

**Audit committee leading  
practices and trends**

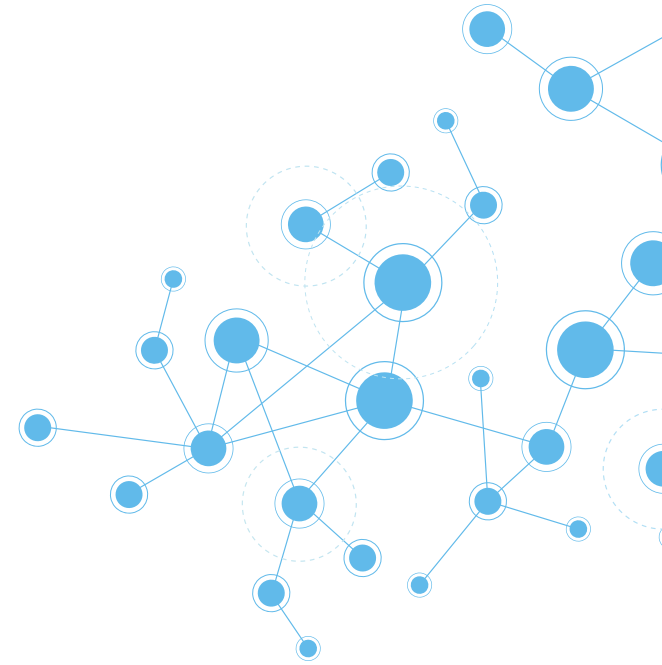
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# Audit committee leading practices and trends

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Audit committees have full agendas and require careful planning to focus on critical priorities. In addition to the requirements and recommendations noted in the previous sections, audit committees often implement practices to help them stay on track and execute their oversight responsibilities more effectively. Some of the leading practices implemented by audit committees are outlined below. The list is not all-inclusive, and certain activities may be the responsibility of the full board or another committee.



## Committee composition and effectiveness

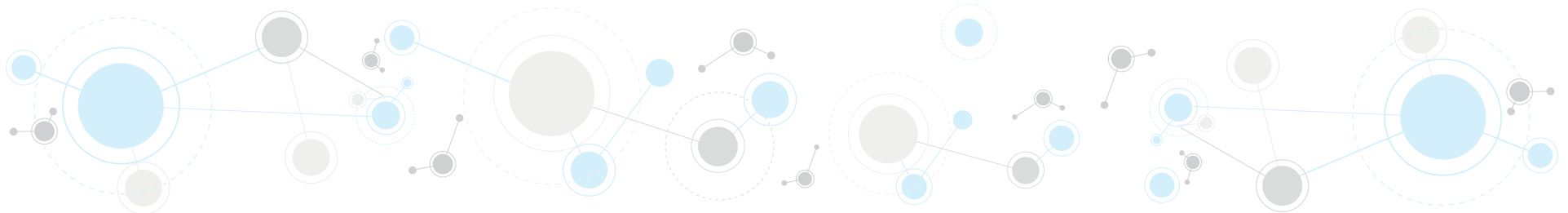
- Focus on committee composition, including members' independence, financial literacy, and expertise.
- Focus on having the right skills and experience on the audit committee, such as financial, industry, risk management, business, and leadership experience.
- Limit the number of audit committee members to four or five to optimize effectiveness.
- Consider rotating audit committee members periodically, including the chairman.
- Develop a succession plan for audit committee members and a rotation plan for the chairman, in coordination with the nominating committee.
- Review and approve the audit committee charter and align activities with a calendar that sets forth required activities and allows flexibility for additional topics.
- Perform a robust self-assessment annually.
- Discuss the results of the self-assessment with the audit committee in an executive session and develop tactical plans to address findings.

## Meeting effectiveness

- Review and approve the audit committee charter and develop a calendar that incorporates required activities and allows flexibility for additional topics.
- Develop meeting agendas in consultation with management; resist the urge to reuse past agendas without discussion.
- Align audit committee meeting materials and agendas with priority areas.
- Distribute briefings and other materials well in advance of meetings.
- Include executive summaries to reports that highlight issues and critical discussion points and allow discussion versus presentation during meetings.
- Consider a regular “watch list” to report on ongoing topics even when they are not the focus of a particular meeting.
- Foster an environment where open dialogue and candid discussions are encouraged.
- Hold executive sessions at every meeting with the CFO, internal auditors, and independent auditors; consider having the committee meet after the executive sessions to discuss the effectiveness of the meeting and future agenda items.

## Member orientation and education

- Provide orientation of new members that focuses on audit committee responsibilities and involves committee members, the CEO, the CFO and finance management, internal audit, and the independent auditor.
- Address board education in the company’s corporate governance guidelines in a way that is consistent with NYSE listing standards.
- Include educational topics on the agendas once or twice a year; topics may include a deep dive on a specific area of the business and related risks or a refresher on a significant accounting estimate.
- Consider offering annual continuing education opportunities in financial reporting and other areas relevant to the audit committee, such as specialized industry matters, new regulations, operations, and emerging topics such as cyber risk.



### Oversight of internal controls and financial reporting

- Understand risk areas as assessed by management, the internal auditors, and the independent auditor, as well as related controls. Also understand any prior internal control issues and how they have been resolved.
- Understand the design and components of the company's antifraud and anticorruption compliance programs and confirm that those programs have sufficient oversight, autonomy, and resources.
- Understand complex accounting and reporting areas and how management addresses them.
- Understand significant judgments and management estimates and their impact on the financial statements.
- Consider conducting a periodic analytic review of balance sheet items, focused on key underlying assumptions and potential vulnerabilities.
- Be aware of any uncertain tax positions taken by the company and their potential impact on financial reporting.
- Stay abreast of pending financial reporting and regulatory developments and understand how they may affect the company.
- Understand the issues raised in SEC comment letters received by the company, as well as management's response.
- Consider the nature of SEC comment letters issued to companies in similar industries.
- Consider levels of authority and responsibility in areas such as pricing and contracts, acceptance of risk, commitments, and expenditures.

### Risk oversight

- Focus on financial risk oversight and assessment and understand financial risk management policies and processes.
- Avoid becoming overly dependent on checklists for monitoring financial risk.
- Periodically reassess the list of top risks, including which member of management and which board committee is responsible for each.
- Evaluate IT projects and related risks, particularly those with financial statement impact.
- Consider post-acquisition reviews to evaluate the reliability of initial acquisition assumptions and make adjustments to future acquisitions if necessary.
- Have appropriate business leaders periodically provide an overview of their business, focusing on financial risks and other factors that may influence the financial statements.
- Periodically visit company locations and meet with local management.
- Communicate the company's financial risk story to stakeholders.
- Understand the issues raised in SEC comment letters received by the company, as well as management's response.
- Understand the company's strategy for managing tax risk, tax controversy, and volatility in the effective tax rate.
- Consider potential reputational risks associated with tax positions.

### **Ethics and compliance**

- Focus on the tone at the top, culture, ethics, and hotline monitoring.
- Provide oversight of compliance with the company's code of ethics and compliance.
- Initiate internal or independent investigations on matters within the committee's scope of responsibility.
- Understand the risk and mitigation mechanisms with regard to management override of controls.
- Periodically meet with those responsible for overseeing ethics and compliance matters in executive sessions.

### **Interaction with the internal auditors**

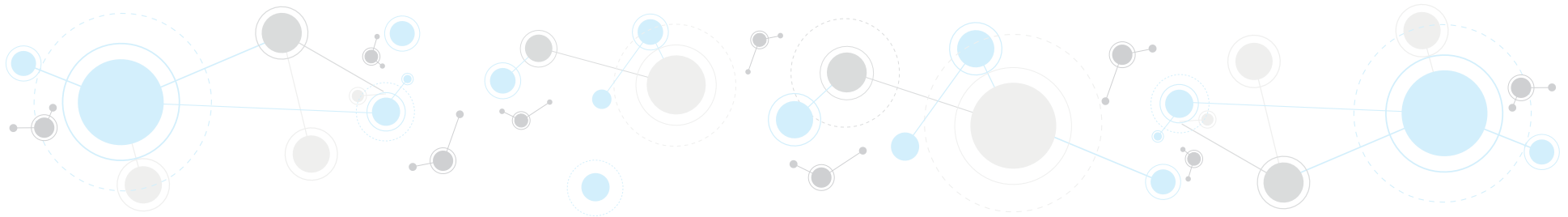
- Provide the internal auditors with direct access to the audit committee.
- Consider having internal audit report directly to the audit committee and administratively to senior management.
- Play an active role in determining the highest and best use of internal audit, as well as the appropriate structure of the group (e.g., in-house versus outsourced resources).
- Be involved with the internal audit risk assessment and audit plans, including activities and objectives regarding internal control over financial reporting.
- Conduct annual evaluations of the chief audit executive.
- Understand internal audit staffing, funding, and succession planning, particularly the adequacy of resources; consider performing peer benchmarking to compare relevant metrics.

### **Leading practices: interaction with the independent auditor**

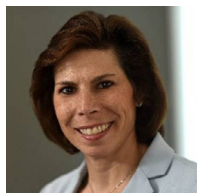
- Exercise ownership of the relationship with the independent auditor.
- Focus on the independent auditor's qualifications, performance, independence, and compensation, including a preapproval process for audit and nonaudit services.
- Get to know the lead audit partners and meet periodically with specialists (e.g., tax, IT, actuarial, SEC).
- Establish expectations regarding the nature and method of communication, as well as the exchange of insights.
- Set an annual agenda with the independent auditor and engage in regular dialogue beyond audit committee meetings.
- Provide formal evaluations and regular feedback.

### Coordination and communication with the full board and its other committees

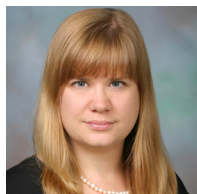
- Understand areas of risk and responsibilities delegated to other committees.
- Coordinate with the compensation committee on incentive goals for the talent pool.
- Coordinate with the compensation committee to establish the financial metrics used in incentive compensation plans.
- Work with the compensation committee to understand the implications of the incentive structure, including its impact on employee retention and potential increases in fraud risk.
- Increase focus on the compensation of officers and directors, including the appropriate use of corporate assets.
- Coordinate with the nominating committee to develop succession plans for audit committee members and the chairman.



# Authors



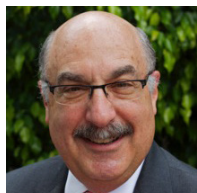
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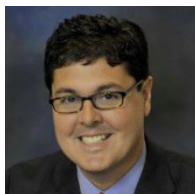
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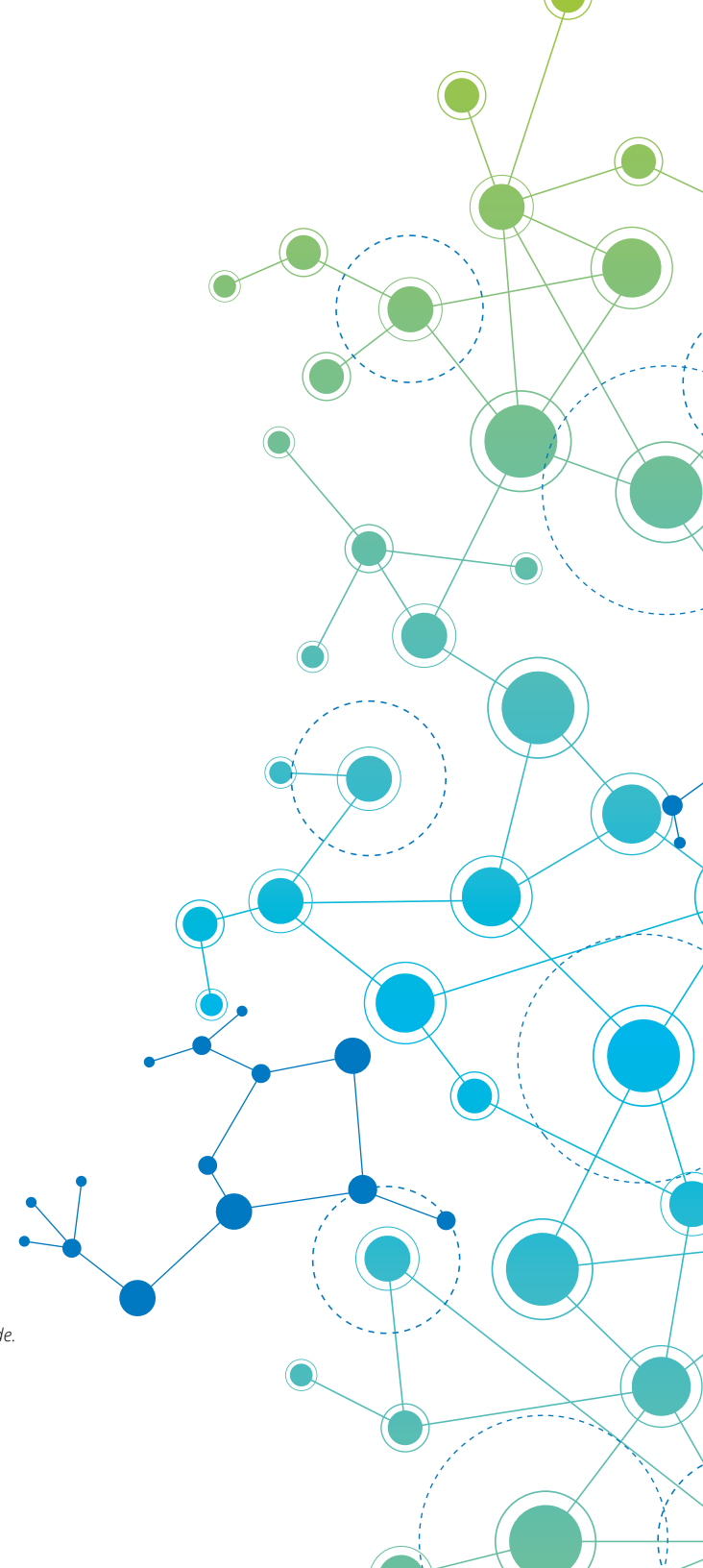
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