



Audit Double Bill
2019 Hot Topics
The New Strategic CFO: Has Yours Stepped Up?

On January 10, close to 100 NACD members and guests joined us for the chapter's annual "deep dive" audit program featuring a first ever double header of panel discussions on 2019 Hot Topics and The New Strategic CFO.

Preceding the panel discussions, our audience was briefed by Mark Erkenwick, a partner of KPMG and host for the program, on new reporting requirements from the Financial Accounting Standards Board (FASB) and the Public Company Accounting Oversight Board (PCAOB) that boards should be aware of as they enter the year-end reporting season.

- The SEC has expressed disappointment around revenue disclosure. If a company disaggregates revenue streams, greater attention will be paid to how consistent the reporting segments are with how the company describes itself in its public communications, including press releases and presentations.
- Closer attention to how judgments are disclosed relative to identification of performance obligations, transfer of controls and other disclosures. Benchmarking to peers is not adequate.
- Be prepared for the new FASB standards for leases that will go into effect in 2019. Tighten the range of liability to be as precise as possible.
- Finally, beginning June 30, 2019, audit reports will require the disclosure of critical accounting matters (CAMs), which are matters that have been communicated to the audit committee; are related to accounts or disclosures that are material to the statements, and involve especially challenging, subjective and complex auditor judgment. Some examples for board consideration include M&A valuation questions, impairment of tangible and intangible assets and pension accounting.

The first panel discussion, 2019 Hot Topics, was expertly moderated by Cheryl Beebe, retired VP and CFO of Ingredion, Inc. Participants in this lively panel included Robert Lyons, executive vice president and president of Rail North America for GATX and board director of Packaging Corporation of America; Marla Gottschalk, former CEO of Pampered Chef and board director of Big Lots, Inc., Underwriters Laboratories and Potbelly, Inc; Rich Stoddart, president and CEO of

Inner Workings and former CEO of Leo Burnett Worldwide and board director of Hasbro.

Cheryl opened the session with the hot topic of enterprise risk management (ERM). Key takeaways from the discussion include:

- At GATX, ERM is discussed at every audit committee meeting using a risk heat map that evolves over time to focus on six to eight risks where a deeper dive is required to assess vulnerability. It covers both risks to the operating plan and the enterprise as well as evaluating disruptive risks and those within the company's control.
- ERM generally starts with the audit committee yet more frequently, there is entire board involvement on critical issues that can affect strategy whether new geographies, M&A or new partners that need to be pressure tested across the platform.
- Hasbro formed a separate cybersecurity committee to reflect that it is more an IP company than the perceived toy company. Outside experts are brought into every cybersecurity committee meeting.

On the hot topic of stakeholder engagement:

- Boards are increasingly responsive to representing all stakeholders, not just shareholders. These include employees, customers, vendors as well as investors.
- Environmental, social and governance (ESG) is now a prominent discussion at the board level as it spans across the spectrum of stakeholders.
- The company's culture is also viewed as part of risk assessment. Many companies conduct an annual culture survey using a third party. They look at trends like turnover and promotion through the ranks as well as indicators on how management responds to issues as a measure of the "tone at the top."

The second panel discussion, The New Strategic CFO, was engagingly moderated by Jaimee Eddington, partner in Heidrick & Struggles' Global Financial Officers Practice. Our panelists included four highly accomplished women CFOs including Lindsay Corby, CFO of Byline Bancorp and Byline Bank; Marie Graul, EVP and CFO for Life Fitness; Christie Kelly, former global CFO of JLL, and Deborah O'Connor, SVP and CFO of True Value.

Key takeaways from the panel include:

- It is very important to develop a relationship with the chair of the audit committee. Ways to achieve this include educating the chair on the nuances of the business, especially if the business is a different model than the

chair's background. Foster an open dialogue, seek advice and above all, no surprises.

- The new strategic CFO often has a less traditional accounting background. This group of CFOs had diverse credentials from investment banking, international business, supply chain management and wholesale and retail experience to name a few.
- Today's CFOs need to understand the business from start to finish and one of the biggest challenges facing them is technology.
 - How can data be organized into insights?
 - How can it help us imagine the future and evolve to embrace it?
- One issue that surfaced is the importance of data control in "seeking the one source of truth."
 - Rules must be defined with solid controls around it.
 - One CFO pulled a committee together to govern the source of data.
- Advice to audit chairs on the War for Talent. A strategic CFO doesn't need to be a CPA, but the individual should be ready to:
 - Embrace the challenges of a fast-moving world and lead transformational change.
 - Understand global economic drivers.
 - Drive an ethical culture.
 - Communicate clearly with many stakeholders.
- For all these reasons, CFO is now a pathway to CEO—something unheard of in the past.

Again, many thanks to our sponsor KPMG for hosting this event in their incredible meeting space and for providing a networking hospitality reception after our panel discussions.