



Audit Committee Directors' Roundtable: 2018 Agendas and Best Practices

On January 11, NACD Chicago introduced a new event format... a directors' roundtable. Members and guests were treated to a lively discussion and debate on some of the year's hot topics regarding audit committees. The roundtable was expertly moderated by Mark Zorko, NACD Chicago Board Member and Leadership Fellow, who serves on the boards of Perma Pipe International and Westell Technologies. Roundtable participants included:

- **Kapila Anand**, retired Partner of KPMG, currently serves on the boards of Extended Stay America, Inc. and ESH Hospitality, Inc.
- **Tony Anderson**, retired Vice Chair and Midwest Area Managing Partner of Ernst & Young, currently serves on the boards of Exelon, Avery Dennison Corp., and AAR Corp.
- **Dennis Chookaszian**, retired Chairman and Chief Executive Officer of CNA Insurance Companies, currently serves on the boards of the Chicago Mercantile Exchange, Career Education, Prism Technologies Corp, MacDonald Dettwiler, and Pillarstone Capital.
- **Frank Jaehnert**, former President and Chief Executive Officer of Brady Corporation, serves on the boards of Nordson Corp., Briggs & Stratton Corp. and Itron, Inc.

The roundtable opened with a seemingly simple question... "What is on the audit committee agenda?" It quickly became evident that the answer is complex. Over the last decade, audit committees have evolved significantly, and have become a "dumping ground" for board issues. This often results in an extensive agenda that requires significant advanced preparation of audit committee members, disciplined time management by the audit committee chair, and meetings that could go on for days given all they need to cover. The agreed upon basics for an audit committee review included: quarterly earnings (press release, 10Q/K) and updates from internal audit as well as executive sessions (CEO, CFO, internal audit, external audit, and in some cases CISO). In addition, there were other important items that the group felt needed to be included: "deep dives"/ "white papers" on important industry and company issues; ethics/hotline issues; cyber security; risk management issues (particularly if a separate risk committee doesn't exist), and succession planning, just to name a few. The panel also agreed that audit committee members must develop a relationship and respective trust with both fellow board members and senior management, and many felt this needed to be done offsite in some way (breakfast, dinner, etc.).

Additional key points/recommendations from the roundtable discussion:

- **Executive Sessions** – the panel all agreed these sessions were invaluable and recommended that enough time be dedicated to the session so that true issues come to light. Several ideas on how to achieve this were given including having the executive sessions at the beginning of the meeting versus the end, having them over

a meal or drinks, and the extreme... devoting 50% of the meeting to executive sessions.

- **Management Challenges** – the group believes the audit committee absolutely has a responsibility to challenge management for the benefit of the overall company including having to remove an executive in the worst-case scenario. A good recommendation from the personal experience of one participant was while it is important to give the executive management team the respect they deserve, if the answers they give don't add up, it is the responsibility of the board to get an independent opinion of an outside expert.
- **Self-Evaluations** – our panel of experts believes boards (not just audit committees) need to go further than self-evaluations and do some sort of 360 evaluation, keeping in mind the objective of being constructive not destructive.
- **Risk Management** – some debate here among the roundtable member as to where the responsibility of risk management lies... but all agreed it is key that someone needs to have oversight of it, and if there isn't a dedicated risk committee then the audit committee is a likely place. Another interesting debate was over harassment – clearly a hot topic in Hollywood and corporate board rooms alike! The overall consensus was that harassment is part of a much larger discussion around a company's culture, the importance of which cannot be taken for granted. (See the November event write-up and read the BRC's report for more on the importance of culture).
- **Audit Firm Developments/Auditor and Tax Law Changes** – all agree these are audit committee issues and items for careful consideration. The general recommendation is to stay ahead of the curve as much as possible, for example, regarding critical audit matters, have your audit firm provide a report as if the rules were in effect today.