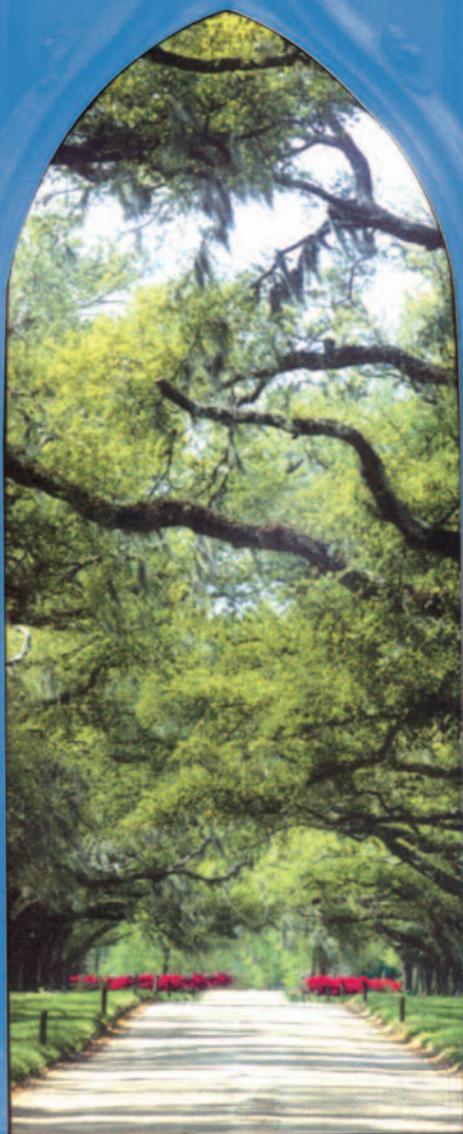




Audit Committee ForumTM Alert 10

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When considering their 2010 agendas, audit committees should...**



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When considering their 2010 agendas, audit committees should

1. Regain control of the audit committee agenda

The challenges of the economic crisis (access to capital, cash flow, counterparty risks, impairments, etc) have dominated audit committee agendas. As signs of recovery emerge, take the opportunity to develop more focused (yet flexible) agendas, with an eye on the company's key financial reporting risks. To improve the efficiency of committee meetings, insist on quality pre-meeting materials, spend less time on low-value or checklist activities, and engage in discussions rather than listening to presentations. Don't let compliance activities crowd-out substantive discussion.

2. Understand the risks posed by cost reductions made in response to the economic crisis

Many companies have engaged in cost cutting as the economic crisis deepened. Every board and audit committee should now be asking whether the company's delivery model has been changed permanently, and whether a "cost-reduced" business model can be sustained. Did we cut too much? How quickly can we restore critical infrastructure such as IT and sales force? How far have we extended the organisation through outsourcing and off-shoring? As companies cut costs and reduce their workforce, the control environment becomes even more critical. Now is not the time to cut-back on internal audit's budget.

3. Focus closely on all financial communications

Narrative reporting, earnings releases and analyst briefings can pose difficult issues because they contain important business information which often does not come from the financial reporting system, is not audited, and is not subject to internal controls. If you haven't already done so - given the uncertainties created by the economic crisis - reconsider the company's narrative reporting and the earnings guidance it issues. Engage early-on in reviewing the 2010 disclosures, particularly new disclosures regarding risk, compensation, and corporate governance. Understand the company's policy on the use of Twitter and other social media networks to reach investors and customers.

4. Continue to monitor fair value issues, impairments, and management's assumptions underlying critical accounting estimates.

These issues, together with pension funding shortfalls and going-concern challenges, will continue to be a major area of focus for audit committees. At the same time, there are important new financial reporting developments (including business combinations and segmental reporting) that may require the committee's attention. Set aside time at each committee meeting for a deep dive into a specific financial reporting development impacting the company.

5. Rethink the audit committee's role in risk oversight

The tremendous focus on risk today provides an opportunity for the board to reassess the oversight role of the audit committee, the full board and the other standing committees such as the risk committee. Does the audit committee have the expertise and time to deal with strategic, operational, and other risks? Is the expertise of other board members being leveraged? Audit committees already have a lot on their plates with oversight of financial reporting risks.

6. Make sure internal audit is properly focused and fully utilised

Help refine internal audit's role and focus internal audit's activities on key areas of risk, as well as risk management generally. Internal audit is not accountable or responsible for risk management, but it should provide added assurance to the audit committee regarding the adequacy of the company's risk management processes. Internal audit is most effective when it is focused on risk: ensure that the internal audit plan is risk-based and focuses on the critical risks to the business and not just compliance and financial risks.

7. Prepare for the potential impact of key public policy initiatives on compliance, risk, and governance processes

New legislation has already emerged in the wake of the financial crisis and major public policy changes (e.g. the environment, energy, and financial services regulation) may soon follow. Such changes will likely impact a broad cross-section of companies and industries, and may impose additional reporting, transparency, and compliance obligations. These, in turn, will require new or modified compliance, risk, and governance oversight processes.

8. The economic crisis continues to put pressure on compliance and anti-fraud programs. Be vigilant

The economic downturn has placed tremendous pressure on management to achieve operating results; at the same time, cost cutting and workforce reductions may have exacerbated these pressures. How has the company treated its employees? How do they think they've been treated? A comprehensive review of the company's anti-fraud and compliance programs (including the impact of any new anti-bribery legislation) may be in order. The right tone at the top and throughout the organisation is critical.

9. Help reduce the risk of misalignment as the company undergoes change

Change creates risk. During times of dramatic change, the risk of misalignment - of the company's strategy, goals, risk, controls, compliance, incentives, and people - goes up exponentially. Given the audit committee's role in overseeing risk, internal controls, compliance, and ultimately the impact of significant changes on the company's financial statements, the committee is in a unique position to help reduce the risk of misalignment.

10. Take a fresh look at the audit committee's composition and leadership

The audit committee's effectiveness and accountability hinges on meaningful self-assessment of the audit committee as a group as well as individual members. Take a hard look at the committee's composition, independence, and leadership. Is there a need for a "fresh set of eyes?"

