



# *The Changing Expectations of the 2018 Audit Committee*

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*Jenna Skop and Seth Rensberger  
Clark Schaefer Consulting*



# Questions

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- Use the “Chat” or “Question” feature on the GoToWebinar panel.
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# Introductions



## ***Jenna Skop, CFE, MPA***

- *Governance, Risk and Compliance*
- *Internal Audit, Risk, Public Sector, Fraud Prevention*

## ***Seth Rensberger, CPA, CISA, CISM***

- *Governance, Risk and Compliance*
- *Oversight of SOC, internal audits, accounting*



# *Today's Agenda*

- Rapidly Changing Business Environment
- The evolution & composition of the Audit Committee
- The responsibility of the Internal Audit department to report key information to the Audit Committee
- Key issues the Audit Committee should be focusing on in 2018
- Questions



# *Rapidly Changing Business Environment*

# Regulatory Change

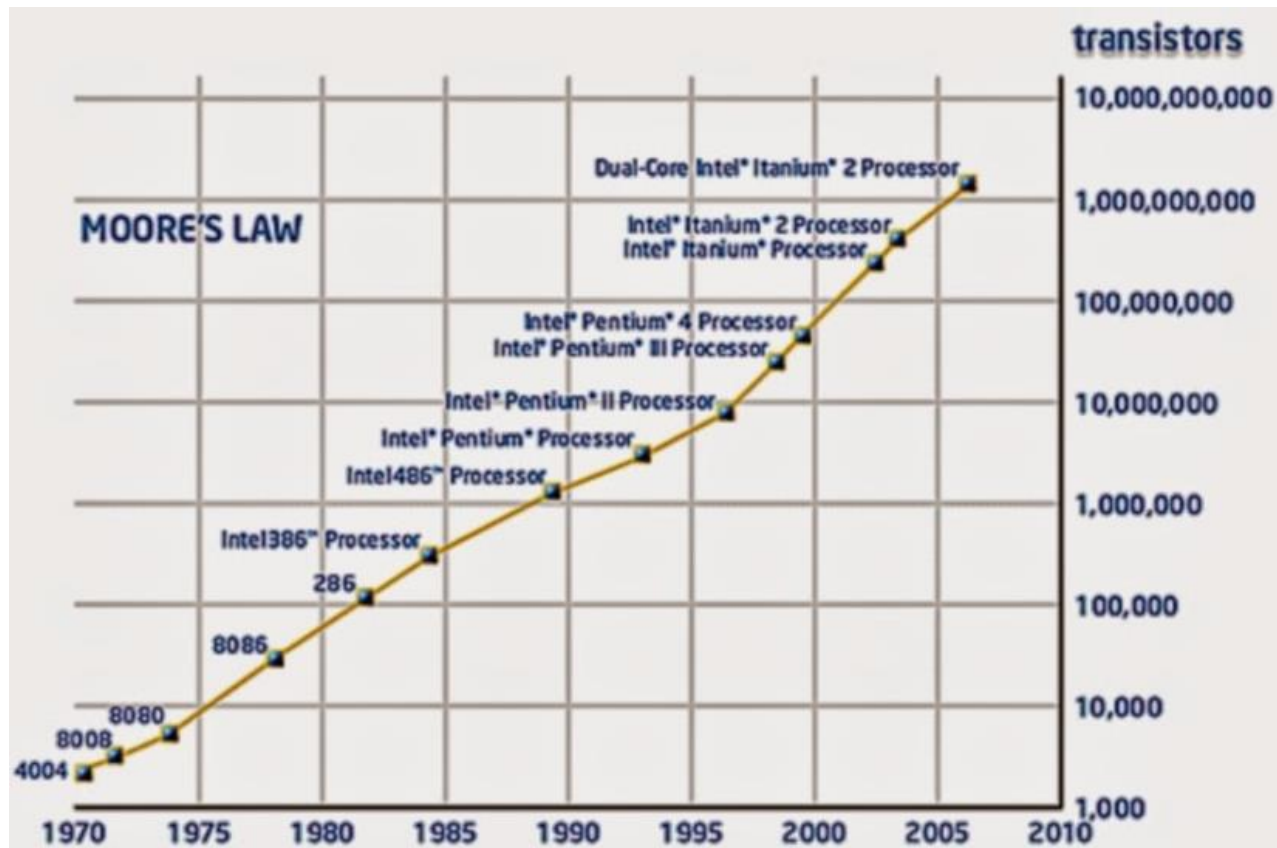
## Regulatory Changes

- 2016 Presidential election
  - Cause for uncertainty
- Accounting Standard updates (examples)
  - *IFRS 15 Revenue from Contracts with Customers*
  - *No. 2018 – 01 Land Easement Practical Expedient for Transition to Topic 842.*



# Technology Changes

- Moore's Law





# *Technology Changes, Continued*

- Data & Analytics
- Digital Transformation
  - Understanding the organization's strategy and portfolio of emerging technology
  - Balancing the portfolio for the greatest overall investment, risk and reward
  - Improving enterprise risk governance and resilience
  - Inquiring as to how the organization will embed security and controls in emerging technology efforts
- Artificial Intelligence/Cognitive Technology

# Process Changes

- External Corporate Reporting
- Performance Evaluation & Self-Assessment
  - Audit committee composition, structure and activities
  - How well they understand the business and its risks
  - How well they understand and consider fraud risks
  - How well they oversee the company’s financial reporting process

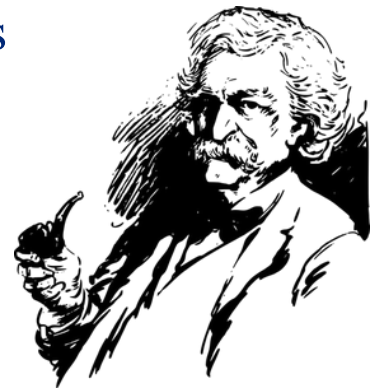
*“The secret of getting ahead is getting started. The secret of getting started is breaking your complex overwhelming tasks into small manageable tasks, and then starting on the first one.”*

**- Mark Twain**



# *Process Changes, Continued*

- “Tone at the Top”
  - Talk explicitly about ethics, culture, and tone.
  - Meeting employees outside of the C-suite
  - Leverage internal and external auditors
- Maintain Communication with Auditors
  - Audit committee composition, structure and activities
  - How well it understands the business and its risks
  - How well it understands and considers fraud risks
  - How well the committee oversees the company’s financial reporting process





# *Evolution of the Audit Committee*

# *Role of the Audit Committee*

- Ensuring that financial statements are understandable, transparent, and reliable.
- Ensuring the risk management process is comprehensive.
- Helping achieve a strong and effective Tone at the top.
- Reviewing corporate policies and the investigation of misconduct and fraud.
- Reviewing current and pending litigation or regulatory proceedings to which the organization is a party.

# *Role of the Audit Committee*

- Continually communicating with senior management regarding status, progress, and new developments, as well as problematic areas.
- Ensuring the internal auditors' access and communication to the audit committee.
- Internal audit oversight
- Establishing a direct reporting relationship with the external auditors.

# *Evolving Role of the Audit Committee*

- Increased time spent on board responsibilities.
- A perception that the following areas fall within their responsibility:
  - IT oversight
  - Third-party risks
  - General risk mitigation
- PCAOB's guidance on the audit committee providing oversight of the external auditor.

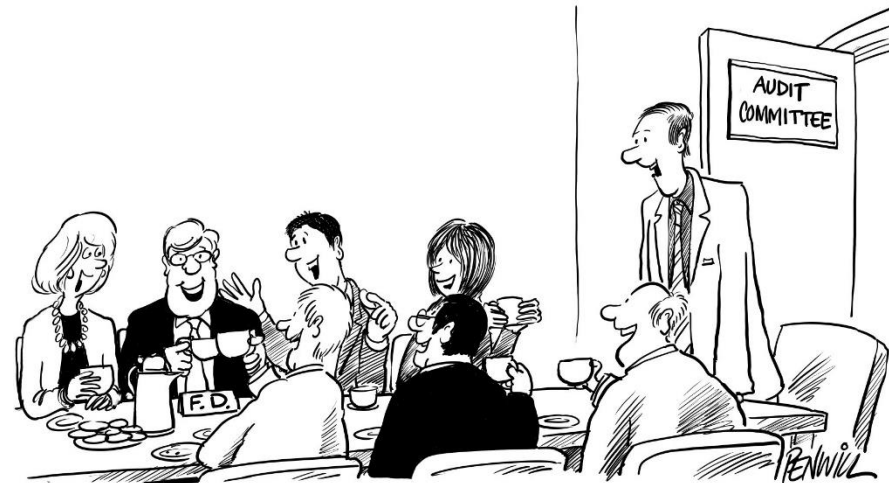
# *Audit Committee Considerations*

- Clear allocation of responsibility between the audit committee, other board committees, and the full board.
- Consider the scope of the committee's responsibilities and whether those obligations are reasonable and achievable.
- Review the charter periodically to ensure it accurately reflects the committee's current responsibilities.



# Audit Committee Composition

- Meet the minimum standards
  - Independent
  - Number of members (minimum of 3)
  - Financially literate
- Attention to detail
- Curiosity
- Integrity
- Audit committee chair



"GENTLEMEN - LADIES - I PROPOSE WE TAKE A SHORT BREAK,  
DURING WHICH WE'LL HOLD OUR MEETING"

# *Audit Committee Considerations*

- Evaluate whether your committee has the individual attributes most needed for your organization.
- Define the right committee size to be efficient and productive within existing standards.
- Promote ongoing education and training for committee members.
- Reevaluate committee member rotation.
- Does the chair demonstrate the skills to facilitate excellent working relationships?



# *Internal Audit's & the Board – Mutual Dependency*

# *Road Blocks to a Good Partnership*

Reasons why IA / Board may not be on the same page:

- Either group not understanding their role
- Either side not knowing / following IIA standards
- Board focus on business issues, while internal audit focusing on day-to-day responsibilities
- Poor relationship and communication
- Tone at the top does not exist and support not provided to internal audit

# Education

Internal audit can educate the board on many topics, including:

- The effectiveness of the governance processes
- Major risks of the organization
- Conformity to the IIA standards
- Continuous improvements:
  - Management practices
  - Internal audit practices
  - Industry trends



# *Strengthen & Improve the Relationship*

Internal audit can improve the board relationship by:

- Explaining the standards
- Building relationships
- Commitment to improve
- Define expectations

# *IIA 10-Point Oversight Checklist*

1. The audit committee engages in an open, transparent relationship with the chief audit executive (CAE).
2. The audit committee reviews and approves the internal audit charter annually.
3. As a result of discussions with the CAE, the audit committee has a clear understanding of the strengths and weaknesses of the organization's internal control and risk management systems.
4. The internal audit activity is sufficiently resourced with competent, objective internal audit professionals to carry out the internal audit plan, which has been reviewed and approved by the audit committee.
5. The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.

## *IIA 10-Point Oversight Checklist, cont.*

6. The audit committee addresses with the CAE all issues related to internal audit independence and objectivity.
7. The internal audit activity is quality oriented, and has in place a Quality Assurance and Improvement Program.
8. The audit committee regularly communicates with the chief audit executive about the performance and improvement of the CAE and the internal audit activity.
9. Internal audit reports are actionable, and audit recommendations and/or other improvements are satisfactorily implemented by management.
10. The audit committee meets periodically with the CAE without the presence of management.





*Key Issues the Audit Committee  
should be Focusing on in 2018*

# *Key Issues to Focus on in 2018 Continued*

## ■ Cyber Security

- More than 70% of the IIA survey respondents consider the risk of a data breach to be at least moderate, with IT specialists reporting more concern than other groups.

## ■ What can organization do to mitigate the risk of cyber intrusion in 2018?

- Vulnerability scans and penetration testing
- Crisis management plan
- Intrusion prevention and detection
- Crisis management performance



# *Key Issues to Focus on in 2018*

- Remediate deficiencies in a timely manner
- Most frequent audit deficiencies
  - Assessing and responding to risks of material misstatement
  - Auditing internal control over financial reporting
  - Auditing accounting estimates, including fair value measurements.
- What can organization do to mitigate common deficiencies in 2018?
  - Focus on preventative aspects of quality control systems
  - Building quality into the audit process

# *Key Issues to Focus on in 2018 Continued*

- Proactively identify and address emerging risks and deficiencies, thereby enhancing audit quality.
- Organizational use of Audit Quality Indicators
  - Audit inputs
  - Audit process
  - Audit results



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# *Key Issues to Focus on in 2018 Continued*

- Risk Management
  - Cyber Risk
  - Legal/regulatory compliance
  - Business development, reputational, and operational risk
  - Financial risk
  - Data risk
- What can organization do to mitigate risks in 2018?
  - Balance risk appetite and tolerance to provide the board with the appropriate amount of control
  - Assurances from internal and external audits to maximize the effectiveness of risk management
  - Increase transparency

# *Key Issues to Focus on in 2018 Continued*

- **General Data Protection Regulation (GDPR) Readiness**
  - Most important change in data privacy regulation in recent history?
  
- **What can an organization do to prepare for GDPR?**
  - Educate yourself!
  - Consult with a security third-Party contractor
  - Review the scope and/or progress of the organization readiness program for the new regulation.
  - Review and analyze the organization's approach to data collection.

## *Wrap-up*

- Financial reporting integrity
- Oversight of key accounting changes
- Oversight of Internal Audit
- Focus on succession planning
- Tone at the top starts with the executive team and the Board



# *Questions?*

If you wish to discuss any aspect of this presentation in more detail, please feel free to contact us:

*Seth Rensberger*

*srensberger@clarkschaefer.com*

*(513) 768-7557*

*Jenna Skop*

*jskop@clarkschaefer.com*

*(513) 229-9960*

