

Audit Committee Roundup

Where Does the Audit Committee Want to Spend More Agenda Time?

By Mary Pat McCarthy and Tom Duffy

As a barometer, audit committee agendas offer an important view—not only for directors but for management teams as well—of some of the critical issues that companies face in the current environment and in the months ahead. Even deeper insight can come from knowing where the audit committee wants to devote more of its agenda time.

Clearly, audit committees will continue to focus the lion's share of their attention on financial reporting issues. But in our 2011 Audit Committee Member Survey, respondents indicated four areas where they would like to devote more time over the next 12 months: IT risk and emerging technologies, risk management, corporate strategy and the impact of public policy initiatives. Risks posed by growth plans and innovation also featured prominently in the 250 survey responses—not surprising, given the tremendous pressures on companies to grow in a tepid economic recovery.

As you think about how your audit committee/board will prioritize and allocate its agenda time in the months ahead, consider the following survey findings as data points and discussion starters.

IT risk and emerging technologies was most frequently cited as the issue audit committee members want to devote more time to, and for good reason: only 61 percent of respondents said they are satisfied with their process to oversee IT risk, and they ranked the quality of the information they receive about IT risk lowest among all categories. Few rated their company's strategic planning process as "very effective" in dealing with the pace of technology change and innovation, and cyber-security

was cited as the second-biggest systemic risk facing the organization. The person audit committee members said they would most like to hear from more frequently: the CIO. Given the financial, legal, reputational and strategic issues posed by information technology—from cloud computing to social media to mobile devices—IT risk and data governance are rapidly moving beyond the IT shop and onto the board's agenda.

Risk management is still a work in progress. While 42 percent of survey respondents said their company's risk management system is "robust and mature" (up from 29 percent last year), an equal number said their risk management system requires "substantial work." Many gave low marks to the quality of information they receive regarding "significant risks facing the business," and want to hear more frequently from the CRO and mid-level management. Indeed, only 34 percent are satisfied that they hear dissenting views about the company's risk environment and related controls. With crisis readiness and response, systemic risk and supply chain issues of particular concern, audit committees want to spend more time on risk management. Fifty percent said their audit committee is responsible for oversight of the "risk process generally."

Growth plans, strategy and innovation risk are also likely to get more air time. As companies search for growth—which most survey respondents said will come mainly from new products and services, M&A and new talent—many audit committee members are concerned that the company has not effectively identified the risks to its growth

plans and implemented controls to monitor them, and some 70 percent are concerned about the risk posed by a "lack of innovation by the company." Corporate strategy, while clearly a full board matter, was ranked third-highest among the issues audit committees want to devote more time to.

The impact of public policy initiatives on compliance, controls, risk and reporting will continue to get considerable attention in the months ahead. Uncertainties (including "unintended consequences") related to health care and tax reform, energy initiatives, financial services regulation, the impact of fiscal crises and more make business planning difficult and compliance challenging. Coupled with current legal/regulatory mandates—including Dodd-Frank whistleblower rules, FCPA and the new U.K. Bribery Act—the changing public policy landscape will consume time and attention as companies work to ensure effective compliance and controls. At the same time, as a number of survey respondents noted, a key challenge will be staying focused on the business and the pursuit of performance.

These issues and more are explored in our annual Audit Committee Member Survey, which is available online at audit-committeeinstitute.com.

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