

Ten To-Do's for Audit Committees in 2009

AUDIT

When formulating their 2009 agendas, audit committees should consider the following points.

<p>1. Closely monitor the impact of the global financial crisis on the company; focus on financial forecasts and early-warning indicators .</p>	<p>It's obvious but make sure you understand the impact of the global financial crisis on the company's earnings, cash flow, liquidity and compliance with debt covenants.</p> <p>Ensure that management are monitoring the impact of the crisis on a 'real-time' basis, and developing (and stress-testing) worst-case scenarios. A strategic response to this crisis is critical.</p>
<p>2. Assess the company's exposure to third parties in financial distress.</p>	<p>Ensure that management is monitoring the impact of the crisis on the company's key customers, suppliers, insurers, partners, banks, underwriters, counterparties, and other third parties that may be experiencing financial difficulties. An accurate and up-to-date inventory of the company's potential exposure to third parties is essential.</p>
<p>3. Understand the impact of the financial crisis on the company's financial reports – particularly the balance sheet.</p>	<p>Focus on the company's investment portfolio, including debt and equity securities, to identify potential impairments that should be reflected in the financials. Help ensure that management has identified possible impairments of goodwill, deferred taxes, patents, and other intangibles, and that fair values determined by management and valuation experts are reasonable. Assess how changes in financial markets have impacted the valuation of superannuation assets and funding requirements.</p>
<p>4. Focus on fair value and liquidity disclosures.</p>	<p>Understand the company's disclosure processes for fair value accounting and liquidity issues; and how the application and impact of fair value accounting is described in the business review and other periodic reports (e.g. half year reports). Consider whether the description of the company's liquidity risks is sufficiently robust and company specific.</p>
<p>5. Make sure your risk discussions with management are productive.</p>	<p>With the benefit of hindsight and possible 'lessons' from the financial crisis, consider the adequacy and effectiveness of the company's processes for managing risk (management's processes and the board's). Be a catalyst in helping to pose the right questions, including: Can management provide a holistic view of the company's major risks – both on and off the balance sheet? Is the risk information up-to-date? Are the top risks facing the company understood and agreed upon? How rigorously does management stress-test key risk assumptions? Are the board's information sources sufficiently varied and objective? How does culture—including remuneration and other incentive arrangements – impact the company's risk profile?</p>



<p>6. Help the company and the board prepare for change.</p>	<p>With the financial crisis and globalisation changing the world in dramatic ways (a less-leveraged economy, a restructured banking/finance industry, potentially more regulation and shareholder activism on issues like executive remuneration, new business models driven by technology, globalisation, and competition – and more), step back and consider what the emerging business environment will look like. Does management understand how this new environment will impact the company’s risk profile, and the viability of its strategy and business model?</p>
<p>7. Take a hard look at opportunities to improve the audit committee’s effectiveness.</p>	<p>Count on increased expectations for good governance and effective oversight, and focus on opportunities to improve. Pay attention to the basics—like having the right mix of committee member experience and skill sets, committee independence and leadership, an understanding of the company’s strategy and the risks it faces, and the adequacy of support for the audit committee. If the basics aren’t right, the committee’s ability to ask the right questions and challenge management is severely limited.</p>
<p>8. Be sensitive to the strains on the CFO, internal auditor, and finance department.</p>	<p>In this highly-charged business environment, the demands of the financial crisis, liquidity and cash flow issues, possible resource constraints, and pressures to meet performance expectations have all exacerbated the pressure on CFO’s and finance teams. Recognising their critical role in guiding the organisation through the financial crisis, support them by helping to maintain the focus on long term financial performance, injecting objectivity into financial disclosures, and ensuring the finance organisation has the right expertise and resources (including budget) to do their job properly.</p>
<p>9. Expand the audit committee’s sources of information.</p>	<p>Consider whether the information the audit committee receives comes from a balanced variety of sources (rather than relying too heavily on information from management), and whether the information flow promotes sufficient internal transparency (rather than fragmented or partial views). Getting the right information is essential to providing effective oversight of the company’s financial reports, its risks, internal controls, and finance team.</p>
<p>10. Monitor the tone from leadership and throughout the organisation.</p>	<p>For most companies, 2009 will likely be a year of tremendous pressure and change. In this uncertain environment, it is more important than ever to be acutely sensitive to the tone from – and the example set by – leadership; and to reinforce a culture of compliance, probity and integrity throughout the organisation.</p>

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