2015 Audit Committee Symposium
Navigating a Complex Landscape

PROGRAM HIGHLIGHTS
What will next year’s headlines be for audit committees? What trends are shaping the committee’s role and responsibilities? How can committee members best be prepared?

The focus of Deloitte’s 2015 Audit Committee Symposium was on looking ahead—both in the short term, as next year’s agenda is set, and more broadly, in envisioning the audit of the future.

More than 100 audit committee members gathered in Washington, DC, to hear perspectives from leaders in business, governance, regulatory matters, and politics, including a keynote presentation by Chuck Todd, NBC News political director and host of Meet the Press. A diverse range of sessions tackled issues that audit committees are likely facing, such as IT security, ethics and compliance, FASB developments, tax policy, innovation, and audit quality indicators.

This document shares insights from the sessions, which can serve as a springboard for discussion as the coming year’s agendas are set.
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The theme of overseeing IT and cybersecurity as a top consideration for boards and audit committees arose frequently during the symposium. The panelists in this session tackled complex issues of IT governance, strategy, and training in a wide-ranging discussion. They suggested that where responsibility for overseeing IT risk lies will often be determined by the extent to which IT issues are central to the company’s capabilities and mission. However, they agreed that the entire board should be aware, in at least general terms, of significant IT developments.

The panelists also said that since risks are constantly changing, IT policies and training should be frequently revisited. They suggested a number of areas for the audit committee to probe in evaluating IT processes, including inquiring about access management, evaluating vendors, and asking about the number and nature of attacks.

Mary Galligan: “Ask about the exception rate to your compliance policy on cybersecurity. If you have 37 departments, and 33 have asked for an exception, either it’s not the right policy or people aren’t taking it seriously.”

Adriana Karaboutis: “When somebody comes in to the company, they come in with their birth rights, and they get access to certain things. But when they change departments, they need to go back to birth rights access, and you need to decide what they should have access to.”

William Swanson: “IT strategy drives your business strategy and the risk associated with it, and I think the whole board should share in that discussion. As a CEO, I enjoy having the entire board involved because some people who don’t understand IT ask the very best questions.”

Audit Committee Symposium polling

- Technology strategy (e.g., overall objectives, outsourcing, shared-service centers, common systems) ...........................................30%
- Preventing technical disruptions .............................................22%
- IT talent and resources .....................................................17%
- Financial systems implementation ...........................................16%
- Personally identifiable information protection .....................10%
- Emerging technologies ......................................................4%

Percentages may not add to 100 due to rounding. n = 69
The PCAOB’s concept release on audit quality indicators (AQIs) has sparked considerable discussion and debate among audit committees, external audit firms, and investors. Bill Platt, Deloitte’s managing director for the Global Regulatory group, said that portions of the external audit remain opaque to many stakeholders, and that audit quality indicators could serve as an important step in facilitating a dialogue among audit firms and audit committees that will increase the committee’s understanding of the audit and lead to enhanced quality.

The discussion emphasized that AQIs were not intended as scorecards to be measured against but rather as the means to spark a conversation. Also highlighted was that there is testing under way of the indicators’ ability to predict audit success. Finally, the PCAOB’s root-cause project, which focuses on determining the cause of successes and failures in audits, was identified as another fruitful way of testing and producing AQIs.

Audit committee members were encouraged to continue to engage with their auditors and the PCAOB on this important topic.

*Bill Platt:* “I firmly believe that the discussion of AQIs at the audit committee level will enhance the committee’s oversight of the audit and the performance of audit teams. It sets the stage for a deep discussion on how the audit is conducted, and provides a lens into what is happening in the audit.”
Tax policy can be one of the most challenging and, at times, confounding topics for boards and audit committees to address. This was confirmed in a survey of symposium attendees, who said that tax policy was the single issue most responsible for holding back the pace of their domestic investment. Against this backdrop, Jonathan Traub set the stage for the tax proposals currently being circulated in Washington and their likelihood for success.

Traub presented a number of reasons tax reform is talked about but not acted on, including the substantive challenges presented, as well as a number of striking statistics demonstrating the largely unprecedented polarization in Washington, including an increasing preponderance of negative partisans who dislike the opposing party more than they approve of their own party. He said that a federal highway funding bill might provide some impetus to move the conversation forward on tax reform, though its success would be very much in doubt (and events since the symposium have shown this to be an increasingly unlikely outcome). Traub said that ultimately it may take another crisis, hopefully a manageable one, to force genuine compromise and progress on tax reform efforts.

“To achieve tax reform, we need a president who is committed to it, an environment where deal-making is more in vogue than it is now, and for corporate America to speak up and say we’re missing out on opportunities.”

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### Audit Committee Symposium polling

What are the two biggest factors holding back the pace of domestic investment?

1. US tax policy ........................................ 57%
2. Regulatory issues .................................... 54%
3. Weak global demand/economy ........ 30%
4. Could not be substantially stronger .................... 2%
5. Cost of capital/financing .................. 0%
6. Other ........................................ 4%

Percentages add to more than 100 because participants were asked to choose two answers. n = 54
Joe Ucuzoglu provided an update on many of the current hot topics and recent developments in the auditing profession, with a focus on the regulatory landscape and how innovative tools and technologies are shaping the audit of the future.

Ucuzoglu discussed the elevated expectations regarding audit quality and disclosures and highlighted the SEC’s issuance of a concept release exploring enhancements to the audit committee report. He touched on the PCAOB’s proposed expansion of the auditor’s report. He also discussed the importance of auditors tailoring their work to ensure effort is directed toward the areas of highest risk at each individual client.

Ucuzoglu emphasized the dramatically changing audit landscape, saying that innovations in advanced analytics and next-generation applications are transforming the way audits will be executed. This will enable auditors to perform a higher-quality audit, deliver greater insights and value, and accelerate the path to front-end, real-time auditing.

He encouraged audit committees to engage in regular dialogue with auditors about these and other emerging issues in the profession.

“We are focused on delivering the audit of the future—today. I expect over the next five to 10 years we will see the greatest transformation in the way in which an audit is performed due to the proliferation of advanced technologies.”
A panel of seasoned experts on audit committee and governance issues offered their takes on the most pressing issues facing committees. Among the topics they said were figuring prominently on audit committee agendas were cybersecurity, risk management oversight, and succession planning and staffing concerns.

Noting that many boards and audit committees find finance talent and succession planning to be among the most challenging aspects of their roles, the panelists emphasized the importance of creating an environment that fosters genuinely candid conversations so that committee members can get to know and evaluate candidates. Regular executive sessions were suggested as an effective means to surface succession issues and other topics and to take a deeper look than would be possible in the audit committee meeting. Additionally, the panelists said that taking time to talk to the heads of operational business units could help them gain a well-rounded and more accurate view of risk, which can help the audit committee be more efficient and maintain its focus on the integrity of the financial statements and audit quality.

Alan Beller: “Don’t just ask management to give you a list of risks; ask them to give you the list of risks that comes out of the operating process. What do the internal auditors think the biggest risks are? What does the risk committee think the biggest risks are? You will find that those are very different risks. From that process, you end up with your best institution-wide judgment.”

Murry Gerber: “Spend time with executives testing their analytical abilities. ‘What if…?’ discussions are really important and test their leadership capabilities.”

Robert Herz: “I think it’s dangerous to take the passive view that anything that smacks of risk or technical matters by default goes to the audit committee; I think you’re asking for trouble.”
Analytics, Innovation, and Shaping the Future of Audit

Mo Azam, Chief Audit Executive, United Parcel Service
Jan Babiak, Audit Committee Chair, Walgreens Boots Alliance
Jon Raphael, Chief Innovation Officer, Deloitte & Touche LLP
Neil White, Advisory Principal, Risk Analytics, Deloitte & Touche LLP

Analytics and innovation are fundamentally altering how companies do business and how audits are conducted. As an example of the developments in audit technology, Jon Raphael demonstrated Argus, a Deloitte tool that uses workflow automation, artificial intelligence, natural language processing, and analytics to read and compare electronic documents such as leases. He also highlighted Disclosure Analytics, which helps auditors use public financial data to streamline accounting and disclosure research, conduct benchmarking, identify trends, and pinpoint risks.

Raphael was joined by a panel experienced in working with innovative tools and analytical techniques in a variety of industries and contexts. Among the topics of discussion were the confidentiality and security issues associated with big-data analytics. The panelists stressed the importance of knowing who owns data, what their roles are, and how to test the associated systems. Another suggestion was to work with governance and security experts as early as possible in the design phase as new tools are developed. The panelists also emphasized that innovative analytics technologies are dependent on data quality, and that professional judgment and analysis remain critical. Neil White noted that most chief audit executives were embracing analytics as a way to improve sampling and decision making and provide enhanced insights to stakeholders.

Mo Azam: “The biggest challenge involved with analytics is the quality of the underlying data.”

Jan Babiak: “A lot of the legacy systems date back 40 years, and they are often pieced together. To get quality information, you need to have test points to reconcile and validate the information.”

Jon Raphael: “Our goal is to empower the auditor with leading analytics and cognitive tools to enable them to do their jobs smartly while consistently delivering insights.”

Neil White: “We’re seeing an evolution where analytics are being used much more broadly throughout the internal audit cycle.”
A Conversation with the FASB

James Kroeker, Vice Chairman, FASB
Tom Omberg, National Managing Partner, Quality and Professional Practice Network, Deloitte & Touche LLP

James Kroeker joined Tom Omberg to address several prominent FASB projects and how they will likely affect audit committees. They discussed a recent FASB proposal clarifying materiality considerations in disclosures, and how more streamlined 10-Ks could ultimately benefit investors.

Another prominent topic of discussion was the standard on revenue recognition. Kroeker said that although the effective date was extended to 2018, companies and their audit committees should be preparing now for the changes—particularly given the judgment required to implement the principles-based standard. They emphasized that the changes would affect every company across industries, and said that the FASB wants the same transaction to receive the same accounting treatment overseas and in different industries. Omberg added that the revenue recognition standard could be an effective litmus test for other international convergence initiatives.

In addition, Kroeker said that a final standard on lease accounting would soon be released and require all leases to be reflected as liabilities on balance sheets. Subsequent to the symposium, the FASB voted on the standard, and it expects to issue the final leasing standard in late 2015 or early 2016, to be effective in 2019. He also highlighted FASB projects that would require the disclosure of government assistance to be a potentially significant issue for the coming year. Omberg emphasized the SEC’s renewed scrutiny of segment accounting in recent months.

James Kroeker: “Don’t think this is going to be the same old revenue recognition. It is by nature less prescriptive than the guidance most companies are used to working with. It’s going to require the application of judgment.”

Tom Omberg: “The FASB is moving the conversation around disclosure effectiveness away from immaterial items and getting to the things we need to talk about, such as how to make the financial statements more readable and how to get the information investors really want front and center.”
This panel session probed how best to implement ethics and compliance programs, demonstrate compliance, and address issues of company culture. Keith Darcy summarized the evolution of the modern ethics and compliance program, which began with the 1991 Federal Sentencing Guidelines and has been refined through various events, including the Enron and WorldCom collapses, Sarbanes-Oxley, Dodd-Frank, and recent developments such as the Yates memorandum on individual accountability in corporate wrongdoing. He discussed how these and other events have shaped the fiduciary obligations of the board regarding ethics and compliance program oversight.

Benjamin Singer shared his experiences at the Department of Justice (DOJ), noting that the department focuses on a company’s framework for preventing and detecting ethics and compliance issues and its response to those issues. He said that if a company has uncovered potential criminal liability, it is often beneficial for the company to bring issues to the attention of the DOJ rather than waiting for the department to uncover the conduct. Lee Augsburger suggested that if the chief compliance officer (CCO) does not report directly to the CEO, he or she should report to a senior executive officer who clearly understands the CCO’s role and responsibilities, and, irrespective of reporting lines, the CCO should meet with the board regularly and routinely. He said that in his firm, “regularly and routinely” means quarterly.

Lee Augsburger: “The tone at the top is a minimum given. The real issue is the mood in the middle and the buzz at the bottom. How do you drive these concepts and ideas to the managers of people? That’s where the battle is won or lost.”

Keith Darcy: “Take your ethics and compliance officers out to lunch and ask what keeps them up late at night. Get to know them; open up that dialogue.”

Benjamin Singer: “We’re going to want to see proof that the company’s compliance program is working. We want to see not just talk about a program, but whether it’s effective, and whether a real investment has been made.”