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BDO USA CORPORATE GOVERNANCE PRACTICE

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SEC CHIEF ACCOUNTANT SPEECH: ADVANCING THE ROLE AND EFFECTIVENESS OF AUDIT COMMITTEES

The following highlights recent guidance and related tools and resources for consideration by audit committees in carrying out their oversight responsibilities.

In a [speech](#) made in March 2017¹, SEC Chief Accountant Wes Bricker addressed the Audit Committee's "critical role in contributing to financial statement credibility through its oversight and resulting impact on the integrity of a company's culture and internal controls over financial reporting, the quality of financial reporting, and the quality of audits performed on behalf of investors."

¹ SEC Chief Accountant Wes Bricker's remarks before the University of Tennessee's C. Warren Neel Corporate Governance Center on March 24, 2017.

His comments spoke to the ways in which the Audit Committee can promote high quality financial reporting and covered the following key areas:

- ▶ **Understanding the organization's business operating environment** - To establish a frame of reference in which the Audit Committee considers the scope of its oversight and focus, taking into account changes in the operating environment, rapid growth of operations that may strain controls, new business models, products or activities along with new accounting pronouncements, etc. that may bring new risks.
- ▶ **Diversity in the Audit Committee's composition** – To diminish the extent of group thinking and broaden relevant skills and experience - e.g., industry or financial reporting – to enhance the ability to monitor financial reporting and hold management accountable. Refer to BDO's June 2017 webinar [Director Diversity – Striking the Right Balance in the Boardroom](#).
- ▶ **Audit Committee Workload** – To balance the workload of core responsibilities with other emerging risk areas, such as cybersecurity, to ensure the Audit Committee has the appropriate capacity to execute effectively. The Board should be actively monitoring and managing the risk of Audit Committee overload. Audit committees should remain focused on core responsibilities and manage the scope of both these and additional responsibilities through charters, agenda-setting practices, continuing education, and leveraging advisors – legal, accounting, and other. Refer further to the [BDO Audit Committee Requirements Practice Aid](#) to manage and track board required activities.
- ▶ **Tone, culture, and the strength of the internal control environment** – To ensure a strong foundation for effective internal control over financial reporting. These should be regularly assessed with both management and the external auditors to obtain a clear and common understanding of what tone means, why tone is important, and what mechanisms are in place to assess the adequacy of control environment, including across any relevant divisions and geographies.
- ▶ **Continuing education** – To remain current on accounting and financial reporting developments to assess the organization's implementation of new accounting standards and related changes to its internal controls. Refer to BDO's [broad curriculum](#) of primers and emerging issues on governance and financial reporting matters relevant to Audit Committees. Additionally, subscribe to receive BDO thought leadership updates such as the [Significant Accounting & Reporting Matters Q1 2017](#) and the [BDO FASB Newsletter – Topic 606 Revenue From Contracts with Customers](#).
- ▶ **Non-GAAP and key operational metrics** – To oversee management's policies, processes, and controls for calculating and presenting non-GAAP and key operational metrics to ensure accuracy, consistency, and relevance. Refer to the [Center for Audit Quality's \(CAQ\) Questions on Non-GAAP Measures – A Tool for Audit Committees](#).
- ▶ **Oversight of the external auditor** - To promote its independence and align the auditor's interests with those of investors. Refer to the updated [External Auditor Assessment Tool](#) designed by the CAQ in partnership with the Audit Committee Collaboration to assist Audit Committees in carrying out their responsibilities related to oversight of the external auditor.
- ▶ **Enhanced voluntary reporting** – To enhance transparency in the activities of the Audit Committee via voluntary disclosure to enable investors to better understand and evaluate the Audit Committee's performance. Refer to the [CAQ 2016 Audit Committee Transparency Barometer](#).

For more information and educational opportunities on these and other topics related to audit committee oversight, please visit [BDO's Center for Corporate Governance and Financial Reporting](#).

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