

## Appendix IV:

# Financial literacy questionnaire

Financial literacy, which signifies the ability and competency to read, analyse and interpret financial statements, including a company's statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement, notes to the statements, cost accounting, budgets and management's discussion and analysis can be acquired through education either formal or self-guided.

Below is a sample questionnaire to gauge the level of financial literacy of an audit committee member. If the answer is "No", that does not mean that the member cannot serve but that training and education for the said audit committee member become imperative.

**Name of director/candidate:** \_\_\_\_\_

1. Ability to read, analyse and interpret the company's financial statements.  Yes  No
2. General understanding of approved accounting standards relevant to the company's business environment and related industry.  Yes  No
3. Competency to understand accounting principles, for example revenue recognition, valuation of assets, provisions, accruals, etc.  Yes  No
4. Ability to assess whether management's judgments/estimates in financial statements are consistent with the industry.  Yes  No
5. Ability to assess clarity and completeness of disclosures in the financial statements (e.g. significant judgments have been explained in the notes to the financial statements).  Yes  No
6. Ability to analyse financial statements to quantify the overall financial condition of the company, i.e. use of profitability ratios, liquidity ratios, debt ratios, etc.  Yes  No
7. Ability to interpret the implications of significant or non-recurring transactions, events or adjustments made in the financial statements.  Yes  No
8. Ability to understand, analyse and enquire about potential manipulation of financial reporting i.e. did management make an estimate (or change an accounting treatment) to meet earnings target.  Yes  No
9. Ability to assess whether the external audit work plan focuses on the company's key audit risks.  Yes  No

10. What seems to be the main cause for significant or non-recurring transactions or financial reporting adjustments? Please state below and the rationale thereof.

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11. Please provide an example of a potential red flag that can adversely affect the quality of financial statements.

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12. What are the purposes of holding private meetings between the audit committee and the auditors, both external and internal, without the presence of any other directors and employees?

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