



# Audit Committee Institute

300 Tice Boulevard  
Woodcliff Lake, NJ 07677  
Telephone 1 877 KPMG ACI  
Fax 201 505 2284  
[auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)  
[www.kpmg.com/aci](http://www.kpmg.com/aci)

January 2008

## Ten To-Do's for Audit Committees in 2008

When considering their 2008 agendas, audit committees should...

- 1. Be a catalyst for improving risk management and oversight.** Risk management, and the role of the audit committee and board in its oversight, continues to be a front-burner issue, particularly for companies potentially affected by the subprime credit crisis. Given the importance of risk management to the company's financial reporting and disclosure processes, the audit committee can be a catalyst in identifying important gaps in the company's risk management processes, and in helping to ensure coordination of the oversight activities of the full board and its standing committees in this area.
- 2. Closely monitor management's disclosure committee.** The subprime credit problem is likely to result in greater focus on the adequacy of company disclosures. Considering the important role of management's disclosure committee in supervising the company's disclosure processes and ensuring the adequacy of its disclosures, audit committees need to monitor closely the activities of the disclosure committee, making sure that the communications and reports are adequate. Consider face-to-face meetings with leaders of the disclosure committee.
- 3. Be up-to-speed on fair value, IFRS, and other key financial reporting issues and developments.** From fair value accounting, to the convergence of U.S. GAAP and IFRS, to critical accounting policies, judgments, and estimates, an ongoing challenge for audit committees will be to understand the implications of important financial reporting issues and developments affecting the company. Given the scope and complexity of these issues, consider asking management to cover *one* key financial reporting issue or development (including key assumptions and estimates) in detail at each audit committee meeting. And ask the external auditor how the item is audited.
- 4. Make sure the CFO and the finance organization have what they need to succeed.** With many CFOs playing a leadership role in strategy, risk, IT, M&A, and compliance—and pressures from various stakeholders increasing—the job has become even more demanding. Audit committee support of the CFO and the finance organization has become more critical—particularly in the areas of succession planning and evaluations for the CFO and senior finance staff, and the adequacy of the CFO's resources, including budget and finance staff with the necessary skills. Audit committees can also provide important support to the CFO by helping to maintain the focus on the long term financial performance of the company, as well as the objectivity of financial disclosures.

5. **Ensure there's a shared vision for internal audit.** For many audit committees, it's a real question mark: How involved should internal audit be in risk management and operational audits—while, at the same time, maintaining the requisite focus on internal controls and financial audits? What internal audit *should* be working on, and whether it has adequate resources and skill sets for the job—particularly given today's tight talent pool—are important areas of focus for the audit committee. Also, reinforce the independence of the internal auditor, and its accountability to the audit committee.
6. **Encourage (expect) frequent, informal communications with the audit engagement partner.** Many audit committee chairs now meet with the engagement partner prior to each committee meeting—or even more frequently—to consider the issues that should be the focus of the committee's agenda, and to stay abreast of issues and developments. Ask to receive important information on a real-time basis, and expect the engagement partner to call to your attention areas of concern before they become major problems. These informal communications are critical to establishing a solid working relationship with the auditor, and they can pave the way for more effective formal communications at committee and board meetings.
7. **Be prepared for a crisis.** The media coverage of stock option abuses, the subprime lending crisis, and various allegations of financial accounting irregularities highlights the importance of having a formal plan in place before a crisis occurs—including the ability to implement a credible, independent investigation on a timely basis. When a crisis occurs, the stakes are high, the company's reputation may be on the line, and time is of the essence; it is not the time to develop a crisis management plan.
8. **Make sure the full board is aware of the audit committee's activities and needs.** The audit committee's communication with the full board is one of the critical foundations for effective oversight. Given the central role the audit committee plays in the oversight of financial reporting, disclosures, internal controls, risk management, and compliance, its communication with the full board is essential—to effective board oversight of risk, to proactively identifying emerging issues, and to enabling all directors to understand the factors affecting financial reporting (and, ultimately, to have confidence in signing-off on the 10K and other SEC filings).
9. **Assess the tone at the top and throughout the organization.** Promote a culture of compliance and a commitment to financial reporting integrity—throughout the organization. Consider the adequacy of the processes and vehicles (such as employee surveys) for monitoring the culture throughout the organization, and ensure that the activities of senior management set a clear, unambiguous, and consistent tone in this regard.
10. **Take a hard look at the audit committee's performance.** Effective self-assessments aren't easy—but they're essential. For many audit committees, the annual self-assessment process has not been particularly productive, and there is work to be done to ensure that the process accomplishes its objectives. As a first step, get the buy-in of all committee members—a commitment to making the most of the self-assessment process. Then engage the necessary resources and expertise to develop a self-assessment process that works for the audit committee—and follow through.

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