the perspective of someone with professional accounting training.

* Note that these observations have to be read with some caution, given the sample size (210 directors and 175 financial professionals out of the many thousands of persons in those positions) and the fact that the survey respondents were self-selecting.

Some observations* regarding the survey results (cont.)

- Financial professionals who regularly deal with directors on average rated the general financial literacy of the directors of the top 200 ASX listed entities (good to very good) higher than that of other ASX listed entities (fair to good) and substantially higher than non-listed entities (poor to fair).
- Both directors and financial professionals rated the knowledge of directors of basic accounting principles (fundamental accounting concepts, the purpose of financial statements, the role of accounting policies and the role of notes in financial statements) as higher than their knowledge of specific, more technical accounting issues.
- Directors conceded that on average their knowledge of more technical accounting issues was fair. The financial professionals who regularly deal with them on average rated it as poor to fair.
- A number of respondents expressed concern that the increasing complexity of accounting standards is making it more difficult for directors to acquire and maintain the level of financial knowledge needed to sign off on financial statements. This is borne out by the two previous observations.

* Note again that these observations have to be read with some caution, given the sample size (210 directors and 175 financial professionals out of the many thousands of persons in those positions) and the fact that the survey respondents were self-selecting.



Suggestions to improve the level of financial literacy of directors

- Many respondents suggested the development of a range of education courses targeted specifically at directors, such as “Accounting 101 for directors” and “The things I should watch out for and the questions I should ask on the audit committee”.
 - Some respondents did not appear to appreciate that these types of courses already exist, which suggests to the FRC that the organisations providing these courses could do more to market their availability and that perhaps they should partner with ASIC to develop an information page on the ASIC website listing the names of these organisations, with their contact details and links to the pages on their websites with information about the courses they provide
 - Some respondents acknowledged that these courses do already exist but said that they were too expensive, were not easily accessible (especially for directors located in remote areas or overseas), were often pitched at the wrong level (some too simple, others too detailed) and in some cases required too great a time commitment for busy directors. The FRC proposes to write to some of the main providers of director education courses and pass on this feedback.
 - Quite a few suggested that the best form of training would involve online interactive courses provided free of charge or at low cost, but that of course begs the question as to who would fund the development of these courses and keep them up to date.

Suggestions to improve the level of financial literacy of directors

- A number of respondents noted the importance of having a diverse range of skills among the directors of a company and that this necessarily meant that not all directors would have the same level of accounting or financial acumen. They also noted the important role that companies (particularly listed companies) can play in addressing this issue, such as:
 - Verifying the financial credentials of directors as part of the recruitment process and arranging for additional training for directors who may benefit from it
 - Including in the board induction process a briefing from internal / external auditors on accounting policies and issues of particular significance to the company's business
 - Having the internal / external auditor run periodic board workshops on specific accounting issues relevant to the company's business
 - Having the external auditor present an annual accounting update to the entire board prior to them signing off on the year-end accounts
 - Inviting all directors as observers to meetings of the audit committee so that they can learn from the directors with accounting / audit expertise
 - Inviting non-executive directors as observers to analyst and investor presentations so that they can hear directly from market professionals on the accounting and financial issues of concern to them

Suggestions to improve the level of financial literacy of directors

- A number of respondents noted the recent Centro decision* and the finding of the Federal Court that it is the duty of every director to read the financial statements carefully and to consider whether what they disclose is consistent with the director's own knowledge of the company's affairs.
- Some respondents mentioned that, in light of Centro, the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* might usefully be amended to recommend that listed entities disclose:
 - in their corporate governance statement, the steps they undertake to ensure that their directors have the accounting knowledge needed to understand and sign off on the company's financial statements
 - in the section in their annual report setting out the bio's of their directors, the accounting / finance qualifications and experience of the directors and, for those who do not have an accounting / finance background, the additional training that they have undertaken to enable them to understand and sign off on the company's financial statements.

* ASIC v Healey & Ors [2011] FCA 717, available online at: <http://www.austlii.edu.au/au/cases/cth/FCA/2011/717.html>

Suggestions to improve the level of financial literacy of directors

- One respondent suggested that listed companies should consider a mentoring program teaming directors with financial expertise with those who might benefit from working closely with someone with that expertise
- Many respondents also suggested:
 - Compulsory accreditation for all directors requiring them to have passed an exam or otherwise demonstrated a minimum level of financial literacy before they can act as a director
 - Compulsory CPD requirements for all directors, requiring them to keep up to date with developments affecting directors, including changes in financial reporting laws, accounting standards and regulatory expectations

The FRC sees major practical difficulties in implementing these suggestions. The sheer number of directors involved would make this a substantial undertaking. The FRC also does not believe that a “one size fits all” approach to this issue would work, given the different expectations of directors of different types of companies (eg directors of large listed companies versus directors of small proprietary companies or not-for-profit organisations).

Suggestions to improve the level of financial literacy of directors

Some other suggestions made by respondents to improve the level of financial literacy of directors in Australia included:

- To assist directors of smaller companies, ASIC* could prepare a basic fact sheet or brochure on the duties of companies to have proper books and records and of directors to understand the company's accounts (such as those prepared by the ATO on the role and responsibility of self-managed superannuation fund trustees), which it sends electronically to all new companies as and when they are registered and which it also makes available on its website for accountants to print out and give to their clients**
- Someone (eg ASIC, AICD, the accounting bodies or training organisations) should develop a short, free, online "test your accounting knowledge" app for directors to self-assess whether they need more accounting training.**

* The FRC would note that ASIC does have substantial information on its website about the duties of companies and their directors.

** The FRC would note its suggestion on slide 22 that ASIC have a web page listing the providers of accounting training courses for directors. That web page, and the fact sheet/brochure and "test your accounting knowledge" app suggested on this slide, could all usefully contain links and cross-references to each other – so, for example, a director who reads the fact sheet/brochure and wants to do more accounting training, or who does the "test your accounting knowledge" app and is advised he/she could benefit from more accounting training, is referred to the list of training providers on the ASIC website.
