

The 2010 audit committee agenda

Introduction

On 12–13 November 2009, members of the European Audit Committee Leadership Network (EACLN) met in Berlin for the network's 12th stand-alone meeting. Members discussed corporate governance reform with Mr Klaus-Peter Müller, chairman of the Commission of the German Corporate Governance Code.¹ Members also discussed the 2010 audit committee agenda. This document² reflects a summary of the key points raised during that discussion, along with selected perspectives that members shared before and after the meeting. For further information about the network, see "About this document" on page 9. For a full list of participants, see Appendix 1 on page 10.

Executive summary

The audit committee's scope has expanded and shifted dramatically over the course of the decade. Passage of the European Union's 8th Company Law Directive has led to a focus on internal controls and risk management, and most recently, audit committees have had to address a range of pressing issues stemming from the economic and financial crisis. Audit chairs gathered to discuss the implications of these changes – and those stemming from their companies' strategic priorities in the coming year – for the audit committee agenda in 2010. Members discussed:

- **Priority items that will expand the audit committee agenda in 2010** (*Page 2*)

Most members believe the audit committee agenda will expand in 2010 to spend more time on risk oversight (particularly to allow more time to engage with management, refine the right approach to risk oversight and to address regulatory and compliance risks), keep up-to-date on accounting standards changes and take a broader oversight role in financial communications.

- **Additional items that may expand the audit committee agenda** (*Page 5*)

Members disagreed over whether or not the 2010 audit committee agenda would expand to give more attention to activities relating to acquisitions (including due diligence, tracking transaction performance and overseeing goodwill impairments) and overseeing tax strategy and risk. Members generally agreed that the audit committee should not play much of a role in the oversight of executive or employee remuneration, even from a risk perspective, leaving that to the remuneration committee.

- **The challenge of executing against these priorities** (*Page 7*)

Members discussed how the already overburdened audit committee would manage to execute against the 2010 priorities. They noted that their audit committees had already increased meeting frequency and length over the last few years. They are unwilling to do so again but are not keen to drop items from the

¹ The highlights of that discussion can be found in European Audit Committee Leadership Network, "Corporate governance reform in Europe," *ViewPoints*, 10 December 2009. Available at http://www.tapestrynetworks.com/documents/Tapestry_EY_Euro_ACLN_Dec09_View21.pdf.

² *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and guests and their company affiliations are a matter of public record, but comments made before and during meetings are not attributed to individuals or corporations. Member quotes from the meeting appear in italics.

existing agenda. Better use of time at meetings and in preparation between meetings with the external and internal auditors and the finance team may improve audit committee effectiveness.

For a list of questions for audit committees about the 2010 agenda, see Appendix 3 on page 12.

Priority items that will expand the audit committee agenda in 2010

More than one year after the crash of Lehman Brothers in September 2008 and the ensuing dramatic global economic downturn, the major world economies appear to be recovering, and “measures of consumer, producer and executive sentiment have begun to turn around.”³ Still, European public companies are under unprecedented public and regulatory pressure to address the causes of the financial crisis. Audit chairs agreed that the effect of these pressures and the aftermath of the financial crisis will continue to impact the audit committee agenda in 2010 in the following ways:

- More time will be spent on risk oversight
- Changes to accounting standards mean more time must be spent on keeping up-to-date
- Broader oversight of financial communications may now be necessary

More time will be spent on risk oversight

The financial crisis continues to drive an unprecedented focus on improving enterprise risk management and risk governance across all business sectors. Members agreed this focus will continue and that their audit committees will be spending more time on risk in 2010. Particular challenges members discussed include more engagement with management and the external auditor on risk, assigning risk oversight responsibility and addressing emergent risks.

More engagement with management and the external auditor on risks

Members expect there to be a more fulsome, ongoing discussion between the board, the audit committee and senior management about risk in 2010, one that will include the chief executive officer (CEO) and chief risk officer (CRO), if the company has designated one.

A member said, *“At least twice a year, the CRO comes to the audit committee, more often if necessary.”* Several members recommended “heat maps” – charts rating risks as red (high), yellow (medium) or green (low) – as effective tools for assessing risks and enabling a constructive dialogue with management. A member said, *“Every quarter, the CEO talks [with the audit committee] about the top 10 risks, including the red, yellow and green risks. [We discuss] why they are changing.”* However, other members voiced concern about the comprehensiveness of risk identification undertaken by their companies, noting that the biggest risks, or “surprises,” are often not in these assessments. A member said, *“We discuss the risk heat map in the board and audit committee. But we should not over-rely on the process.”*

Members also discussed the importance of leveraging the external auditor for an objective view on risk. A member said, *“As the scope of the audit committee mandate has grown, we need to rely on the external auditor more.”* One member said the external auditor should attend meetings of the risk committee, if such a committee exists. Another highlighted the importance of coordinating internal and external audit plans to

³ Ernst & Young, *Lessons from change* (Ernst & Young Global Limited, 2009), page 3. Available at [http://www.ey.com/Publication/vwLUAssets/Lessons_from_change/\\$FILE/Lessonfromchange.pdf](http://www.ey.com/Publication/vwLUAssets/Lessons_from_change/$FILE/Lessonfromchange.pdf).

support risk oversight: *“Every year, we discuss the audit plans from the external and internal auditors in the same meeting, so they are done in a coordinated and planned manner.”*

Assigning risk oversight responsibility

In research conducted for Ernst & Young by Tapestry Networks over the past year, the importance of assigning risk oversight responsibility in a systematic way has emerged clearly, but there has been no consensus on a single best approach.⁴

One approach that some boards are considering is the creation of a board risk committee. Members have mixed views on whether this is a good idea, and their views appear to be shifting over time. One member said in a pre-meeting conversation, “Personally, my opinion is changing. One year ago, I was not in favor of a separate risk committee, [due to the] potential for overlap [with the audit committee.] But the concentration of power on the audit committee may not be a good evolution for corporate governance.”

In the absence of a risk committee, risk oversight tends to fall to the audit committee. Indeed, the EU’s Statutory Audit Directive (the revised 8th Directive) requires audit committees to oversee risk management, but there is still debate about whether this oversight extends beyond the risk management process and financial risk and how it should be allocated between audit and risk committees. This debate played out during the EACLN members’ discussion on risk oversight in Berlin. Some members agreed with a colleague who said, *“Strategic risk is for the [full] board. Operational [and financial] risk is for the audit committee.”* Another added, *“You can only discuss risk in the context of what you want to do as a company. So it’s a full board issue.”* However, another disagreed: *“Ultimately, the audit committee is the right owner [for risk oversight], because we oversee the process and the disclosure of risk factors.”*

Addressing emergent risks: regulatory and legal compliance risks

Participants said the biggest emerging risks their companies must deal with are those relating to regulation and compliance, including compliance with laws and regulations that deal with foreign corrupt practices and unfair sales practices.

Members foresee regulatory risk becoming increasingly challenging in 2010. In a separate discussion, a meeting participant said, “Regulators are almost interfering in business. External auditors are getting letters [from regulators] telling them what to examine. There has been a swing of the pendulum, and some [regulators] are overdoing it.”

Members agreed that while regulators have focused primarily on the financial industry, companies in other sectors are facing more scrutiny as well. A member said, *“Regulatory risk is getting worse. And companies will need to cope better with this risk.”* Another said, *“We need to ask, do we sufficiently oversee the communication process with regulators?”* Members said they frequently seek advice from outside advisers, such as legal counsel, to address this risk.

Compliance risk will also be a top priority for audit committee oversight in 2010, especially given the fact that cost reduction efforts may have had a detrimental impact on the control environment. A regulatory expert interviewed before the Audit Committee Leadership Summit in 2009 cautioned, “In the current climate of cost cutting, now is not the time to be cutting back on compliance staff. On the contrary, audit

⁴ Ernst & Young and Tapestry Networks, “A new landscape for risk management: Considerations for audit committees,” *InSights*, 3 April 2009, pp 7–9. Available at http://www.tapestrynetworks.com/documents/Tapestry_EY_Euro_Insights_Apr09.pdf.

committees should be ensuring they have credible compliance and control processes in place, lest they have to explain why they cut them in the future.”⁵ In Berlin, members affirmed the importance of remaining vigilant about compliance risk. One member said, *“Four times a year, the audit chair meets with the head of internal audit and [head of compliance] to discuss compliance risk.”*

Changes to accounting standards mean more time must be spent on keeping up-to-date

Members have been vocal regarding the frustrations of trying to implement ever-changing accounting standards. The end of the moratorium on new standards in January 2009 and the ongoing convergence projects outlined in the memorandum of understanding (MoU) between the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) mean that reporting standards are continually under revision, exasperating preparers, users and auditors of financial statements. In a joint meeting in October, the IASB and FASB reaffirmed their commitment to the MoU, stating, “We aim to complete each major project by the end of June 2011, consistent with the milestones established by the 2008 update of the MoU. In establishing target dates, we took into account the fact that several major countries are adopting [International Financial Reporting Standards] in 2011 and that for some other countries, including the US, continued improvement and convergence is an important consideration in deciding the role of [those standards] in their capital markets.”⁶ See Appendix 2 on page 11 for an update on projects in the Memorandum of Understanding.

In Berlin, members again highlighted what they view as a disconnect between economics and accounting standards setting. *“Increasingly, our accounts are not reflective of our businesses,”* noted one member. Members also voiced frustration regarding the apparent divergence of accounting standards, which is undermining the ultimate goal of consistency and comparability. They pointed to the European Commission’s 12 November delay in adopting the IASB’s proposed changes to IAS 39 (*Financial Instruments: Recognition and Measurement*) as an example.⁷

Thinking about the challenge of keeping up with new developments, one member observed, *“We spend a lot of routine time on new standards, those [standards that are] coming and those being implemented.”* Education sessions with experts on key standards will be planned in 2010 to help audit committees stay on top of changes. Members also agreed that the external auditors should help the audit committee consider the macro-economic impacts of accounting changes on the company and management behavior. A member said, *“We need to look at new standards in a macro sense [and ask,] ‘How will they affect the business model?’ We need to talk to management about how they will use the standard. What behaviors will it induce?”*

When surveyed prior to the meeting, audit chairs indicated that asset and pension valuations are among the accounting issues that are most likely to induce them to seek technical input and guidance from their external auditors. Members expect to continue to wrestle with asset valuations and impairments in 2010.

⁵ Audit Committee Leadership Summit, “Regulatory and governance reform,” *ViewPoints*, 4 August 2009, page 4. Available at http://www.tapestrynetworks.com/documents/Tapestry_EY_Summit_View10_Jul09.pdf.

⁶ Financial Accounting Standards Board and International Accounting Standards Board, “FASB, FASB and IASB Reaffirm Commitment to Memorandum of Understanding, A Joint Statement of the FASB and IASB,” 5 November 2009. Available at http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156535882.

⁷ The proposed changes to this standard, suggested in response to pressure from the EU’s Economic and Financial Affairs Council and the G-20 leaders, who wanted to lessen the burden of fair value accounting on companies, were delayed because commission officials felt the changes did not go far enough in limiting the use of fair value accounting. The European Commission said an in-depth analysis would be required, with the possibility of adopting the proposed changes in the New Year. In the meantime, European companies will continue to comply with the European “carve-outs” to IAS 39.

Broader oversight of financial communications may now be necessary

When the EACLN discussed the audit committee role in overseeing financial communication in April 2009, it was clear that approaches varied greatly. Most members said they reviewed financial reports and, to a lesser extent, earnings releases. However, significant differences in the approach and level of scrutiny existed based on national practice, board structure (unitary or two-tier) and the historical practice of individual companies. Few audit chairs said they reviewed or provided input into other kinds of financial communications, such as analyst meetings or annual investor days, which most said they saw as management's responsibility.

At the meeting in Berlin, members reaffirmed the importance of audit committee oversight of financial statements. A member said, *"Even with more work, audit committees are still spending a lot of time on financial statements. They are just meeting more often."* It was also evident that some network members have changed their views over the course of the year and now believe that broader audit committee oversight of other types of financial communications is also necessary, in part because financial statements continue to increase in complexity. One member said, *"Financial statements are getting more complex, which means other communications are becoming important."* Stakeholders are also demanding a clearer "story" about company performance.⁸ As a result, audit chairs suggested that they would pay more attention to management communications beyond the financial reports and associated earnings releases.

Additional items that may expand the audit committee agenda

Members agreed that the economy of the future may be significantly different from the one we have known: while consumer demand may increase, burdens such as high unemployment, new taxes and cost pressures are also likely to continue or increase. Companies will need to seek new opportunities for growth, such as strategic transactions. Companies will continue to be pressured to address public outrage over executive remuneration, a spill-over effect from issues in the financial services sector. Members debated whether these items would require more audit committee time and involvement in 2010.

Oversight of business transactions

Several members highlighted the need to pursue new courses of action to capitalize on opportunities in 2010, such as growth via mergers or acquisitions. A member said, *"We are focusing more on this because, with organic growth opportunities limited, acquisitions will become more attractive."* Some audit chairs said they will have to expand the audit committee agenda to cover acquisitions, both in the pre- and post-transaction phases:

- **Pre-transaction phase.** Members said they may need to pay more attention to due diligence in 2010. Audit committees can prepare the board for affordability discussions, commission independent fairness opinions, assess the company's acquisition readiness and provide balance to board discussions about potential transitions.
- **Post-transaction phase.** Audit committees can oversee the reporting of the transaction on the balance sheet and ensure that synergies are adequately represented. A member said, *"We are getting more involved in overseeing acquisitions if only because of evaluating the impairment of goodwill."* Members also highlighted the value of after-the-fact reviews: *"At one company, the audit committee reviewed*

⁸ Ernst & Young and Tapestry Networks, "The financial communication challenge," *InSights*, 20 November 2009. Available at http://www.tapestrynetworks.com/documents/Tapestry_EY_Euro_InSights_Nov09.pdf.

every acquisition over a certain size two and five years after it took place. It does make a difference if [an executive has] to come back to the board twice to explain its success.” Members also noted that the audit committee plays a role in ensuring adequate internal controls are in place in new operations.

Even those members whose audit committees do not provide oversight of transactions felt that accounting issues would place any such transactions on the audit committee agenda. For companies undertaking business combinations in 2010, accounting and financial reporting of these transactions will have to comply with new standards issued by the IASB. In January 2008, the IASB completed the second phase of the Business Combinations convergence project with the FASB by publishing a revised version of the International Financial Reporting Standard 3 (*Business Combinations*) and an amended version of IAS 27 (*Consolidated and Separate Financial Statements*). These became effective in July 2009.⁹

Oversight of tax strategy and risk

Members predicted that as governments seek to fund stimulus and bail-out packages, and given the G-20's clamp-down on tax havens, companies will face more aggressive tax authorities in 2010. As a result, audit committees will need to spend more time overseeing tax strategy and risk. A member said, *“We are getting involved because we are having to report taxes in affiliates that are in so-called tax havens.”*

An audit expert pointed out that in addition to bracing for likely tax increases, audit committees should prepare for the possibility of scrutiny of previous tax approaches: *“We are seeing tax authorities in many countries increase the intensity of and levels of tax audits and inspections ... They may challenge and audit past tax positions.”*

In addition, given limited opportunities for organic top-line growth, companies may seek ways to improve earnings by reviewing tax strategies. An Ernst & Young study reported, *“2009 saw many companies shift temporarily from an Effective Tax Rate (ETR) strategy to a cash tax optimization strategy carrying out wide ranging reviews to ensure that tax costs were at a minimum and that tax assets were being utilized to the highest degree.”*¹⁰

Oversight of the link between remuneration and risk

Members acknowledged that public outrage over remuneration policies in the financial sector continues to have implications for all sectors. Meeting participants agreed that while the issue of remuneration may divert attention away from a host of equally important causes (including mistakes in public policy and the performance of regulators), boards and remuneration committees must review and adjust pay practices.¹¹ However, they also agreed that the audit committee should not play much of a role in the oversight of executive or employee remuneration, even from a risk perspective; that responsibility, they said, should rest with the remuneration committee and the full board.

Some members did feel that there are a few areas in which the audit committee ought to be involved, such as in overseeing the quality of data given to the remuneration committee and ensuring that processes are in place to assess and manage remuneration risk. A member added, *“We use the external auditor to audit the numbers that go to the remuneration committee.”*

⁹ The objectives of this joint project are to improve and simplify the accounting for business combinations and to develop a single standard for accounting of business combinations that can be used for both domestic and cross-border financial reporting.

¹⁰ Ernst & Young, *Lessons from change*, page 12.

¹¹ European Audit Committee Leadership Network, “Corporate governance reform in Europe.”

Members also highlighted board practices that can help support oversight of remuneration, such as coordinating committee membership or meetings. A member said, *“We deal with this risk by having cross-committee membership. A member of the audit committee sits on the compensation committee, and another sits on the risk committee.”*

The challenge of executing against these priorities

Members voiced concern about the growing list of audit committee agenda items for what they feel is an already over-burdened committee. Across the network, the number of yearly audit committee meetings ranges from five to 12 (including face-to-face and telephonic meetings), with most lasting a minimum of three hours and many lasting as long as six hours. (A 2009 Heidrick & Struggles Corporate Governance Report found that audit committees in Europe meet an average of six times per year.¹²) Several members reported that the number of audit committee meetings has already increased in recent years and said they were reluctant to add more in 2010, even with an expanded audit committee agenda. One member said, *“We are forgetting what has happened over the last three to four years. We are meeting much more often.”*

At the same time, members were reluctant to drop items from the existing audit committee agenda. A member said, *“We must cover all these issues properly.”* However, some suggested that the audit committee should not need to increase the time it spends on its agenda, given that the priority issues for 2010 are the same as those already being addressed.

The increasing demands on the audit committee’s time will require audit chairs to look for more efficient ways to cover their agendas. Better use of time at meetings and better preparation between meetings with the external and internal auditors and the finance team may improve audit committee effectiveness.

Audit chair practices to help streamline audit committee meetings¹³

- **Time limits.** An audit chair said, “What is important is to plan the meeting with time frames for each point and stick to them. We have skipped a point if one becomes longer than we thought, but topics can go on forever unless you have someone pushing the time frame.”
- **Attendance limits.** The sheer number of people at audit committee meetings can make it hard for the chair to streamline the meeting. An audit chair said, “At one point ... our audit committee meeting included 20 people (between members, experts and management), so we decided to divide our meetings into sessions on particular items and topics [with only those who need to be present for that item in the room] to keep the size down.”
- **Presentation limits.** In order to preserve time for discussion, one audit chair limits presenters to a three-slide maximum to avoid what one audit chair called “death by PowerPoint.”

¹² Heidrick & Struggles, *Board in Turbulent Times: Corporate Governance Report 2009* (Chicago: Heidrick & Struggles, 2009), page 9. Available at <http://www.heidrick.com/NR/rdonlyres/A03A8F3A-A676-43FC-BBBA-06105F43B034/0/CorporateGovernance2009Europe.pdf>.

¹³ Suggestions are drawn from European Audit Committee Leadership Network, “Increasing audit committee effectiveness,” *ViewPoints*, 21 April 2008, available at http://www.tapestrynetworks.com/documents/Tapestry_EY_Euro_ACLN_Apr08_View14.pdf, and North Central Audit Committee Network, “Setting the audit committee agenda for 2010,” *VantagePoint*, 21 October 2009, Available at http://www.tapestrynetworks.com/documents/Tapestry_EY_NCentral_ACN_Oct09.pdf; and Audit Committee Leadership Network, “Increasing audit committee effectiveness,” *ViewPoints* 18, 19 October 2007, Available at http://www.tapestrynetworks.com/documents/Tapestry_EY_ACLN_Oct07_View18.pdf.

Audit chair practices to help streamline audit committee meetings (*continued*)

- **Higher quality pre-reading materials.** Improving pre-reading materials provided by management, the internal auditor and external auditor allows audit committee members to feel better prepared heading into meetings, therefore requiring less time for in-meeting preparation and explanation. Pre-reading should be concise and directly relevant to planned discussions.
- **Discussion by exception.** An audit chair said, "The routine papers that we rely on are presented well ahead of time and are discussed by exception, instead of going through papers we have already read."
- **High-priority issues are first on the agenda.** Some audit committees have been identifying ways to fulfill routine, core oversight activities more efficiently to allow for discussion of timely issues, including using question-only consent agendas. One audit chair recommends, "Put high priority items first, rather than the rote stuff, then use consent agendas at the end."
- **Delegate important responsibilities to other audit committee members.** One audit chair said, "I delegate portions of the agenda to a member of the committee who then must be the one to interact with management. This engages them more; they have more interest and ownership in their piece."
- **Ensure the full committee brainstorms new agenda items at least annually.** Unstructured time to discuss what's really worrying audit committee members can lead to new and important agenda items for both the forward agenda and individual meeting agendas.

Conclusion

The European economy has entered a slow and uncertain period of recovery, during which companies will continue to face the challenge of maintaining the fundamental health of their businesses while seeking to capitalize on any opportunities that may have emerged in the aftermath of the financial crisis. For board directors, there is the added challenge of dealing with the inflated demands of regulators, politicians, the media and the public for improved governance.

Many audit chairs believe these pressures translate into an expanded audit committee agenda in 2010. Most members see more time being spent on risk oversight – particularly regulatory risk oversight – and on overseeing accounting changes and financial communications; some also see more time being spent on overseeing acquisitions, and tax strategy. However, tackling these priorities is difficult for two reasons: a significant number of members resist burdening an already over-loaded audit committee with more responsibility and most members are reluctant to add or lengthen meetings, having already done so in recent years. Faced with this dilemma, audit chairs must give serious consideration to how to be more effective and efficient in their oversight duties in 2010.

About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is convened by Ernst & Young and orchestrated by Tapestry Networks to access emerging best practices and share insights into issues that dominate the new audit committee environment.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Anyone who receives *ViewPoints* may share it with those in their own network. The more board members, members of management and advisers who become systematically engaged in this dialogue, the more value will be created for all.

The views expressed in this document represent those of the European Audit Committee Leadership Network, a group of audit committee chairs drawn from Europe's leading companies committed to improving the performance of audit committees and enhancing trust in financial markets. They do not reflect the views nor constitute the advice of network members, their companies, Ernst & Young or Tapestry Networks. Please consult your advisers for specific advice. Ernst & Young refers to all members of the global Ernst & Young organization.

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Appendix 1: Meeting participants

The members of the network participating in the meeting sit on the boards of nearly 40 large-, mid- and small-capitalization public companies. Network members participating in the meeting included:

- Dr Werner Brandt, Audit Committee Chair, Lufthansa
- Mr Aldo Cardoso, Audit Committee Chair, GDF SUEZ
- Mr Daniel Lebègue, Audit Committee Chair, SCOR
- Mr Anders Nyrén, Audit Committee Chair, Sandvik and SCA
- Sir Ian Prosser, Audit Committee Chair, BP
- Mr Pierre Rodocanachi, Audit Committee Member, Vivendi
- Ms Guylaine Saucier, Audit Committee Chair, Areva and Danone
- Mr Kees Storm, Audit Committee Chair, Anheuser-Busch InBev and Unilever
- Mr Jack Tai, Audit Committee Chair, ING
- Dr Bernd Voss, Audit Committee Chair, ABB
- Mr Mario Zibetti, Audit Committee Chair, Fiat Group

Ernst & Young was represented by Mr Tom McGrath, Managing Partner, EMEIA Financial Services; Mr Mark Otty, Managing Partner, EMEIA; and Mr Christian Mouillon, Global Vice Chair, Assurance.

Appendix 2: Joint FASB/IASB standards projects¹⁴

The following list of projects also includes estimated years of completion and objectives:

- **Earnings per Share (2009):** to clarify and simplify as well as improve comparability between IFRS and US GAAP earnings per share (EPS) computations.
- **Discontinued Operations (2009):** to develop a converged definition of a discontinued operation along with converged disclosure requirements for all components of an entity being disposed of.
- **Emissions Trading Schemes (2010):** to provide comprehensive guidance on the accounting issues that arise related to emissions trading schemes.
- **Financial Statement Presentation (2011):** to establish a standard that will guide the organization and presentation of information in the financial statements.
- **Revenue Recognition (2011):** to clarify the principles for recognizing revenue and to create a joint revenue recognition standard.
- **Leases (2011):** to create a common standard on lease accounting to ensure that the assets and liabilities arising from lease contracts are recognized in the statement of financial position.
- **Financial Instruments with Characteristics of Equity (2011):** to improve and simplify the financial requirements for financial instruments with characteristics of equity.
- **Insurance Contracts (2011):** to develop a common, high-quality standard that will address recognition, measurement, presentation and disclosure requirements for insurance contracts.
- **Financial Instruments – Improvements to Recognition and Measurement (to be decided):** to significantly improve the decision usefulness of financial instrument reporting for users of financial statements.
- **Income Taxes (to be decided):** to improve the accounting for income taxes, while reducing the existing differences between FASB and IASB standards.

¹⁴ Financial Accounting Standards Board, “Technical Plan and Project Updates,” <http://www.fasb.org/project/index.shtml>.

Appendix 3: Questions for audit committees

- ? How are your boards allocating responsibility for risk governance? If risk oversight is distributed among multiple committees, what measures are being taken to prevent the dilution of accountability?
- ? How does the board work with the CEO to oversee risk? The CRO? What should independent directors do if the tone set by the CEO is not conducive to constructive engagement?
- ? What risks do you anticipate will be of most concern to your board in 2010? How do you identify emerging risks to the business? How could management improve its approach to mitigating and monitoring risk in 2010?
- ? How will your audit committee stay current on accounting changes in 2010? What additional education will be required for audit committee members and other board directors? What sort of help do you expect from your external auditors in navigating the complexities of ever-changing accounting standards?
- ? Is your audit committee's current approach to reviewing financial communications sufficient? How involved does the audit committee get in discussing with management the full "story" (including management's analysis and key performance indicators) communicated to key financial stakeholders? How much rigor does the committee apply to ensuring management's characterization of the company's performance accords with the audit committee's understanding of the business?
- ? What is your audit committee's role in overseeing acquisitions? Do you see that changing in 2010?
- ? Has the audit committee reviewed the company's current tax plan? What is your company doing to manage tax risk and to increase financial statement certainty with respect to tax planning strategies in 2010?
- ? What specific tasks can the audit committee perform to assist the board's oversight of remuneration?
- ? How is your audit committee prioritizing agenda items for 2010? If you expect an expanded agenda, how can your audit committees get through its agenda more efficiently?
- ? How do you see your agenda affecting your relationship with management? How will you work through the challenges it presents?
- ? How does your agenda influence your relationship with your internal and external auditors and the scope of the audit plans? How would you like to see these relationships improve in 2010?