



LATEST AUDIT COMMITTEE TRENDS AND TIPS (5/17)

One of my favorite descriptions of a board audit committee (particularly at public companies) is that it's the board's kitchen junk drawer. You know, the place various light tools, scissors, corkscrews, duct tape, and on and on accumulate. This is not to denigrate the junk drawer -- the reason things are there is because they're often needed at a moment's notice. There just doesn't seem to be much order involved.

Sounds like today's audit committee. The increasing workload of compliance, risk, tech oversight, disclosures, duct tape, etc. all seem to end up at the audit committee. How is the committee changing to meet (and hopefully, rationalize) this growing list of demands?

- The audit committee is taking more of a role in "beefing up the internal audit function," observes Fred Lipman, a partner with the Blank Rome law firm and president of the Association of Audit Committee Members. This is not just advocacy for better governance, says Lipman, but "so the committee will have more information." With audit committees facing huge new burdens, it's smart to lighten the load by getting an effective inside audit function on their side.

- AC members are spending a lot more time together. Cindy Fornelli, executive director of the Center for Audit Quality, finds that "meeting frequency has increased" due to the growing workload. Quarterly committee meetings are being supplemented by more in-between sessions and conference calls. Fornelli also finds audit committees early adapters and innovators when it comes to making best use of board portals and data technology.

- Board/investor engagement is a hot topic, especially during proxy season. You'd think that investors are most eager to talk with board and compensation committee chairs, but Fornelli finds the audit committee chair increasingly popular for chats. This makes sense. Some of the hottest of governance potatoes -- cybersecurity, risk management, fraud controls -- have made their way to the audit committee. Investors want to engage with the AC chair to learn how these concerns are being managed (and the chair had better have good answers).

- Fornelli sees an intriguing trend on audit committee expertise that seems to run counter to current wisdom. We assume that boards seek a financial expert or two, and keep them closely focused on running the audit committee. In fact, Center for Audit Quality research finds boards increasingly rotate audit committee members among the other board committees, and this includes the chair. Two trends are driving this. First, bona fide "financial experts" on the board are becoming more common. CAQ research shows that "in 2016 100% of the Fortune 500 boards had 1 finance expert, but 53 percent had 3 or more." More financial expertise means less need to hoard these mavens on the audit committee, and less chance of long-term burnout. Second, with the audit committee's ambit now including so many nontraditional audit concerns, it's smart to rotate members among other committees, where "members can gain broader exposure." Savvy on accounting, paysetting and risk drifts across the portfolios of both audit and comp committees, for example.

- A final audit committee note when it comes to portals and tech. Fornelli sees some committee members troubled by the impact portals are having on their role. "When financials are online rather than in a big book, it can be hard to visualize the whole picture, and you have too much data to digest." Plus, the timeliness of portals can have a downside for the audit committee. "Staff can add something minutes before the meeting," giving members too little time for proper review.

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