

Auditors Serving on Audit Committees

**Dallas Chapter
Institute of Internal Auditors
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May 3, 2007**



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
- AICPA www.aicpa.org/audcommctr
 - Audit Committee Matching System
- National Association of Corporate Directors
 - www.nacdonline.org
- KPMG Audit Committee Institute www.kpmg/aci
- www.Auditcommittee.com (Deloitte)
- IIA www.theiia.org