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From tax policy and regulation to cyber risk and emerging technologies, there was no shortage of significant developments affecting audit committees in 2017, and the pace of change shows no signs of slowing.

To help audit committee members stay ahead of these issues, the Center for Board Effectiveness hosted the 2017 Deloitte Audit Committee Symposium (“Symposium”) in Washington, DC, on November 6–7, 2017. With the theme “Anticipate. Navigate. Focus.,” the Symposium centered on how committee members can prepare for and respond to prominent issues on their agenda in the coming year while maintaining a focus on their core responsibilities.

More than 140 audit committee members joined the Symposium to share perspectives and hear insights from leaders in business, governance, and regulatory matters. Topics included pending tax legislation, blockchain, SEC developments, risk management, culture, and the future of work.

This retrospective provides a snapshot of memorable themes, quotes, and key takeaways from the program. We hope it will help you reflect on our time together and incorporate the discussions and learnings into your own thinking, making it easier to share and act on these ideas with your fellow audit committee members.

We look forward to seeing you again at our 2018 Deloitte Audit Committee Symposium.

Regards,

Deborah L. DeHaas
Vice Chairman and
National Managing Partner
Center for Board Effectiveness
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Henry Phillips
Vice Chairman and
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The audience responded to several polling questions during the Symposium. The results are included throughout this document in association with the relevant sessions.

**Polling question:** Do any of the companies on whose audit committee you serve have a risk committee?

- Yes, and it is a financial institution required to have a risk committee: 17%
- Yes, and it is not a financial institution required to have a risk committee: 12%
- No: 71%

98 responses

"Technology risk should be part of the conversation up front and not a compliance activity at the end."

— Bill Briggs, Global and US Chief Technology Officer, Deloitte Consulting LLP
Multifaceted risk management issues, new pronouncements, and regulations are top of mind for many audit committee members for 2018. Chuck Noski drew from his extensive experience as an audit committee chairman and corporate governance expert to offer insights on topics likely to require the committee’s attention. He emphasized the importance of monitoring companies’ implementation of the new revenue recognition and lease accounting standards, noting that there should be robust and sustainable internal controls for these areas going forward. He also highlighted risk issues such as cyber risk, third-party risk, and company culture that will likely rise to the forefront, as well as privacy issues and non-GAAP financial measures reporting. Given the range of issues likely to be competing for space in meetings, he offered tips for making sure the agenda stays focused on core responsibilities and critical business issues.

Key takeaways:

- Audit committees should make sure that there are sustainable internal controls around the implementation of new accounting rules, such as revenue recognition and lease accounting. Non-GAAP financial measures and related internal controls are also important. Committees should make sure someone (a combination of internal audit and management) is responsible for controls and testing for key performance indicators and other non-GAAP information provided to investors.

- The expansion of the auditor’s report will significantly impact the audit committee in the coming years as critical audit matters are reported that expand the length of the report. The audit committee and management could be involved in conducting a dry run of what the new report will look like before the new reporting standard is effective.

- Privacy issues are an increasingly important regulatory matter; the General Data Protection Regulation is a piece of EU legislation that mandates how companies handle their customers’ information. Organizations, subject to this regulation, are expected to have related measures fully implemented by May 2018. The audit committee should confirm that the company is making progress and will be able to comply with the law.

- The agenda-setting process is key for audit committee chairs, since there is only a discrete amount of time available. Consider having a short executive session at the beginning of the audit committee meeting to confirm the agenda with committee members. Be willing, as the chairman, to call an audible and change things up as needed.

“When I’m traveling around the US and the world on other business, I try to add a day to the trip and visit a board company location. I’ve always gotten more out of that investment of time than I expected. You always learn something about the people and the culture of the company. You often learn something about business issues that didn’t quite percolate all the way up to the boardroom.”

— Chuck Noski
Polling question:
What do you believe the top challenge will be to audit committee service in 2018?

*Similar responses to this polling question have been summarized in the word cloud above.
Across all industries, technological advances and shifts in the marketplace are forcing C-suite executives to more closely identify, understand, and reassess the different disruptors facing their businesses and reshape those disruptors into enablers. Among these disruptors include the very nature of work—who is doing it and how it is getting done. In the future, as workers move into more value-added roles, employers should build programs to retrain employees in new tasks and responsibilities to move into new roles and jobs. This doesn’t mean everyone will need to be engineers and coders, and fear not—we won’t be replaced by robots. Ultimately, the most automated companies will create the greatest number and diversity of jobs. Thriving in this environment will require education and flexibility. Cathy Engelbert emphasized the importance of preparing employees to take on new roles and consider the implications of alternative work arrangements, including contingent labor, that are likely to become more prominent.

**Key takeaways:**

- Assess management’s level of dialogue across the C-suite on the work of the future. This issue isn’t just about human resources—it’s a business and leadership issue that needs attention from the CFO, CIO, and others across the C-suite.

- Ask whether management has conducted a future-of-work assessment for the organization, including modeling its impact and understanding where there are skills gaps and how to close them. Is management looking at human capital just as carefully as financial capital?

- Examine how proactive management is at sensing opportunities related to the work of the future, including those pertaining to automation and talent platforms.

- Consider whether management has a strategy for the open talent network (i.e., contracted, gig workers). Is it viewed as a distraction or a disruption?

- Determine if management is engaging today’s workers as essential collaborators in exploring how and where work gets done. Why would the best talent be at a company that sees them only as a temporary replacement for robots and technology?

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“Audit committees that see the challenges and opportunities in this time of exponential change will be the most ready to embrace and position themselves for success in the work of the future. The work of the future will bring significant opportunities for both companies and professionals. While many roles will be automated by machines, rest assured that the most automated companies are creating jobs, and the new jobs will better leverage our human qualities.”

— Cathy Engelbert
Polling question:
Are you hearing about the "future of work" from management at your companies?

- Yes, the audit committee and/or board have discussed: 25%
- Yes, minimal discussion but no formal presentation: 6%
- No: 62%
- 7% of respondents did not respond to this question.
Blockchain technology is being deployed across an increasingly broad variety of platforms. It’s no longer just about Bitcoin—there are now more than 1,000 cryptocurrencies with a market capitalization of around $100 billion. And it’s not limited just to currency; blockchain may revolutionize how we interact with many other categories of value, such as cars, services, securities, and commodities. Similarly, cognitive technology and the underlying artificial intelligence are fundamentally changing how data is processed and business decisions are made. Computers are no longer just linear and rules-driven, but can now make inferences and associations to help manage the increasing volume, variety, and velocity of data being generated within organizations. Cognitive technologies could potentially impact the automation of processes to reduce manual input and manual labor, the use of data to predict and develop insights, and how companies interact with their customers.

Less than half of the executives in an MIT Sloan Management Review survey said their organization had a clear vision and strategy for digital transformation that encompasses the relevant technologies. A panel of Deloitte technology leaders offered an overview of what audit committees should know about these technologies and their significant opportunities and risks.

**Key takeaways:**

- It is important for audit committees to engage with and understand the potential for blockchain technology from the points of view of value, trust, and risk. Among the areas of business that will likely be most affected by blockchain are supply chain (value can be transferred without a “middle man”), retail and manufacturing, clinical trials, and the public sector (tax collection and digital identity).

- We now have technologies such as natural language processing to rapidly analyze information that has been locked in paper documents and not yet turned into meaningful insights.

- Many Fortune 100 companies have taken on broad tech-savvy initiatives over the past year or two to raise tech intelligence across all businesses. Everyone needs to be able not only to converse about technology but also to think about ways to harness it in creative ways and to manage the resulting implications and risks.

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**Overview of emerging technologies: A focus on blockchain and cognitive**

**Presenters:**

Bill Briggs, Global and US Chief Technology Officer, Deloitte Consulting LLP  
Nitin Mittal, Analytics and Information Management National Service Line Leader, Deloitte Consulting LLP  
Eric Piscini, Global Financial Services Consulting Blockchain Leader, Deloitte Consulting LLP  
Joe Ucuzoglu, Chairman and Chief Executive Officer, Deloitte & Touche LLP

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“With ever-faster processing speeds because of the flexibility and ubiquitousness of the cloud, we are able as a civilization, as a business, and frankly as a species to go from a linear trajectory of technological advancement to an exponential trajectory.”

— Nitin Mittal
Polling question:
Do you understand what blockchain technology is and how it can impact companies?

- Yes, I have in-depth knowledge of blockchain and its implications for the companies I serve: 46%
- Yes, I have a modest understanding of blockchain technology: 14%
- No, I have heard of it, but don't understand it: 38%
- No, I don't know what blockchain technology means: 2%

Polling question:
Do you understand what cognitive technology is and how it can impact companies?

- Yes, I have in-depth knowledge of cognitive technology and its implications for the companies I serve: 41%
- Yes, I have a modest understanding of cognitive technology: 17%
- No, I have heard of it, but don't understand it: 41%
- No, I don't know what cognitive technology means: 1%
Emerging technologies: Considerations for audit committees

Key takeaways:

- For big transformational projects, it's critical for audit committees to dig deep enough to understand what's going on. Ask about the three or five largest ongoing projects, what the expectations are, and if they are on time and on budget. Ask about the modernization strategy and dive into the specifics of the underlying complexity and spend of major initiatives. Ask why and how the company is comfortable it is protected from a cyber risk standpoint. Ultimately, these aren't technology questions, they're business questions.

- With regard to blockchain, audit committees should consider asking: How are we using it? What concerns are there about it in our industry, and what opportunities does it present?

- Audit committees should consider inquiring about what operating models are in place and any changes that need to be made for a successful transformation. Are the right people in place to leverage and use the technology who can understand how, for instance, cognitive technologies work?

- It's good to understand what innovative technologies are being investigated by the company and to ask about them periodically. Find out where the budget for innovative technologies resides within the company, and ask for the reason for any changes.

"When you look at total technology spend and the total technology impact on business, just about every business is a technology company whether they realize it or not. Because most likely the only way you’re going to be able to address the future needs of your clients in a way that is cost effective, efficient, and profitable is through leveraging the technology that you have in some way."

— Shellye Archambeau
Polling question:
Which committee/board has primary oversight responsibility for technology risk at the company you serve?

- Technology committee: 88 responses (8%)
- Audit committee: 88 responses (49%)
- Risk committee: 88 responses (2%)
- Another committee: 88 responses (0%)
- Full-board topic only: 88 responses (41%)

Polling question:
Should boards and/or audit committees actively seek new directors with technology expertise or experience?

- Yes, it would be helpful to have directors with technology expertise: 71 responses (96%)
- No, directors do not need specific technology expertise: 71 responses (4%)
Cyber attacks continue to pose a constant threat across industries despite companies' best efforts to eliminate them. Society has systematically connected the economy over the past 20 years using technologies intended for sharing information rather than protecting it. The very mechanisms used to drive business strategy and enhance performance inherently create risk, including adopting new technologies involving third parties and using alternative customer engagement models. Ultimately, organizations rely on management to do the right thing in operating the business to protect the company from cyber threats. Given these factors, audit committee and board conversations about cyber risk and the resources devoted to it should extend beyond prevention and include consideration of how the company manages risk around the dimensions of security, vigilance, and resilience when issues arise.

Key takeaways:

- Have a strategic discussion with management about what risks are facing the organization given the known threats and adversaries, as well as the posture around security and innovation. Engage in discussions about investments being made and initiatives under way to bridge the gap between current and future risks.

- If a company has been built by acquisition, consider how those changes have altered the company's risk profile over time, and evaluate whether you understand what's in the portfolio, particularly as the company becomes more innovative.

- It is important to simulate how information moves through the organization during a cyber incident and how decisions get made. Oftentimes, decisions need to be made with incomplete or wrong information. The board should be judicious about how it balances its own need for timely information with management's need to remain focused. Both are important, and it is helpful to determine in advance some general guidelines about how management and the board will engage during a cyber incident.

“Ask management about what the operational metrics are telling them, and what are they learning from those metrics. Are they learning things about a changing threat landscape? Are there different people trying to attack us than there were last year? Are they using different methods than they were using last year? Are we getting better at dealing with this issue?”

— Ed Powers

Presenters:
Sydney Klein, Vice President, Cyber, Capital One | Ed Powers, National Managing Principal, Cyber Risk Services, Deloitte & Touche LLP | Wendy Watson, Audit Committee Chairman, Citizens Financial Group

Sydney Klein | Ed Powers | Wendy Watson
Polling question: Does your board or audit committee separate cyber risk from technology risk?

- Yes, we separate cyber and technology risk: 44%
- No, we combine cyber and technology risk: 56%

Polling question: How is the full board or appropriate committee providing the right expertise for the topic of cyber?

- We use a combination of the other answers: 55%
- We brought someone on the board with this experience: 15%
- We provide education for audit committee members: 17%
- We use outside advisers for cyber risk: 12%
- We don't have this topic effectively covered at this point: 1%

Polling question: Which committee/board has primary oversight responsibility for cyber risk at the company you serve?

- Full board: 54%
- Audit committee: 30%
- Risk committee: 6%
- All committees discuss cyber risk: 9%
- Technology committee: 1%
Conquering the impossible

Presenter:
Mick Ebeling, Founder and Chief Executive Officer, Not Impossible; Author, Not Impossible: The Art and Joy of Doing What Couldn’t Be Done

To those who work on Not Impossible’s projects, “impossible” is a fallacy—a temporary state of being associated with a problem that has yet to be solved. Mick Ebeling, founder and chief executive officer of Not Impossible (http://www.notimpossible.com/), has changed people’s lives around the world by tackling vexing social and health issues through ingenuity and a “never say never” attitude. Successful projects include helping a graffiti artist stricken with ALS (Lou Gehrig’s disease) communicate and resume creating his art; 3-D printing of limbs for victims of war in South Sudan; and calming the tremors of a musician with Parkinson’s disease. Other recent projects include Hunger: Not Impossible, which is focused on creating a system for homeless people to order meals through their cell phones, and Walk: Not Impossible, which seeks to greatly reduce the price of assistive technology to help injured children relearn how to walk.

Key takeaways:
• “What is good for brand is good for business.” Doing good is good for branding, good for retention, and good for a company’s bottom line. When Not Impossible partnered with Intel to help a young boy named Daniel who received a 3-D printed limb, the response to both companies was overwhelmingly positive.
• When something transitions from impossible to possible, it gives everyone permission to break barriers, whether it is the barrier of the four-minute mile, or everyone carrying a phone in their pocket.
• Find an absurdity, something not right in the world, and with a beautiful, limitless naiveté, commit to figure out a resolution.
• As Horace Mann said, “refuse to die until you have won some victory for humanity.”

“People inherently, innately, at their cellular level want to do good. Give them an opportunity to do so and you create such loyalty and an ability to harness that power. It’s nuclear, and it’s really powerful to watch.”  
— Mick Ebeling
Several new standards will occupy the attention of audit committees over the coming months and years, including those related to revenue recognition, leasing, and, eventually, credit losses. The panelists noted that companies will need to include disclosures about the qualitative and quantitative impact of the revenue recognition standard, as well as any ongoing implementation issues. Over the next year, the SEC will be focused on sound financial reporting, cyber fraud, and capital formation, including increased accommodation for IPOs and a high level of responsiveness to related inquiries. Other areas of discussion focused on how audit committee members should address non-GAAP financial measures, and the impact on the audit committee of changes to the auditor’s report.

Key takeaways:

• Audit committees cannot be expected to dive into all the details of the revenue recognition standard, but it’s important for them to be focused on the level of controls, the tone at the top, and the competence and training of personnel with regard to its implementation.

• It is important for committee members to ask about why a particular non-GAAP financial measure was chosen and how it compares to what peers are doing. Audit committees should also pay attention to new or adjusted non-GAAP measures that are being used and make sure that they are appropriately justified.

• The auditor’s report has reflected a short-form format almost since the SEC’s founding. In its expanded format, the report should identify critical audit matters and include a discussion of the considerations that led the auditor to determine that particular matters were important and how those matters are addressed in the audit. This information will be valuable for audit committees and investors in understanding what critical matters were identified by the auditor.

“The pending implementation of the revenue recognition standard is broader than simply concluding on the technical accounting and writing white papers. There are IT systems capabilities to consider in order to ensure that the right information is being accumulated to comply with the new standard. There are collateral implications on the way in which compensation plans work to the extent that the timing of revenue recognition is being altered.”

— Joe Ucuzoglu
Polling question:
Which area of recent regulatory activity will the audit committee spend the most time on during the upcoming annual reporting season?

- Adoption of new accounting standards: 69%
- Changes to the new auditor’s report: 14%
- Disclosure effectiveness: 9%
- Non-GAAP measures: 4%
- Other: 4%

Polling question:
Do you believe that the audit committee has enough time or expertise to address the recent regulatory activities as identified in the previous question?

- Yes, we have enough time and expertise: 56%
- We will have to allocate more time and may have to invest in AC training: 22%
- We may have to invest in AC training on the new accounting standards: 17%
- We will have to allocate more time to these matters: 5%
- 9% for other responses.
Ethics and compliance extend beyond legal matters—they are ultimately issues of culture. The panelists noted that values need to be established as firm commitments that will not be compromised. Panelists discussed how audit committee members can examine culture risk at all levels, from assessing the tone at the top to engaging with professionals across roles and geographies. The ultimate benefit of having a good culture that permeates through an organization is that employees can function as a thousand corrective mechanisms to keep the company moving in the right direction.

Key takeaways:

• We learn more through stories, so it can be beneficial to recognize people for stories of courage.
• The only way to understand the culture and the people as a board member is to meet with employees. Visit facilities in conjunction with board meetings and have open discussions, which can be highly beneficial and can surface issues that might otherwise not be on the radar.
• It’s important to make guidelines more consumable for employees. When is the last time you consulted your policy manual? Issues of company culture can be made more approachable through videos and gamification.
• The risk committee often does a lot of detailed work around culture; try to get a better view into its work and areas of focus.
• Consider whether an executive or other leader has derived his or her entire identity through a particular role, which could indicate that he or she may not be sufficiently objective.

“Get people to talk, and be sure to listen. If you’re listening for violations of law, you’re in trouble, because the law is a poor parameter with which to measure human conduct. Instead, listen for evidence of compromises in transparency and objectivity.”

— Michael Young
Tax policy dominated news coverage during the Symposium. The US House of Representatives was on the cusp of releasing its proposed tax reform plan, which would implement a variety of sweeping changes, including dramatically lowering the corporate tax rate, eliminating the territorial approach to international taxation, and altering numerous other aspects of the taxation of individuals and businesses. Jonathan Traub highlighted various features of what Republicans were considering and factors that could influence its passage, and Charles Holley and Bob Stack joined him to discuss international tax issues, as well as how audit committee members could respond to the high level of uncertainty in the present environment.

**Key takeaways:**

- **Conduct scenario planning, and know the risks in your tax planning.** Understand from the CFO and tax professionals what the company’s exposure and risk profile are. Flexibility is critical in this environment, and careful attention should be paid to tax issues that could pose reputational risk; boards play a critical role in that arena.

- **There has been a shift in tax authorities’ approach to the interpretation of tax laws and treaties internationally.** Tax planning strategies and tactics that were appropriately undertaken within the parameters of the tax regulation several years ago are now getting a different level of scrutiny and potential negative publicity as various regulators around the world are challenging these positions.

- **A lowered corporate tax rate would help remove a perceived competitive disadvantage that the tax code places on US-based companies.**

- **Developments and regulations related to perceived base erosion and profit shifting in Europe, including the EU’s Anti-Tax Avoidance Package, will be important to monitor, as there could be significant uncertainty regarding how to handle such matters in audits in the region.**

“This is a fast-moving, fast-changing situation. So, staying on top of things, being in constant contact with your CFO or your tax VPs, and being flexible in dealing with an uncertain situation are going to be critical.”

— Bob Stack
General Stan McChrystal shared insights from his more than 30 years as a military leader, offering perspectives on the complex geopolitical challenges associated with terrorism, cyber threats, and developments in countries such as Ukraine, Iran, and North Korea.

He also shared his leadership philosophy, which he developed in the most trying of times as the commander of the Joint Special Operations Command in Iraq in 2003. Al Qaida behaved in a different way than the military had seen previously, with a more diffuse and less hierarchical structure. McChrystal overhauled the military’s field communications in Iraq to democratize briefings and make them less hierarchical. Thousands of soldiers were invited to status meetings that formerly had only a few dozen leaders, and the communication structure was radically altered to function like a brain with numerous synapses, rather than through a top-down linear structure. This approach increased efficiency, and the scale and success of operations ramped up dramatically. He highlighted how this structure can have valuable benefits in the business world.

Key takeaways:

- Consider expanding the level of communication beyond just direct reports. McChrystal shared his communications approach with the CEO of a major technology company, who applied it to a staff call—expanding the call from a dozen people to several hundred—enhancing the engagement of lower-level professionals and increasing the level of insights.

- The vast majority of people want to do a good job, but there is often a lack of communication. There’s a pervasive culture of being required to go through your boss or your boss’ boss. Heraclitus said we never step in the same river twice, and now the river is moving much faster, in contrast to the old pyramid structure for information dissemination.

- Some leaders grew up in an era where you could control when you communicated, and then could go back in your office and hide from your workers for the rest of the time. We are past that.

- Even with the best cyber capabilities, it’s difficult to decide whether something is a cyber threat or an act of war. Where does it cross the line into the territory of war—is it when it affects our financial system or energy grid? Leaders may need to face this issue in the near future.

“If you go back even 15 or 20 years, the most impressive technologies were held by nation-states: unmanned air vehicles, precision strike weapons, night vision, cyber—they effectively monopolized them. That’s no longer true. Individuals and organizations now have the ability to use cyber warfare, weapons of mass destruction, and biological weapons. And an individual or a terrorist group often can’t be deterred because they can’t be held at risk.”

— General Stan McChrystal
Center for Board Effectiveness

The Center for Board Effectiveness helps directors deliver value to the organizations they serve through a portfolio of high quality, innovative experiences throughout their tenure as board members. Whether an individual is aspiring to board participation or a veteran of many board experiences, the Center’s programs enable them to contribute effectively and provide focus in the areas of governance and audit, strategy, risk, innovation, compensation and succession.

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