



FRC survey on Financial Literacy of Australian Directors (September 2012)

Follow up actions for the survey's findings for the 13 June 2013 FRC meeting

FINDINGS AND RESPONSE

- 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".

The AUASB worked with AICD and the Institute of Internal Auditors (IIA) to revise and reissue the 2nd edition of "Audit Committees - A Guide to Good Practice". This document was extensively reworked by AUASB in particular, in order to include legislative change, recent case law and current good practice. The Guide was launched in Sydney in September 2012 by the PST, the Hon. Bernie Ripoll and attracted some media interest.

- 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.

ASIC has offered to develop and maintain a page on its website to provide a selection of links to organisations that offer financial literacy education courses for directors and the ICAA, CPA, CSA and AICD have responded with links to appropriate courses.

- 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.
- 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.
- 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; and
 - 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.
- 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 biographies 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.

The ASX Corporate Governance Council announced on 4 December 2012 that it would be consulting on a third edition of its *Corporate Governance Principles and Recommendations*. The revisions will address the recent decision of the Federal Court in the *Centro* litigation regarding the responsibility of directors in relation to a listed company's financial statements (picking up a recommendation of the FRC Board Education Task Force).

The Institute of Public Accountants offers an Executive Certificate of Corporate Governance; a structured program of five online interactive sessions addressing changes to accounting standards, corporate regulation, compliance, the Fair Work Act and risk management.

The Australian Prudential Regulatory Authority (APRA) intends to develop an information pamphlet for distribution to new (and current) Board members. It will give a concise and plain-English view of what APRA expects of board members in their oversight of prudential matters.

- 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 AICD has introduced new continuing education requirements for member 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.

ASIC has offered to prepare a web page for the ASIC website in the areas of maintaining proper books and records, and directors' duties to understand the company's financial report. The content for the pages has been prepared or updated and is with stakeholders for comment. The content is also undergoing an internal legal review.

- Someone (e.g. 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. (A director who does the "test your accounting knowledge" app and is advised he/she could benefit from more accounting training could be referred to the list of training providers on the ASIC website).

The ICAA, CPAA, AICD and ASIC have formed a joint working group and feasibility of an app. Research on existing products and gap analysis has been undertaken by CPAA and presented to

the group and a document is being prepared by CPAA as a basis for further discussion by the working group.

ASIC will provide links to appropriate courses on the ASIC website. Initially ASIC will provide links to new pages being developed by the ICAA, CPAA and AICD for their websites. The pages being developed by ICAA, CPAA and AICD will focus on financial literacy for directors, providing links to training and/or relevant resources.