Agenda

- Audit Committee Perspective
- Auditor Perspective
- Do Auditors make valuable Audit Committee members?
- How do you get a seat at the table?
- Resources
Ask yourself

- Do I know who is on my Audit Committee?
- Do I know what they do?
- Would I serve on MY company’s Audit Committee?
- If so, what would I do differently?
- What can I bring to an Audit Committee?
Audit Committee Perspective

Scores of information produced in last decade on Audit Committees:

- Sarbanes-Oxley Act of 2002
- Blue Ribbon Committee
- New Audit Committee regulations for NYSE, NASDAQ, etc
Audit Committee Perspective

- Many white papers and opinions agree on what makes an Audit Committee effective
- Right people with the right information, processes and perspectives
- Bottom line----increased expectations and demands of the Audit Committee
Audit Committee Perspective

- As a result, backgrounds of members are more diverse—accounting/auditing skills are considered important addition.
- Benefit from a broad range of skills and experience.
- No longer just a prestigious appointment.
- Increased emphasis on members who ask tough questions.
Audit Committee Perspective

- What IS the Audit Committee perspective?
  - Composition/Members
  - Financial Reporting
  - Audit Processes
  - Risk Assessment
  - Compliance/Ethics
  - Organization and operation of Committee
Composition

- Independent of management
- Financially literate
- Broad business experience
- “Risk-minded”
- High integrity
- Candor
- Communication and negotiation skills
Financial Reporting/Controls

- Integrity of financial statements and the process to generate and report
- Financial reporting process
- Accounting issues and controls
- System of internal controls
- Disclosure reporting process
Audit Processes

- External auditors
  - Appoint and oversee
  - Scope and approach of annual audit
  - Independence
  - Performance

- Internal Audit
  - Appoint/Dismiss CAE
  - Charter
  - Annual audit plan
  - Resources and staffing
  - Qualifications of CAE and staff
  - Effectiveness

- Private sessions with each audit group
Risk Assessment

- Risk is framework
- Risk management processes are assessed
- Risks are monitored by management
- Proactively ask questions about risks to the business
  - Fraud
  - Compliance
  - Financial reporting
  - Operations
Compliance

- Code of ethical conduct
- Regulatory
- Legal
- Significant risk exposures due to noncompliance
Organization/Operation

- Charter
- Agenda setting—must have right agenda to be effective
- Annual evaluation of Committee
- Other duties:
  - Whistleblower complaints
  - Special Investigations
  - Education of other Board members and Audit Committee members
As a current Audit Committee Member (with Internal Audit)

- Attend meetings 3-4 times per year
- Receive copies of all audit reports (internal, state auditor, QAR) issued (and actually read them!)
- Receive monthly status report
- Review and approve audit plan
- Review significant changes to audit plan throughout the year
- Stay abreast of staffing levels
- Provide support to CAE as necessary
Previous Audit Committee Member (no Internal Audit)

- Attend meetings 3-4 times per year
- Receive copies of audit reports issued
- Heavy financial orientation
- Review and approve audit plan
- Fraud
- Hotline
- Insurance/worker’s comp
- Information security
Auditor Perspective

- Financial expertise—understanding of GAAP
- Commitment of Code of Ethics (CPA, IIA)
- Risk-based audit focus
- Knowledge of internal controls and procedures
- Coordinate with external audit and other regulatory agencies
- Qualifications, training
- Communicate audit results to management and Audit Committee timely
- Understand and know business processes
- Understanding of Audit Committee functions
Are there common traits?

- Risk-minded
- Objective
- Independent
- Audit coordination
- Internal control
- Business experience
- Accounting expertise
What unique skills does the Auditor add?

- Fraud awareness
- Evaluate effectiveness of internal audit
- Information Technology/Security risks
- ERM
- SOX/404 experience—“lived” it
- Educate Committee members
Are Auditors qualified Committee member material?

- Absolutely!!!
- Many shared traits and qualifications
- Auditor brings value to Audit Committee by supplementing skills of typical members
Want a seat at the table?

- Personal contacts and network
- Others who serve on a board
- CPA firm, law firm, investment bankers
- Executive search firm that specializes in board searches
- AICPA, FEI and NACD keep registers of candidates interested in serving on a board
- If contacted or connected to an opportunity,
  - Due diligence---meet with senior officers/executives
  - Meet external auditor and review financial reports
  - D&O insurance
  - Inquire about the skill sets on the board and what the company is seeking
Key Points

- Seek opportunities to serve on an Audit Committee
  - Private company
  - Not-for-profit
- Auditor’s are perfect candidates to serve on Audit Committee
Resources

- Center for Non-Profit Management
  - Get on Board! Fair May 17
  - [www.cnmdallas.org](http://www.cnmdallas.org)
- AICPA  [www.aicpa.org/audcommct](http://www.aicpa.org/audcommct)
  - Audit Committee Matching System
- National Association of Corporate Directors
  - [www.nacdonline.org](http://www.nacdonline.org)
- KPMG Audit Committee Institute  [www.kpmg/aci](http://www.kpmg/aci)
- [www.Auditcommittee.com](http://www.Auditcommittee.com) (Deloitte)
- IIA  [www.theiia.org](http://www.theiia.org)