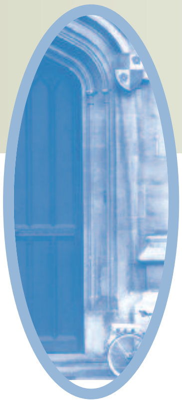
Audit Committee Forum™
Alert 11

Issue Date: January 2011

The Audit Committee Forum™ is proudly sponsored by KPMG.

Ten-To-Dos for audit committees in 2011:



When considering their 2011 agendas, audit committees should….

1. Understand the significant risks facing the company

'Risk' is the number one audit committee priority. Audit committees should ensure they have an appropriate understanding of the significant risks facing the organisation and how they, and any resulting vulnerabilities are disclosed to shareholders. Particular attention should be paid to 'scanning the horizon' for the unexpected and consideration of the lessons from the financial crisis. What's changed in the operating environment? Have there been any failures – or near misses? What are the risks posed by the extended organisation – procurement, outsourcing, sales and distribution channels? How good are our disaster plans? Are emerging risks – whether slow moving or fast hitting getting sufficient agenda time? Does the audit committee have a good sense of the company's risk culture beyond the boardroom and senior management level (the tone from the middle is increasingly important)? What steps have management taken to ensure risk management is embedded in the fabric of the organisation? Is the company's risk appetite clearly articulated and understood?

2. Look beyond the numbers when reviewing corporate reports

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. Ensuring management has processes in place to ensure the consistency of the narrative reporting and financial statements can prevent unwelcome attentions from the regulators. The disclosure of risk and uncertainty is also of increasing concern to regulators and other stakeholders. Are the risks clearly and simply stated? Are there many of them and if so, are they really the principal risks? Is it clear how the risks might affect the company?

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

These issues, together with loss contingencies, pension funding shortfalls and going-concern challenges, will continue to be a major area of focus for audit committees. Audit committees should recognise that the greatest financial reporting risks are often in those areas where there is a range of possible outcomes, and management is called upon to make difficult judgements and estimates. At the same time, there are important financial reporting developments (including related party disclosures) and proposed new & revised IFRS standards (including lease accounting and revenue recognition) that may require the audit committee's attention.

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

Help ensure internal audit is adequately resourced and has refined its scope for changes to the company's risk profile. 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 process. 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.

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

The new Companies Act introduces fundamental changes to South African company law and corporate actions. In addition the Consumer Protection Act will come into full force and effect shortly. It is important for audit committee members to know what the material impact of compliance, risk and governance changes on their business activities are.

6. Review the anti-bribery and corruption processes

There are an increasing number of investigations around the world. Audit committees should ensure that management have implemented adequate procedures to prevent bribery and the particular attention is paid to risky countries/operations and some of the less well understood areas such as facilitation payments, entertaining cost etc. Is there a comprehensive and regular evaluation of the nature and extent of the bribery and corruption risk to which the company is exposed? Is there the right tone from the top? Do whistle blowing and other feedback mechanisms support the continuous improvement of the anti-bribery regime? A comprehensive review of the company's anti-fraud and compliance programs may be in order.

7. Evaluate the audit committee's role in major transactions

With global M&A activity set to recover, audit committees are re-evaluating their role in major transactions. Responsibility generally lies with the full board, but audit committees can be asked to play a larger role both pre- and post-transactions. In the pre-transactions phase audit committees can provide balance in transaction discussions, oversee due diligence activity and the risk associated with the deal, and provide assurance to the board that management are able to successfully integrate post deal. In the post-transaction phase the audit committee has a role in helping ensure the transaction is accurately reported and the right controls are in place. The audit committee might also have a role in monitoring post investment return/progress with a view to improving long-term decision making and learning from anything that went wrong.

8. Understand the company's significant tax risk

South African tax legislation has undergone many changes over the past years. SARS has entered a new era of highly technical tax legislation and competent representatives. Given the tax risk environment, audit committee's should seek to understand the company's tax risk appetite and management's processes for managing tax risk. Who is involved? When did the audit committee last meet the Head of Tax? The audit committee should also be aware of changes to the tax regime and the potential impact on both the company and key personnel.

9. Ensure the system of internal control is fit for the purpose and working as intended

The significant risks facing the company and the company's risk appetite drive the system of internal control. Audit committees should ensure appropriate internal control procedures are in place for all significant risk including operational risk, compliance risk and risks arising in the wider financial arena – such as indirect tax, treasury etc. Particular attention should be placed on the low probability, high impact risk. What measures have been taken to identify any changes in the likelihood of such risks crystallising? What steps are in place in the unlikely event of such risks crystallising?

10. Understand the impact of performance based remuneration on behaviour

While remuneration committees have a role in setting the remuneration of executive directors and senior management, audit committees must also understand the impact of performance based remuneration on behaviour and ensure appropriate checks and balances are in place. Particular attention should be paid when results are 'at the margin'. When was the last time the audit committee met the Chairman of the remuneration committee? Is there cross-membership between the two committees?