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Ten To-Do's for Audit Committees in 2009

When considering and carrying out their 2009 agendas, audit committees should…

1. **Closely monitor the impact of the financial crisis/recession on the company; focus on financial forecasts and early-warning indicators.** Understand the recession's impact on the company's earnings, cash flow, liquidity, and compliance with debt covenants, and monitor key indicators of trouble. Recommend that management assemble a crisis management team to monitor the impact of the crisis on a "real-time" basis, and to develop (and stress-test) worst-case scenarios. A strategic response to this crisis is critical.

2. **Assess the company's exposure to third parties in financial distress.** 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 difficulty (or have filed for bankruptcy). An up-to-date inventory of the company's potential exposure to third parties is essential.

3. **Understand the impact of the financial crisis on the company's financials—particularly the balance sheet.** Focus on the company's investment portfolio, including debt and equity securities, to identify declines in value or 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 pension plan assets and funding requirements.

4. **Focus on fair value and liquidity disclosures.** 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 MD&A and other periodic filings. Consider whether the description of the company's liquidity risks is sufficiently robust and specific to the company.

5. **Make sure your risk discussions with management are healthy and productive.** With the benefit of hindsight and possible "lessons" from the financial crisis, consider the adequacy and effectiveness of the company's governance 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? 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 incentive compensation—impact the company's risk profile?

6. **Help the company and the board prepare for change.** With the financial crisis and globalization 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 compensation, new business models driven by technology, globalization, 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? And keep IFRS on the radar; given the potential scope and scale of an IFRS conversion, and the impact on the company's operations, have a clear understanding of the company's IFRS transition plans.

7. **Take a hard look at opportunities to improve the audit committee's effectiveness.** Count on increased expectations for good governance and effective oversight, and focus squarely 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 financial risks, and the adequacy of support for the audit committee. If you don't get the basics right, your ability to ask the right questions and challenge management is severely limited.

8. **Be sensitive to the strains on the CFO, internal auditor, and finance organization.** 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 normal rigors of the CFO's and finance teams' jobs. Recognizing their critical role in guiding the organization 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 organization has the right expertise and resources (including the budget) to do their jobs well in this tough environment.

9. **Expand the audit committee's information sources.** Consider whether the information the audit committee receives comes from a balanced variety of sources (versus relying too heavily on information from management), and whether the information flow promotes sufficient internal transparency (versus 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.

10. **Monitor the tone from leadership and throughout the organization.** For most companies, 2009 will likely be a year of tremendous pressure and change—and a good measure of uncertainty. In this 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 and a commitment to financial reporting integrity throughout the organization.

KPMG's Audit Committee Institute