NACD NATIONAL ASSOCIATION OF CORPORATE DIRECTORS
CHICAGO CHAPTER

Audit Committee Agendas for 2017: Emerging Issues and Best Practices

Mark Zorko thanked Bill Tomazin and KPMG for hosting the extended NACD Chicago Audit Program and introduced the agenda for the afternoon's program. Three topics were discussed by the panel, included (1) Accounting and Regulatory; (2) Emerging Issues; and (3) Best Practices. The session ended with attendee groups studying and reporting on one of four case studies provided by the moderator.

(1) Accounting and Regulatory

Tomazin provided an activity update relating to new and pending accounting regulations. He noted that the SEC continues to focus on non-GAAP measures, concerned that companies are becoming "too creative" in their use of these metrics in press releases and other communications to investors and the public. The SEC is primarily concerned with transparency and the quality of items that ultimately reconcile to GAAP measures. Tomazin encouraged board members to have robust discussions with management about any non-GAAP metrics used to report financial results and to make sure that non-recurring items like restructurings really are non-recurring; he noted that the SEC looks back as long as five years to make sure unusual items are not related to overly frequent events.
Tomazin also provided an update on new revenue recognition standards required for public companies with December fiscal years beginning in January 2018, and for private companies a year later. According to Tomazin, recent surveys suggest that companies have either not yet started or are in only the early stages of assessments needed to complete this transition, and Tomazin is concerned that companies are not allocating sufficient resources for this project.

Tomazin also discussed changes to current leasing standards, expected to go into effect in January 2019. While the accounting issues for this new standard are less dramatic than those covered by changes to revenue recognition, data collection is intensive and will have a dramatic impact on the leasing community.

Dave Landsittel provided a short recap of COSO's mission to provide thought leadership in the accounting industry regarding issues that include internal controls, risk management and fraud detection, and he described a positive reception for recommendations made by the organization over the past several decades. He encouraged board members to stay current on issues raised under section 404 of Sarbanes-Oxley, particularly involving new standards and non-GAAP controls. Landsittel also suggested that procedures recommended by COSO relating to accounting activities could apply equally well to operations and compliance efforts. In the area of risk management, COSO's recommendations are intended to help companies move up the maturity curve, extrapolating earlier control discussions to include cyber and fraud risk.

Tony Anderson provided advice to attendees on how to deal with resource allocation relative to both internal and external audit functions. He advised attendees to focus on the external audit partners and senior managers assigned to their companies, checking for past issues relating to restatements or SEC comments and investigations, as well as up-to-date knowledge and experience on cutting edge issues like big data and off shore operations. Board members should analyze fees to determine if they are fair for the degree of complexity involved.

(2) Emerging Issues

Anderson discussed the election and Brexit as two recent, highly charged events. Ongoing questions for the business community include the fate of Jay Clayton, Trump's pick to lead the SEC, and the long-term picture for key provisions of Dodd/Frank.
Landsittel noted the fast-moving pace of technology changes and currency issues as potential disruptions to US companies, and he urged boards to make sure their managements were considering key aspects of these issues.
Tomazin discussed the potential impact of cultural differences among the offices U.S. and international audit firms on company audits around the world.

(3) Best Practices

The panel discussed disclosure effectiveness. Many companies simply provide too much information, and audit committee members were encouraged to proactively challenge management to make sure disclosures are readable and not redundant. Panelists also encouraged companies to report sustainability information relating to the environment, social issues and governance as well as information regarding new financial technologies like bitcoin even if disclosures in these areas are not yet required.

Tomazin added views on best practices relating to board interactions with both internal and external audit teams, encouraging directors to focus on collaboration, the quality and relevance of the team, and use of all available resources, including technical and industry leadership and knowledge. An audience member suggested that external audit partners be better able to show Audit Committee members what best practice disclosures should look like for various issues.

Landsittel discussed best practices relating to Audit Committee agendas, focusing on consent agendas versus issues that need to be handled in person. He urged board members to be efficient with consent agenda items, suggesting the list be narrow to issues like the quarterly press release review and pre-reads of other information.

Anderson encouraged directors to insist on regular executive sessions with the CEO, internal audit, external audit and senior management.

Case Studies

The four case studies discussed and reported on by attendee groups included recommended Audit Committee behavior in light of CEO/CFO differences; best practices for the Audit Committee of a newly spun-off public company; how Audit Committees should deal with a new and significantly more aggressive external audit partner; and how to manage CEO intimidation and whistle blower activity relating to suspect company practices.