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The Evolution of Audit Committee Responsibilities Within the Context of Personal, Political, and Corporate Governance

H Stephen Grace Jr., PhD

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by
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H. Stephen Grace, Jr., PhD, president of H.S. Grace & Company, Inc., and Grace & Co. Consultancy, Inc., has more than 25 years of senior management and consultant experience.

As chief financial officer of a major holding company, Dr. Grace was directly responsible for the financial operations and oversight of over 60 subsidiaries, joint ventures, and affiliated companies active in auto and equipment leasing, cable TV, architectural services, and sports franchises (NBA, hockey, and soccer). Additionally, he was directly involved in the development and operation of more than 10 million square feet of commercial space, retail space, hotels, residential projects, and other special purpose projects.

Dr. Grace previously was a national director-at-large of a Big5 firm, has served as a university faculty member, and is the author of numerous articles that have appeared in economic and financial publications, including recent articles in Financial Executive, Pensions & Investments, and Venture Capital journal, and through Financial Management Network (fmnonline.com).

Dr. Grace is a member of Forbes CFO Forum Advisory Board. He is a member of the Financial Executives Institute's Office of the Chairman and a past president of both the New York City and Houston chapters of FEI. He has served as a trustee and as an officer of the Financial Executives Research Foundation and is the recipient of the Institute's Distinguished Service Award.

Dr. Grace received a BS in industrial engineering from Lamar University in 1964, an MBA from the University of Chicago in 1966, and a PhD in economics from the University of Houston in 1970.

INTRODUCTION

It is both an honor and a privilege to deliver the Emanuel Saxe Lecture. It is an honor to have been invited by Baruch's outstanding accounting faculty, which includes department chair Steven Lilien, Hugo Nurnberg, Douglas Carmichael, and, of course, Professor Emeritus Abraham Briloff. Further, it is an honor to be on a campus whose president has demonstrated outstanding leadership in the areas of business, academics, and politics--the Honorable Ned Regan, former New York State comptroller and newly installed president of Baruch College. In fact, many of you will recognize that my remarks tonight build on the outstanding work he and others have done over the years to improve corporate accountability. And, furthermore, what an honor it is to speak at the lecture named for Dean Emanuel Saxe, who was an outstanding practitioner, a demanding editor of *The CPA Journal*, and a superb teacher.

Before turning to my subject matter, let me say a word about teachers. From my earliest years in elementary school through graduate school, I was blessed to have teachers who not only instilled an excitement for learning, a curiosity to question, and a conviction to challenge, but also a sense of values about life and what is truly important. This was done not only by their spoken words but also by their actions. I owe a deep debt to these individuals. And, interestingly, a week ago, as I was reviewing the roster of individuals who have preceded me in delivering the Emanuel Saxe Lecture, there on the list were three of my instructors from the University of Chicago: George Benston, Sidney Davidson, and George Sorter. Here, 36 years later, I remember each of them vividly.

George Benston taught me the first course in accounting, a Monday-Wednesday-Friday class, in the fall of 1964. On Thanksgiving Day it snowed 25 inches, and all of us in the graduate dormitory were hoping Friday's class would be cancelled. But down deep we knew if there was one instructor who would find a way to get to school and hold class, it would be George Benston. We did have class that Friday.

Sidney Davidson taught Analysis of Financial Statements. As many of you know, Sidney was physically somewhat small in stature, but a dynamic individual and a powerful thinker. Sidney served on the Accounting Principles Board. Another APB member I knew well, Oral Luper, CFO of Exxon Company, who was also a powerful thinker, was quite large in stature. I thought fondly about these two intellectuals debating the numerous complex issues before the APB.

George Sorter took over as the director of the doctoral program during my second year at the University of Chicago. A fine thinker and teacher, George gave me some extremely valuable advice at a critical juncture in my studies--advice I have continued to put to use.

Margaret Mead once said, "Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has." In my mind, teachers are a part of that small group that so powerfully impact the world in which we live.

Let me turn to the subject matter at hand. Audit committees are one of five key participants in the corporate governance process, along with the board of directors, senior management, the external auditor, and the internal auditor. It is widely acknowledged that an evolution has been occurring regarding the roles and responsibilities of audit committees. Twenty-five years ago, the perceived role of audit committees was one of supervising management's compilation and maintenance of accurate and current records as well as reporting results of operations. Today, audit committees are seen as "the ultimate guardian of investor interests" and as responsible for the oversight of the firm's risk and control environment. This change in the perceived role has led to penetrating questions regarding the selection of audit committee members, the structure of audit committee operations, and the committee's interrelationships with the other four participants in the corporate governance process.

My objectives this evening are, first, to examine the forces that are driving this evolution of audit committee responsibilities; second, to examine the current state of audit committee responsibilities; and third, to offer certain conclusions. We start by considering the forces driving the evolution because in order to understand audit committee responsibilities--where audit committees are today and where they will be tomorrow--we must look at the framework within which their current roles and responsibilities have evolved. The increased focus on audit committee responsibilities did not occur in a vacuum. This increased focus is the result of deep-seated forces at work in the areas of personal, political, and corporate governance. These subtle yet powerful forces are the underlying currents driving the tides of change in the world in which we live.

When we examine the forces at work in the areas of personal, political, and corporate governance, what we will see is remarkable--actually fascinating! The forces there have been building for not hundreds but thousands of years. With an understanding of the framework, we will then examine the current state of audit committee responsibilities and explore the implications for boards, senior management, and the audit committees going forward.

The conclusions I will set forth are simple and straightforward. Change is coming. Change is coming because there is a framework for change in place that is explicit and unequivocal in both its demand for an increased level of responsibility from audit committees, boards, and senior management and its requirement that board and management positions be understood to be positions of service, not entitlement or privilege. The change that is coming is that audit committee responsibilities will broaden and deepen, and audit committees will be subject to increased scrutiny.

Let me be clear: this framework of change driving the evolution of audit committee responsibilities is not mine. It arises from the writings and thinking of social scientists, political scientists, spiritualists, philosophers, and, lo and behold, economists. The views of these thinkers point toward both individual investors and the institutions representing these investors becoming more demanding of boards, management, and audit committees in their roles as participants in the corporate governance process.

Let us now examine the forces at work. These forces operate both in sequence and in parallel. We begin by looking at the forces at work in the area of personal governance.

PERSONAL GOVERNANCE

The forces moving through the area of personal governance are fundamentally the forces driving men's lives--the forces driving how individuals govern themselves. Long ago, Socrates asked, "What is the good life?" This question of how to lead a good life has received considerable attention over the centuries. Let us look at some of the answers.

Aristotle set out that man's greatest joy comes from giving of himself and his possessions to others. Going back some 300 years earlier, Isaiah called on us to share our possessions and ourselves. At the time of Isaiah, or perhaps as much as 600 years earlier, from the east came the Tao, which sets out that the more the Master does for others, the happier he is, and the more the Master gives to others, the wealthier he is. Moving forward in time, look at the powerful words of Immanuel Kant, which call for the recognition of a moral law within each of us--a set of values. Then there is Carl Jung pointedly discussing what happens when individuals fail to follow this moral law. And, as we move into current times, there is Mother Teresa's Simple Path: "The fruit of love is Service, and the fruit of service is Peace."

We could ask ourselves, "Does this mean that the area of personal governance is exclusively the realm of philosophers and spiritualists?" To this I would quickly answer no, there are many who contribute: sociologists, psychologists, and other social scientists, including, perhaps surprisingly, economists. It has long been my opinion that economics has a great deal to say about how people govern their personal lives.

In his recent and outstanding work, "The Fourth Great Awakening: The Future of Egalitarianism in America," Robert W Fogel has produced powerful insights into the personal lives of our country's citizens. Fogel carefully points out the long-term trend of individuals spending less time earning wages to purchase material possessions. Instead, individuals are seeking increased time to acquire what Fogel calls the "non-material" or "spiritual" goods--time with their families, in their communities, or at their synagogues and churches. Let me interject here that Fogel is quick to note that he is not moralizing. In fact, in a recent talk here in New York, he mentioned that he had not been a member of a formal religion since the age of 13, when his father told him his religion was in his own hands.

Fogel is simply pointing out the unmistakable trend of individuals spending more time in "volwork" and less time in "earnwork." His analysis of the data establishes that, in large measure, individuals in this country have found that the quality of their lives is increased more by "volwork" activities than by "earnwork" activities that would increase financial income and possession of material goods.

What Fogel is saying is critically important: individuals seek to maximize utility (or personal satisfaction), which is distinctly different than maximizing financial wealth. This is what economists have always taught us, that economic well-being is not equal to financial well-being. Fogel points out that individuals recognize, by their behavior, exactly what economists have said, and what philosophers and spiritualists have said, even before economics evolved into a separate field of study.

Let us take an example, a very basic one. What Fogel, other economists, and philosophers are saying is that while most of us may be financially better off than either the Dalai Lama is or Mother Teresa was, they both may be much better off economically than we are. That is, the degree of personal satisfaction (or utility) they derive from their lives may, and more likely does, far exceed the level of satisfaction (or utility) we derive from our lives.

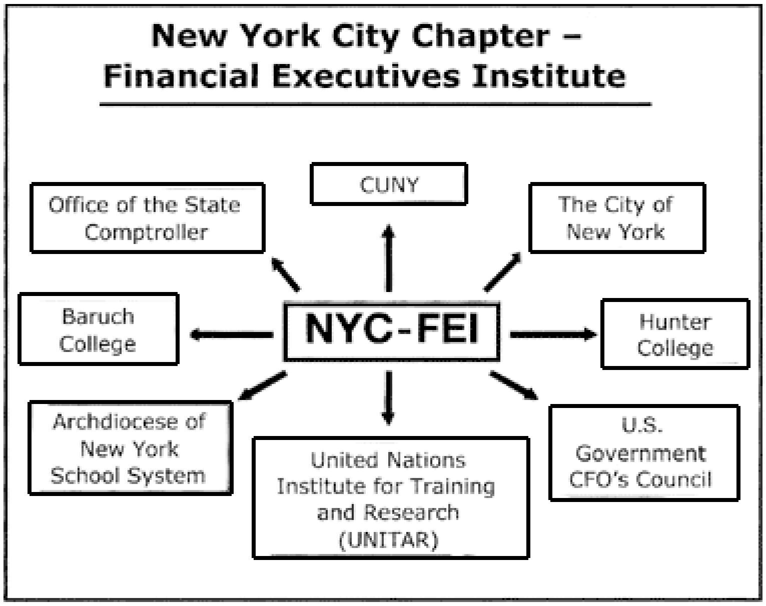
In his book, Fogel gives us a useful example of this measurement of personal satisfaction with toolmakers John and Harry. John and Harry each earn $20 per hour. John works only 1,800 hours per year, taking advantage of short workweeks, long weekends, and many vacations. Accordingly, John's annual income is $36,000 and his projected retirement age is 65. This permits John to pursue several "volwork" activities with his family, at his church, and in his community. On Harry's side of the fence is an earlier retirement age of 55, a higher income of $74,200, and many more "earnwork" pursuits. Harry works longer hours, more weeks, and has less time presently for "volwork." Both men have similar cumulative life cycle earnings and hours. But they have chosen different lifestyles. John's leisure hour distribution will be concentrated in his early to mid-adulthood, while Harry's leisure hours will be concentrated in later life. John and Harry have selected different approaches to financial well-being in order to maximize their economic well-being.

A Table of Two Toolmakers

	JOHN	HARRY
Annual Income	$36,000	$74,000
Age	45	45
Hourly Wage	$20.00	$20.00
Work year (Hours)	1,800	3,200
Planned Retirement Age	65	55
Work Preferences	· Short workweek · Long weekends · Month-long vacation	· Long workweek · Overtime · Minimal vacation
Volwork	· Time with family · Active in his religion · Coaches son's little league team	· Very little volwork currently · Plans more volwork after retirement

Let us turn to an example right here in New York City--50 senior financial executives who have participated as members of the Public Interest Initiatives Committee of the New York City Chapter of the Financial Executives Institute (FEI). If one asks what the most precious resources of these individuals are, the answer is their time and their energy. It is certainly easier for most of them to write someone a check than to give time and energy. But let's look at what they have elected to do. Their work has included a number of projects with the Office of the State Comptroller, projects with CUNY, the City of New York, Hunter College, the U.S. Government CFO's Council, the United Nations, the Archdiocese of New York Schools, and Baruch College. Certainly, this reflects a wide range of projects in which they shared their knowledge and experience. What drove these executives to participate? When one looks at what members of the New York City Chapter of the FEI had to say about their work, the powerful impact of their experiences makes clear that this is a win-win situation for all parties.

The comments of the FEI members support Fogel's findings and are quite close, if not identical, to the life targets we saw advocated earlier by philosophers and spiritualists. What we have is psychologists, economists, philosophers, and spiritualists all speaking the same language. Just as economists postulate that individuals seek to maximize personal utility or the personal satisfaction they gain from life, psychologists, philosophers, and spiritualists have been advocating what actions individuals should take and what goals individuals should pursue in their personal lives if in fact they are going to maximize their personal utility. It should not surprise us that Adam Smith, the father of economics, was a professor of moral philosophy.



Let me return for a moment to Robert Fogel's work, only because what he is saying is so important. He points out that in the third Great Awakening the equal distribution of material possessions was thought to lead to equality among individuals. However, just as the examples here demonstrate, material possessions do not determine economic equality. Fogel's work clarifies those non-material, spiritual resources that he feels must be properly distributed among people if the goal of equality is to be achieved.

- a sense of purpose (maybe the most important)--a vision of opportunity;
- a sense of the mainstream of work and life--a strong family ethic;
- a sense of community--a capacity to engage with diverse groups;
- an ethic of benevolence;
- a work ethic;
- a sense of discipline--the capacity to focus and concentrate one's efforts;
- a capacity to resist the lure of hedonism;
- a capacity for self-education--a thirst for knowledge;
- an appreciation for quality; and, finally,
- self-esteem (required for the assimilation of all of the others).

What Fogel is saying is that his research indicates that, if we are going to achieve economic equality, individuals must have access to these resources, and he goes on to discuss how to address the issues of access--a fascinating piece of work. I wanted to raise this because it has implications for so many social policy issues we address each day; as people reach out to assist, to share, this is critically important to keep in mind.

Returning to the mainstream of my remarks, we can see a direct connection between the forces at work in personal governance and the responsibilities of management, boards, and audit committees. Very simply, the more effective management, boards, and audit committees are in addressing their responsibilities, the greater the return to shareholders and the more flexibility shareholders have to choose between "volwork" and "earnwork" to improve the quality of their lives. This fact is not revolutionary, but it is irrefutable. It is a fundamental fact that provides the basis for individual investors and the institutions representing them to make clear to management, boards, and audit committees that they have accepted positions of responsibility and of service and are expected to ensure that shareholders and others fully receive the fruits of their labors.

We turn now to the forces at work in political governance. This examination is another fascinating inquiry.

POLITICAL GOVERNANCE

The history of political governance, for the most part, has been the history of kings, monarchs, and dictators. But throughout this history, structural stresses and troublesome issues continually appeared. Aristotle's quote about the primary source of mankind's joy arose in the context of his opposition to the call of both Socrates and Plato for broad-based state ownership of property. Marcus Aurelius in *Meditations* discussed challenging aspects of political governance, and Thomas More in *Utopia* cleverly set out a form of government sharply different from that existing in the world at that time.

The basic problem that seemed to arise was the consistent failure in "the tone at the top" of monarchies and dictatorships. Going back to biblical times, there was an oft-heard call for a "king" who would save the people from whatever problems confronted them. Yet those wishing for such an arrangement kept finding out that this form of political governance was not working, and it wasn't working in very fundamental ways: basic equality, as well as recognition of and respect for the rights of individuals, was missing. Individuals opposing those in power would disappear, women would be taken and abused. There was a consistent pattern of abuse of fundamental human rights, however these might have been discerned at a given point in time. So, conceptually, while a monarchy or dictatorship possessed the potential to be an efficient, effective form of political governance, there was a proven record of failure.

Certainly there have been monarchs and dictators widely recognized for their achievements over the centuries. Interestingly, these individuals appear to have exhibited a common set of values seemingly centered around recognition of their role as servants to the countries they led, and their governance was based on fundamentals that recognized and respected individual rights. Marcus Aurelius was one of these.

It is not hard in the case of our own country to look at those who have exhibited this type of leadership: George Washington, in his service to his country; Abraham Lincoln, in his recognition of the rights of individuals; Martin Luther King, Jr., in his call for individual rights and equality; and John F. Kennedy, who called upon his fellow countrymen to "Ask not what your country can do for you, ask what you can do for your country."

So, throughout history, mankind has searched for a form of government that respects and protects the rights of individuals, that treasures these inherent rights and values. And then, 11 score and four years ago, 55 men put their names on a document that proclaimed, "We hold these truths to be self-evident ... " The experiment we know as democracy was under way—again, not occurring in a vacuum, but as an event in the continuum of man's search for an appropriate structure of political governance. However, just as the Rev. Richard John Neuhaus said so eloquently in his book, Doing Well and Doing Good, democracy is a continuing experiment, and the ideas of freedom need to be thought through and given fresh expression with each generation. Why? Because the day our form of government ceases to recognize, respect, and protect the rights of the individuals, the day it fails to recognize and respect the moral laws--the inherent values and rights of its citizens--it will fall from favor within the hearts of its citizens, and a search for a new form of government will be under way.

The forces at work in political governance send strong messages to audit committees. The demand that individual rights be recognized and respected underpins the call for an increased level of responsibility for audit committees, as well as boards and management. The fact that the convergence of power and authority into too few hands, while seemingly efficient, consistently failed, points to the need for the audit committee's oversight role.

To summarize, the confluence of forces in the areas of personal and political governance has strong implications for corporate governance—the area to which we now turn.

CORPORATE GOVERNANCE

Let us open our examination of corporate governance with the thoughtful quote of a man many of you here tonight have known:

> Members of governing boards have a prestigious status in society-more prestigious than the present nature of their activities can support. It is a status that reflects the popular belief and expectation that governing boards do indeed govern ... Building on that popular belief and expectation, the work of governing boards can and should be clarified and strengthened to the ultimate benefit of corporations of all kinds and of society at large.

These are not the words of a corporate critic, but those of Courtney Brown, former dean of the Columbia University business school and a board member of several well-known firms during his business and academic career, from the preface of his 1976 book, *Putting Corporate Boards to Work.*

Look at the concluding words in Brown's quote: " ... the work of governing boards can and should be clarified and strengthened to the ultimate benefit of corporations of all kinds and of society at large." These are words about the benefits of service--the service of boards--to the corporation and to society--shareholders, employees, customers, and so forth.

Just as democracy is a continuing experiment, the evolution of corporate governance within a democracy is a subset of that experiment. One should not forget that the public and private sectors are tightly linked. The private sector flourishes if the public sector works. If the public sector is weak, the private sector will struggle.

And just as the ideas of freedom need to be thought through and given fresh expression, the ideas of corporate governance must be continually re-examined as well. As part of this continual required re-examination, let us be certain we have learned the lessons available to us throughout history. Experience has shown us that governance structures that consolidate power and authority into fewer and fewer hands, while conceptually attractive in terms of their efficiency and effectiveness, have consistently failed to meet their conceptual ideals.

Yet in the face of this experience and wisdom, it appears that, in the area of corporate governance, we continue to hear the call for improving "the tone at the top"--for increasing the quality of senior management. To assert that the solution to improved corporate governance is improving only the quality of senior management is to forget history's lessons. What is required is an improved corporate governance process--an improved set of checks and balances that demands accountability and carries consequences. Such a set of checks and balances involves the dynamic defining of roles and responsibilities of all participants in the corporate governance process, not just senior management.

Lord Acton put it in words often quoted: "Power corrupts, and absolute power corrupts absolutely." The Roman poet Ovid framed the situation quite well some 2,000 years ago when he said, "The better things of life I see and approve, the worse things of life I follow." Their words insightfully explain the breakdowns we see in those governance structures where power has been consolidated into a few hands. Their words provide the backdrop for understanding the failures in "the tone at the top."

This leads us to a very important point. Corporate governance is not a zero-sum game. The work of Von Neumann and Morgenstern and the other game theorists over the last five decades notwithstanding, the structure and operation of a governance process is not a zero-sum exercise. This is not about shifting power from one participant in the governance process to another. This is about the dynamic definition of the roles and responsibilities of each and every participant in a manner that optimizes potential synergies. Corporate governance is a win-win or a lose-lose situation—not just for the five participants but "all of society," as Courtney Brown stated earlier.

Let me draw again from Rev. Neuhaus regarding one further issue concerning corporate governance: that we must be careful not to consider human greed and foolishness, which has been evident always and everywhere, as an indictment of a capitalist system. As Ovid set out for us, these forces are there and will always be there. A properly functioning corporate governance process in the democratic capitalism we know puts in place a set of checks and balances that helps to mitigate these forces of human greed and foolishness and encourages responsible action on the part of all involved parties. This properly functioning corporate governance process encourages senior management, board members, and all involved parties to approach their positions with a sense of responsibility and an attitude of service.

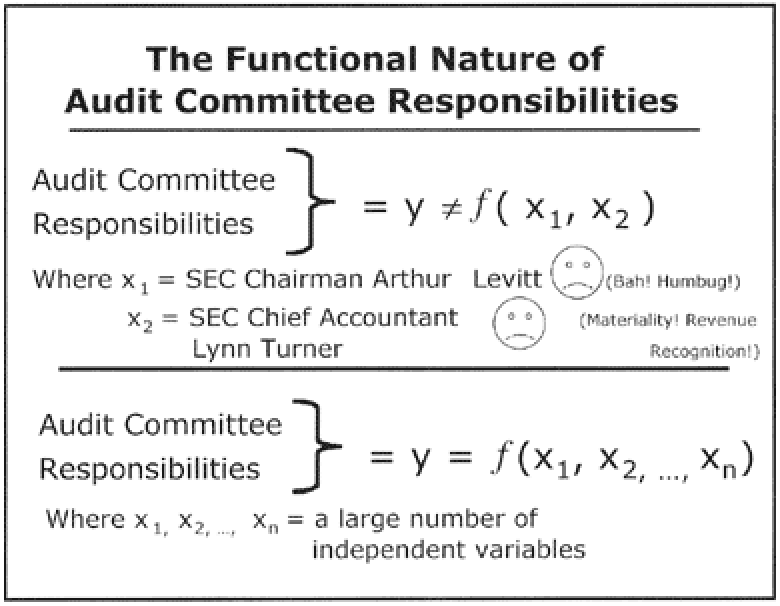
At this point we can begin to sense the confluence of the various underlying forces that recognize the rights of individual investors to the fruits of their labor. Certain institutions that represent investors have already shown a keen awareness of this. TIAA-CREF and CALPERS quickly come to mind. Certainly there may be dialogue and disagreement as to how best to realize and protect these rights, but there can be no disagreement as to the existence and importance of these rights.

To put it simply, the coalescing of individual investors and their institutional representatives already occurring will ensure that the path of corporate governance is along the road from entitlement to service.

AUDIT COMMITTEES

As we turn to audit committees and their responsibilities, we see that our work in developing the framework is enormously helpful. Given an understanding of the long-term forces at work in the areas of personal, political, and corporate governance, the focus on audit committees and the attention being paid to clarifying their roles and responsibilities within the corporate governance process is no surprise.

In other words, if we were to mathematicize audit committee responsibilities, what we would not have is audit committee responsibilities being a function of only SEC Chairman Arthur Levitt and Chief Accountant Lynn Turner, their mood on any given day, and perhaps the side of the bed on which they arose that morning. Instead, audit committee responsibilities are a multivariate function of a number of independent variables, many of which may be significantly correlated, either positively or negatively.



The increased focus on audit committees is real and appropriate. The buck stops with senior management, the board, board committees, and their roles and interrelationships must be defined and understood. Next to a firm determining "where it is" and "where it wants to go," the most challenging task confronting a firm is ensuring that an effective oversight and control system is in place. Without minimizing the role of the external auditor, for too long there has been an overreliance on the external auditor regarding the state of a firm's risk and control environment. The board, with and through its audit committee, must have the ultimate responsibility for ensuring the quality and integrity of the system.

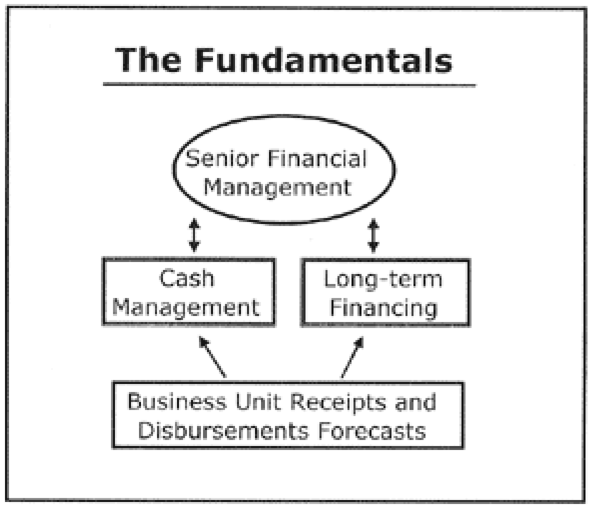
Recognizing the existence of these responsibilities carries with it the challenge of addressing them. A situation with which I was personally involved highlights these challenges. As CFO of Century Corporation, a large holding company, I was responsible for over 60 subsidiaries, joint ventures, and affiliated companies. We owned the Rockets in the NBA, the Aeros in the World Hockey League, an indoor soccer team, a cable TV business, a computerized ticketing company, a large leasing company, and numerous other operations. One of those operations was a real estate development subsidiary of which I was also CFO, and which at that time was one of the largest development companies in the world. Even with continual interaction with these operations, the challenges to understanding them were substantial. But let us put ourselves in the role of an audit committee member of such a firm, trying to understand and monitor all of these operations—a daunting task to say the least, and yet exactly what faces many audit committees today.

While challenging, audit committee responsibilities can be addressed. Let me set out my views on how a successful and effective audit committee can not only "do the right thing" but also provide itself with a road map to address in times of complexity:

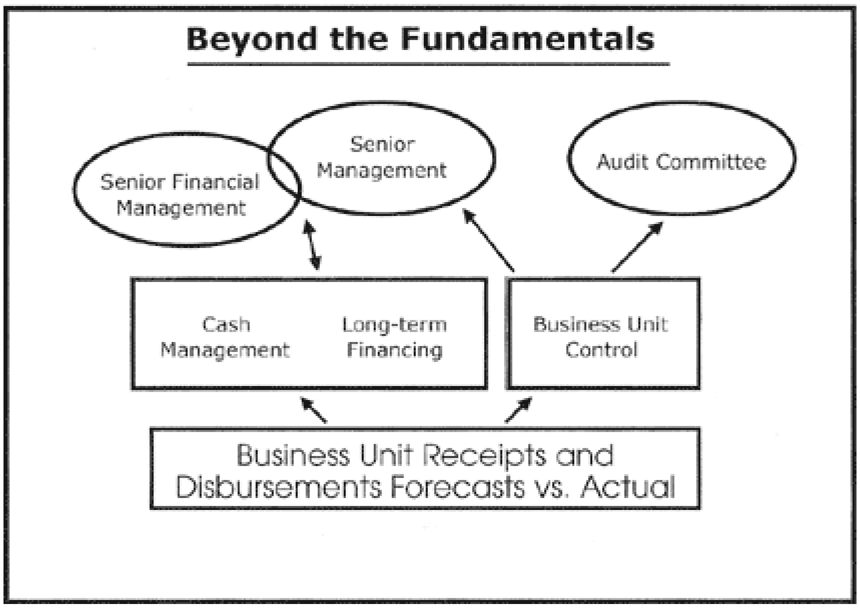
1. **Embrace change.** Treat audit committee service and operation like any other important business activity, with the first step being to seek out information on new requirements and to develop an awareness of new expectations. In this manner, the audit committee can use the best of its judgment and experience to run the audit committee like a model for success. Starting with an approach of minimal compliance with regulations is no way to run anything. Audit committees can get further faster and better by complying with the spirit, not just with the form, of the emerging requirements.
2. **Have an audit committee meeting or at least a meeting by conference call every quarter.** New rules applying to public companies require the auditor to carry out a review of financial results each quarter. If there are any unusual accounting issues or operating results, attempt to

discuss these items with the audit committee or at least the chair of the audit committee. It is very difficult to schedule even a telephone meeting on short notice. To have such meetings planned only if needed puts a lot of pressure on both the auditor and the CFO (i.e., "do we really need to do this?") It may be better to set up quarterly meetings in advance and let them be short or long depending on how much there is to be discussed.

3. **Look at the business--at the key value drivers and cashflows--as part of the oversight role.** Much has been written about the management, the auditors, and the audit committee looking at the objectives and risks of the business to assess the company's management and controls. Go a step further-look at where cash comes from and where it goes, the factors that affect how long this cycle takes, and the cash needs forecast for the future. Every business has its key value drivers, and there are usually only handful of them. The company's management should be able to explain them clearly to the board and audit committee and show how each affects cash flows. If they can't, you probably need new management.



Understanding what is happening with cash is the ultimate way to understand the business and the strongest way to see if questionable areas are present that need to be addressed. It is possible to obscure short-term trends in financial statement results with "accounting engineering," but it is very difficult to create cash when it doesn't exist. If sales are bulging, but receivables more so, if there are disproportionate increases in inventories and deferred items, these should be red flags that cause hard questions to be asked. "What terms are being given in these new sales programs? Why are large amounts--or any amounts--of advertising costs being deferred?" and similar probing questions. This oversight does not require new systems but draws from information that should be readily available.



4. **Be more thorough and more specific in recording minutes of audit committee meetings.** There may be debate on this. But audit committees are composed of very busy people who meet only a few times a year. The minutes of the audit committee are their institutional memory. This is needed to ensure that issues are fully addressed and properly followed up. The minutes can demonstrate that the audit committee is doing its job. If an audit committee is challenged, it needs to be able to tell a compelling story of asking the right questions and demonstrating prudent business judgment. This is especially helpful when problems arise and litigation ensues. An audit committee that is doing its job and documenting what it is doing is in the best position to combat challenges.
5. **Consider having an independent review of audit committee functions and policies.** Every audit committee can benefit from a comparison of what it does with the new rules and expectations and with what is done in audit committees of other companies. The audit committee can arrange to be briefed by senior financial management and by internal auditing personnel, and by the external auditor, on what is known and published about prevailing practices. Web sites, including the Financial Executives Institute Web site, www.fei.org, contain examples of audit committee charters and policy and procedure checklists.

   It may be worthwhile for an audit committee to supplement its own internal review by using independent outside sources to make informative presentations or even to do a full review. A law firm could be helpful and should probably be included as part of this process. As an additional resource, it would be desirable to involve a source that combines professional-technical knowledge with realworld managerial and broad operational experience.

There is no doubt about it, being an audit committee member today is a challenging responsibility. The audit committee has been described as "the most reliable guardian of the public interest," and the stakes have been significantly raised with all the new expectations and requirements that have come out this past year. Some may think the recent pronouncements and hearings on auditor independence have lessened the focus on audit committees. However, these discussions are further defining the responsibilities of audit committees and further determining the scope of work of the external auditors and verifying their independence. The same can be said about audit committees' roles in ensuring compliance with SEC Regulation FD.

CONCLUSION

In conclusion, one of the pleasures of a forum such as this one hosted by Baruch College is that it affords the opportunity to explore a range of interesting issues. In addition to addressing my twofold objective of examining the forces driving both the evolution and the current state of audit committee responsibilities, we have done more. We explored the difference between economic and financial well-being and pointed out that to achieve equality among individuals, we must focus on economic equality and not financial equality. We noted the convergence of the thinking and writings of philosophers and moralists with those of economists. We suggested that the path to improved corporate governance is not to focus solely on improving "the tone at the top" in terms of senior management, but instead to improve the corporate governance process by building improved sets of checks and balances that demand accountability and carry consequences. And we made the point that corporate governance is not a zero-sum game, but instead is about the dynamic definition of the roles and responsibilities of each participant in a manner that optimizes potential synergies.

Let me close with a few comments about the emerging standard of care for audit committees. Even with the SEC's pronouncement, the listing requirements of the NYSE, AMEX, and NASDAQ, and an abundance of thoughtful literature addressing audit committee responsibilities, a clear standard of care has yet to emerge. But a standard will emerge, and the recent Sensormatic shareholder derivative action and a range of recent securities fraud damage awards may be indications of where we are headed. The Sensormatic action indicates a keen awareness on the part of the legal community of the responsibilities of audit committees and that, henceforth, audit committees will be taken to task for failing to meet these responsibilities. Additionally, the massive size of the damage awards against senior management and their professional advisors in recent securities fraud cases indicate deep-seated beliefs among juries that investors, employees, and others--all little men--are entitled to the fruits of their labor, and that management, boards, and professional advisors who attempt to operate from a presumed position of privilege and entitlement will not be tolerated.