



Ten to-do's for audit committees in 2011

When considering and carrying out your 2011 agendas:

- 1 Keep your eye on the ball: financial reporting and related internal control risk.** Ensuring that the audit committee agenda appropriately focuses on the issues that require your attention will be a significant undertaking in 2011. The challenges of a continuing slow growth global economy coupled with the impact of public policy, accounting, and regulatory initiatives on the company's compliance, risk, and governance processes will require the attention of every audit committee. To meet this workload challenge, develop more focused (yet flexible) agendas with an eye on the company's key financial reporting and related internal control risks. Streamline committee meetings by requiring quality pre-meeting materials, spending less time on low-value or "checklist" activities and engaging in more discussion versus presentations.
- 2 Stay on top of IFRS implementation.** It's here, it's not going away, and it's bound to keep changing. Communicating the impacts of IFRS on financial reporting to the stakeholder base will be critical in 2011. Audit committees should stay close to IFRS issues this year by asking management critical questions: Do our first interim financial statements contain sufficient information to enable readers to understand how the adoption of IFRS affected previously reported results? Does our MD&A appropriately discuss whether changes in results are caused by the changes in the accounting reporting framework or by changes in the underlying business? Have we secured the transfer of IFRS knowledge from our external advisors to our internal team? What is the plan to address ongoing changes to IFRS?
- 3 Understand how accounting changes on the horizon will impact the company and its resources.** While the audit committee focuses on IFRS implementation, plan also for further significant changes on the way. The FASB and the IASB are working on a number of joint projects, and final accounting standards in several areas—including revenue recognition, leases, and fair value measurements—are scheduled to be issued by June of 2011 (with more new standards to follow later in the year). These "converged" standards will impact on IFRS currently being adopted in Canada. Understand how these projects will impact the company, including implementation/resources requirements, and stay close to where the projects are headed and the timelines. FASB has requested comment on how it should proceed with implementation of these major convergence projects. If your management team has concerns, make sure they submit comments.
- 4 Understand the company's significant tax risks.** Tax authorities globally are ratcheting up their enforcement efforts—and are more aggressively sharing information to increase the effectiveness of their tax audits of multinationals. Given today's tax risk environment, understand management's process for determining the company's tax risk appetite. Who is involved? What are management's processes for determining whether a tax

position is uncertain? What about the related controls? When did your tax director last meet with the audit committee?

- 5 Continue to monitor fair value estimates, impairments, and management’s assumptions underlying critical accounting estimates.** These issues, together with loss contingencies, pension funding shortfalls, and going-concern challenges, should continue to be a major area of focus for the audit committee. Recognize that the company’s greatest financial reporting risks are often in those areas where there is a range of possible outcomes, and management is called upon to make difficult judgments and estimates. Understand management’s framework for making accounting judgments and estimates, and make sure that management has appropriate controls in place.
- 6 Consider whether the company’s financial statements and disclosures provide investors with a good, plain-language understanding of the state of the business.** Given the importance of transparency to the investor community, as well as the focus of securities regulators on disclosures, consider how disclosures can be improved—perhaps going beyond what’s “required”—to better address expectations. Enlist management’s disclosure committee in this effort. At the end of the day, do the financial statements and disclosures tell the company’s story?
- 7 Reassess the quality of business controls around the company’s key operational risks—and consider possible lessons learned from the business cycles of the past 18 months.** Understand the company’s key operational risks—including low probability, high impact risks—and assess the adequacy of the business controls management has put in place around those risks. What’s changed in the operating environment? Have there been any failures or near misses? What are the risks posed by the extended organization—sourcing, outsourcing, sales and distribution channels? How good are the disaster recovery plans? Are emerging risks—whether slow-moving or fast hitting—getting sufficient agenda time? Does the audit committee have a good sense of the company’s risk culture beyond the boardroom and senior management level? Is the mitigation of risks embedded in the business and owned by management? Is the company’s risk appetite clearly articulated and understood?
- 8 Set clear expectations for external and internal auditors, and be sensitive to the strains on the CFO and finance organization.** The audit committee relies heavily on internal and external auditors for insights, technical expertise, judgment, and independence. Encourage (and expect) frequent, informal communications with the audit engagement partner, and ask to receive important information on a real-time basis. Assess whether internal audit has adequate resources, and is sufficiently focused on the company’s key operational risks and related controls. Given the demands of the uncertain global economic environment, resource constraints, and pressure to meet performance expectations, make sure the CFO and finance organization have what they need to succeed.
- 9 Talk about the audit committee’s role in IT governance.** Understanding the opportunities and risks posed by IT is a critical challenge for companies today—from IT spending and strategic alignment of IT resources, to systems implementation and outsourcing, information privacy and security, cloud computing, internal controls, business continuity, and ultimately to information quality and the company’s competitive position. Does the company have a social media networks policy in place? Is there a need for IT expertise on the board? Does management—particularly the CIO—communicate with directors in plain-language, and in business context? Clarify the role of the audit committee (versus the board and other board committees) in IT governance and oversight—and keep IT on the radar.
- 10 Make time to review and discuss the new *Report of the NACD Blue Ribbon Commission on The Audit Committee*.** Produced in the US by the National Association of Corporate Directors and its partners, including KPMG’s Audit Committee Institute, the report has a distinct US flavour. However, it contains information that is highly relevant to all audit committees, in particular the sections covering *Audit Committee Responsibilities*, *Who Should Lead and Serve on Audit Committees*, and *Oversight of Financial Reporting Risk*. The study can be accessed through the [NACD’s website](#).

For more information, visit [KPMG’s Audit Committee Institute—Canada](#).