



# SETTING THE 2018 AUDIT COMMITTEE AGENDA

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Based on interactions with client audit committees, roundtables we held in 2017, surveys we conducted, and discussions with directors in numerous forums, we identified agenda items for audit committees to consider in 2018.

Our suggested agenda consists of eight issues — four pertaining to enterprise, process and technology risks and four to financial reporting related risks.

Internal Audit should be aware of these agenda items to understand the potential impact on the annual plan and to be best positioned to support their key stakeholders.



# THE 2018 MANDATE FOR AUDIT COMMITTEES

## Enterprise, Process and Technology Issues

01

Assess the effectiveness of the committee composition and focus

02

Understand the critical risks that could affect the business and its financial and public reporting

03

Pay attention to conduct at the top, and consider whether the tone in the middle is consistent with the tone at the top

04

Consider whether talent in the finance and internal audit functions is meeting expectations

## Financial Reporting Issues

05

Oversee implementation of the new revenue recognition standard

06

Determine whether the company is sufficiently focused on matters the SEC considers important

07

Understand the audit issues raised by the PCAOB and how they might impact the audit process

08

Focus on the implications of areas of change that are imminent

# ENTERPRISE, PROCESS AND TECHNOLOGY ISSUES

# ENTERPRISE, PROCESS AND TECHNOLOGY RISK ISSUES

01

## ASSESS THE EFFECTIVENESS OF THE COMMITTEE COMPOSITION AND FOCUS

**Periodically assess the committee composition, charter and agenda in view of current challenges the company faces.**

- Do committee members have the requisite experience and expertise to oversee management on the appropriate issues, and are the committee charter and agenda focused on the issues most likely to affect the quality of financial and other information reported to investors?
- Do committee members have the time to do their jobs effectively?

# ENTERPRISE, PROCESS AND TECHNOLOGY RISK ISSUES

02

## UNDERSTAND THE CRITICAL RISKS THAT COULD AFFECT THE BUSINESS AND ITS FINANCIAL AND PUBLIC REPORTING

**Regardless of the scope of its risk oversight, committee members must understand the business, technology and other risks that could affect financial and public reporting.**

- Are emerging business risks and changes in critical enterprise risks identified and addressed in a timely manner?
- Are cybersecurity, privacy and identity, and other related issues adequately considered?

## Poll Question #1

How often does your company update its risk profile to reflect changing conditions and review the results of the update with the board?

A) Annually



B) Semi-annually



C) Quarterly



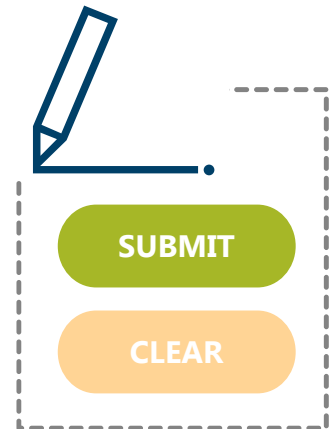
D) Less than annually



E) Never



F) Don't know





# SHOW POLL RESULTS



# ENTERPRISE, PROCESS AND TECHNOLOGY RISK ISSUES

03

**PAY ATTENTION TO CONDUCT AT THE TOP, AND CONSIDER WHETHER THE TONE IN THE MIDDLE IS CONSISTENT WITH THE TONE AT THE TOP**

**The audit committee should exercise diligence in watching for a pattern or signs that indicate a dysfunctional or flawed risk culture.**

Conduct at the top is where it starts. But it doesn't end there. If the **tone in the middle is not aligned with the tone at the top**, there could be serious risks lurking within the organization's processes that are high in impact but slow in velocity.

- Is executive management sending the right signals to the organization through both words and actions?
- How does management know that the culture permeating the organization is aligned with the entity's mission, vision and values?

## Poll Question #2

Creating and maintaining a robust risk culture is important to leaders in my organization.

A) Strongly agree



B) Agree



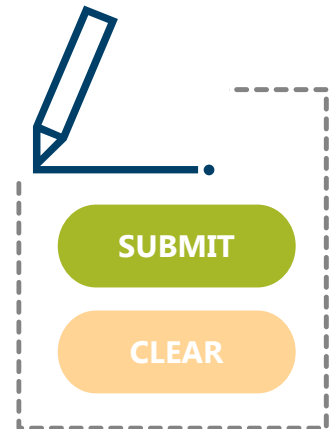
C) Not sure



D) Disagree



E) Strongly disagree



# SHOW POLL RESULTS



# ENTERPRISE, PROCESS AND TECHNOLOGY RISK ISSUES

04

## CONSIDER WHETHER TALENT IN THE FINANCE AND INTERNAL AUDIT FUNCTIONS IS MEETING EXPECTATIONS

CAEs and their functions continue to face increasingly demanding expectations.

When reviewing Internal Audit's risk-based audit plan, audit committees should ensure these plans consider relevant issues, such as **cybersecurity, compliance, operational or cultural matters**. The committees should also inquire as to what CAEs are doing on **the digital and data analytics front**.

- Are there weak spots requiring attention?
- Are capabilities aligned with the company's needs?
- Are there new skills required due to pending accounting changes?

### Poll Question #3

How engaged is Internal Audit with cybersecurity risks related to your business?

A) Limited engagement and level of understanding






B) Moderate engagement and level of understanding



C) High engagement and level of understanding



D) Don't know

# SHOW POLL RESULTS



# FINANCIAL REPORTING ISSUES



# FINANCIAL REPORTING ISSUES

05

## OVERSEE IMPLEMENTATION OF THE NEW REVENUE RECOGNITION STANDARD

**Audit committees should monitor the quality of the implementation and ensure that issues, if any, are raised and addressed on a timely basis.**

- Is management getting the job done?
- Has the experience to date shown what can be expected on other new standards as they become effective?

# FINANCIAL REPORTING ISSUES

## 06

### DETERMINE WHETHER THE COMPANY IS SUFFICIENTLY FOCUSED ON MATTERS THE SEC CONSIDERS IMPORTANT

**Does the committee understand the Commission's concerns, and is it focused on those areas?**

In March 2017, the SEC offered guidance to audit committees focused on the following:

- Understand the business environment
- Committee diversity
- Committee workload
- Tone and culture
- New accounting standards
- Non-GAAP and key operational measures
- Auditor oversight
- Advocacy for financial reporting (valuations, impairments, cyber disclosures)

# FINANCIAL REPORTING ISSUES

07

## UNDERSTAND THE AUDIT ISSUES RAISED BY THE PCAOB AND HOW THEY MIGHT IMPACT THE AUDIT PROCESS

The PCAOB's inspections scope and new standards may influence the audit process.

For example, with the PCAOB focus on estimates, audit committees should **inquire of preparers regarding the processes and controls over how estimates are developed**, including management's validation of data used in the estimation, and evaluation of management's assumptions, inputs and methodologies that are significant to the estimate.

## Poll Question #4

Has Internal Audit read the external auditor's latest PCAOB Inspection Report and considered the impact on the 2018 SOX program?

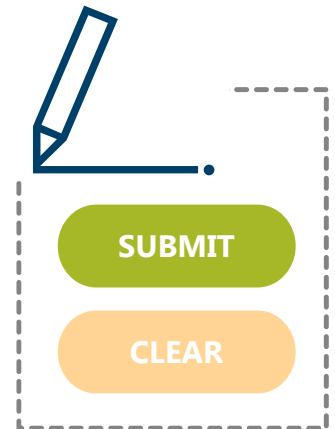
A) Yes



B) No, but it is on my to-do list



C) No, not planning on reading it



# SHOW POLL RESULTS



# FINANCIAL REPORTING ISSUES

08

## FOCUS ON THE IMPLICATIONS OF AREAS OF CHANGE THAT ARE IMMINENT

**For example, understand the new lease accounting standard's impact on the company's financials and the implications of incorporating critical audit matters in the auditor's report.**

- Directors should inquire of management's progress in preparing to implement the new lease accounting standard, particularly for lessees.
- The PCAOB now requires the auditor to communicate, in the auditor's report, any critical audit matters arising from the audit of the financial statements or, alternatively, state that the auditor determined that there were no such matters.

## Poll Question #5

Have you read the new Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842)?

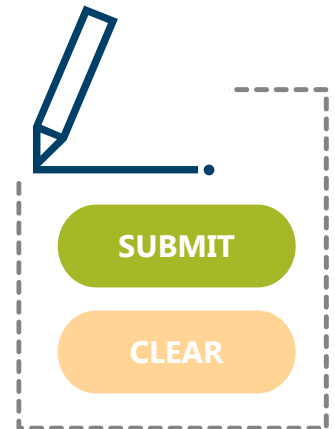
A) Yes



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# SHOW POLL RESULTS





# SUMMARY – SETTING THE 2018 AUDIT COMMITTEE AGENDA

1

The audit committee has a difficult, demanding role amid regulatory expectations that it serves as the final line of defense for ensuring quality financial reporting.



2

This storyline has been a constant one over recent years and continues unabated in 2018.



3

The coming year offers an opportunity for Internal Audit to support the Audit Committee in improving the control environment and the financial reporting process.

# QUESTIONS AND ANSWERS?

# SETTING THE 2018 AUDIT COMMITTEE AGENDA



Download a copy of **Setting the 2018 Audit Committee Agenda** at [www.protiviti.com/acagenda](http://www.protiviti.com/acagenda).

This publication also includes illustrative questions for audit committees to consider in view of the current challenges the company is facing.



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# THANK YOU FOR YOUR TIME AND ATTENTION!

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