



Review of internal audit

On May 17, 2010, members of the Southeast Audit Committee Network (SEACN) convened in Atlanta for their 16th meeting. Attending network members, who sit on the boards of more than 20 large-, mid-, and small-cap companies, discussed the importance of internal audit. Members were joined by Jacqueline Wagner, a consultant with Ernst & Young's risk advisory practice and former general auditor at a number of Fortune 100 Companies in the Financial Services, Automotive, and Oil and Gas industries. This document summarizes the key points raised during the meeting, along with additional perspectives that members shared before and after the meeting.¹ For a full list of participants, see Appendix 1, on page 9.

In addition, Ken Marshall, Ernst & Young partner and Americas Financial Accounting Advisory Services market leader, and Steve Schuetz, professional practice director of Ernst & Young's National Accounting, and Auditing Technical Group, ran a separate session on potential changes to US Generally Accepted Accounting Principles (GAAP) as a result of the joint convergence projects between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). For a summary of that session, please see Appendix 3, on page 11.

Executive summary

According to the *Final NYSE Corporate Governance Rules*, companies listed on the New York Stock Exchange (NYSE) "must maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control."² However, beyond this broad directive, management has significant leeway when defining the scope of a company's internal audit function. Members agreed that an effective internal audit function is invaluable to the audit committee. The discussion highlighted several important themes:

- **Internal audit's scope is widening to include risk management** (*Page 2*)

SEACN members agree there has been a meaningful change in the scope of internal audit over the eight years since Sarbanes-Oxley was signed into law. Members reported that the scope of internal audit has expanded to include areas such as fraud prevention and mitigation, risk management, and operational improvement. The liveliest debate at the May network meeting centered around internal audit's role in enterprise risk management (ERM). Some members saw internal audit as playing a critical role in facilitating the process, while others saw internal audit as being one of many contributors, and a third group saw the internal audit group more as auditors of the risk process.

¹ *VantagePoint* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments made during the meetings are not attributed to individuals or corporations. Ms. Wagner has given permission for her remarks to be attributed. Quotes in italics are drawn directly from comments made by SEACN members during and after the May 17 meeting. Ms. Wagner's remarks are not italicized.

² New York Stock Exchange, *Final NYSE Corporate Governance Rules* (New York: NYSE Euronext, 2009), 13.



▪ **Many companies are building stronger internal audit functions and leaders** (Page 4)

Several members said their companies have sought to raise the stature of internal audit by recruiting higher-quality staff and rotating talented finance executives through the function. Chief audit executives (CAE) are increasingly seen as key members of the senior executive team. They are expected to be team players with a strong backbone, and an advocate for the function with a strong accounting background. Members agreed the internal audit function can be an effective training ground for finance professionals.

▪ **Co-sourcing has an important role to play in an effective internal audit group** (Page 6)

Meeting participants agreed that co-sourcing is essential when specialized expertise is required, or when resourcing needs are variable. In particular, members highlighted the benefit of sourcing external information technology (IT) and international audit talent when impractical or uneconomical to build those capabilities in-house. Outsourcing may also be viable when a company's size does not justify permanent staff or to ensure a higher quality of staff than the company can attract.

▪ **Internal audit and the audit committee can provide mutual support** (Page 6)

Members acknowledged the relationship between internal audit and the audit committee should be one of mutual support. Such a relationship requires a level of director involvement that goes beyond conventional "oversight." Members agreed the audit committee chair, in particular, can play an important role in boosting morale through such actions as sending personal notes to the internal audit staff, attending annual internal audit meetings, and making informal visits. Members also believe the audit committee can play a significant role in assessing the effectiveness of the internal audit group.

Internal audit's scope is widening to include risk management

As one of the cornerstones of the internal control environment (along with the board of directors, the external auditor, and senior management), internal audit provides unique and valuable insight into the organization "by giving objective assurance on governance, risk management and control processes."³ Members agreed that the scope of internal audit is ever-changing: *"Internal audit does not have a fixed definition. I think internal audit really deals with any issues that can have an impact on the financial health of the organization, the honesty of the organization, even the integrity of the organization. It is constantly changing."*

Scope expanding for internal audit in 2010

As the mood of urgency that accompanied the initial Sarbanes-Oxley implementation has faded and much of the work has either been embedded in the business or automated, many organizations are considering a broader mandate for internal audit.⁴ One member remarked that *"Sarbanes-Oxley related work is significantly receding,"* and the focus is no longer purely on financial audits and internal controls work.

³ Dan Swanson, "[Twenty Questions for Directors to Ask Internal Auditors](#)," *Compliance Week*, May 9, 2006.

⁴ In early March 2010, The Institute of Internal Auditors sent a survey to nearly 3,740 chief audit executives and internal audit directors and managers asking specific questions about their internal audit group's roles and responsibilities, budgets, staffing and cost-saving efforts, and 2010 priorities.



The Institute of Internal Auditors (IIA) recently noted, “Internal auditors are being asked to expand their more traditional assurance and consulting roles, and apply their business knowledge and audit expertise in key organization-wide initiatives, particularly those pertaining to fraud and risk management.”⁵ For their part, members agreed that fraud risk is high on their priority list for internal audit: *“I’m particularly interested in fraud because the environment we live in today does give rise to the potential for fraud. Therefore, the emphasis at our company has shifted.”*

Differing views about the role of internal audit in ERM

The discussion regarding the role of the internal audit function in the risk management process was a source of some disagreement amongst members. Still, they acknowledged that the degree to which internal audit gets involved in risk management *“depends on what kind of company you are, what your skill sets are, and what kind of industry you are in.”* For example, one member pointed out that in the healthcare industry *“you would never think to call on internal audit because there are so many risks to keep you up at night and they’re so complex that it would never dawn on me to say internal audit should be in the middle of that. If we wanted internal audit to address it we would have to hire MDs, lawyers, [and] pharmacists.”*

Members described three alternate roles for internal audit in risk management:

- **Internal audit facilitates the process.** *“Internal audit is a central part of ERM and I don’t mean that they have total responsibility, but they do have a principal role. We define ERM as being anything that keeps us from achieving our strategic plan, so somebody needs to be managing that process. I think that’s an important role for the internal auditors.”*
- **Internal audit is one of many valuable contributors.** *“In some cases the board might say to the audit committee that it has concerns in a certain area. The audit committee will then turn to the internal audit group and say, ‘Can you offer any assistance here?’ They then come in and provide insight, offer advice, that kind of thing. While they do not initiate the process, they are still a valuable member of the team.”* Ms. Wagner pointed out that it is internal audit’s responsibility to “not just accept policies at face value because they may be outdated ... I see more internal auditors look for emerging risks and keeping an eye on them. They should be raising the flag and pointing out to management and the audit committee, ‘Do you see you have an emerging risk there?’” Further, Ms. Wagner emphasized that internal audit can support the company and the board in ensuring the risk is understood and appropriately controlled.
- **Internal audit audits the ERM process.** *“It’s not up to internal audit to define the scope and map the potential risks. Those need to be developed by senior management. But once the risks are identified, internal audit can begin to document those risks and test the processes that are in place.”* Another member remarked, *“Does internal audit have responsibility for making sure the organization is following policies and procedures around ERM or does it have responsibility for deciding whether the appropriate*

When survey participants were specifically asked to identify the areas for which their internal audit function held primary responsibility, they responded that the internal audit group has been focusing on fraud investigations, Sarbanes-Oxley, ethics investigations, risk management, general regulatory compliance, FCPA compliance, and IT security. ([Internal auditing in 2010: Shifting Priorities for a Changing Environment](#))

⁵ Institute of Internal Auditors, [“Internal auditing in 2010: Shifting Priorities for a Changing Environment,” Knowledge Alert](#), March 2010, 4.



policies and procedures are in place? For the most part, I would say determining whether the policies are appropriate is beyond the scope of internal audit's responsibility.”⁶ Ms. Wagner agreed, remarking, “ERM is all-encompassing ... I think it is appropriate to have management own it, have the audit committee provide oversight, internal audit's role should be to go in and audit the risk management process and all its components.”

One thing members almost unanimously agree on is that ownership of risk management should not reside solely with the internal audit group: *“In some organizations, ERM is in the hands of internal audit and as far as I'm concerned that is dead wrong because enterprise risk can only be managed properly by someone who understands the full scope of the business.”*

Internal audit can play a role in operational improvement

Ms. Wagner commented that internal audit can play a role in enhancing operations: *“I think there is an increasing expectation of internal audit to add value and make recommendations. A lot of companies are now doing that with new products, where internal audit might play a role in sitting around the table during a brainstorm early on. They're playing more of a role on the team.”* One member reported, *“We decided to take a half hour at every audit committee meeting and talk blue sky with the internal auditors and discuss broader operational improvement. A lot of interesting things came out.”*

However, others expressed concern about increasing internal audit's scope: *“My feeling is that sometimes we try to make internal audit do too many things. They serve a very real purpose but we shouldn't give them too much. I agree that the exceptional internal audit groups like the [General Electric] folks could probably take on almost everything, but quite frankly I think we need to make sure we don't put too much of a burden on our own internal audit groups and expect them to carry things for the rest of us.”*

Many companies are building stronger internal audit functions and leaders

As part of their quest to improve the value and perception of the internal audit function, some members have sought to improve the internal audit staff: *“I've really seen an upgrade in both the chief audit directors and the staffing in the companies I've been dealing with ... I think part of it is that there are just better people out there now, and the talent pool is better. I think on a case-by-case basis, the expertise you're looking for is easier to find.”*

The importance of a strong chief audit executive

Members regularly highlight the benefits of a talented CAE, particularly one with strong leadership skills. As one member remarked, *“Leadership is extremely important in internal audit. If you have someone who has both leadership skills and technical knowledge, it elevates the quality of the entire organization.”*

⁶ Members are not alone in their views on this point. In a recent survey of more than 500 public, private, government, and nonprofit enterprises that the Open Compliance and Ethics Group conducted, “roughly 65 percent of internal auditors say they are capable of assessing an organization's risk and compliance function – but less than 40 percent of [the remaining survey respondents] agreed.” (Jaclyn Jaeger, [“Split Opinions on Internal Audit Scrutinizing Compliance.”](#) *Compliance Week*, March 23, 2010.)



Members outlined additional characteristics they look for in a CAE:

- **Team player.** *“You need to have a team player in that role who has a good understanding of what their position is and can look at everything with a fresh set of eyes and still make it work. I’ve seen a couple instances where the [individual’s] skill set made the function work smoothly and I’ve also seen the flipside.”*
- **Strong backbone.** *“We want the CAE to have a strong enough personality so they do not back down. They have to have a backbone, but also have to play the role of the politician. If they think it’s right, don’t back down.”*
- **Advocate for the function.** *“I want my CAE to be a bit of a cheerleader because I find that the internal audit group sometimes feels like they’re not appreciated and we need someone who can tell their staff that they’re important.”*
- **Strong accounting background.** *“A CPA [Certified Public Accountant] background is ideal. It’s weird now to bring someone in who doesn’t already have a strong accounting background and who isn’t already a CPA. If someone is not already a CPA, then I insist they go through the process [of becoming one].”*

In addition, one member also recommended that the CAE should have board experience: *“We like all of our senior people, which includes the head of internal audit, to ideally sit on an outside board. It doesn’t necessarily have to be a publicly held board, but we believe that having that board experience is good.”*

Internal audit as a training ground

Several members pointed to the model at General Electric in which corporate audit develops high-potential finance and operating executives from the inside. One member pointed out: *“Internal audit is a great way to expose somebody to all the different aspects of the company. I’m very much in favor of the GE model where internal audit is used as a training ground.”*

While several members agreed that a rotational period in the internal audit group can provide a developmental opportunity, one member described the tension between short-term internal audit assignments and the need to develop deep subject matter expertise: *“You don’t want to rotate people all the time and not have a consistent set of skills. It’s important to have some continuity in the internal audit function ... I think it’s good to keep the leadership intact, in particular.”*

One audit committee chair suggested that having a professional internal audit function is also an acceptable approach: *“We’re neither an explicit training ground for future leaders, nor are we a way station before you leave the company. We view internal audit as valuable contributors and a worthwhile career in and of itself.”*

Co-sourcing has an important role to play in an effective internal audit group

Members agreed that when in-house auditors cannot meet all the organization’s needs, it is desirable to strategically co-source selected talent: *“We just do what makes sense and at my company. We currently*



have quite a few open gaps in skill set, so we're co-sourcing as a matter of necessity and because we want that expertise."

Members reported their companies often seek outside assistance for specialty skills – primarily with IT and for coverage of remote locations. One member commented: *"We outsource the internal audit work in Latin America. We have staff here [in the US] and in Europe but, we were struggling to do it effectively in Latin America, so we chose to co-source and it worked really well. It also worked well with IT testing, which was an area we had a lot of staffing and skill set gaps."*

A handful of members reported that they have chosen to outsource the entire function: *"We had a situation where we inherited an internal audit team ... After dealing with this team for about a year, we concluded we did not have the right team, so our choice was either to rebuild or get a quick fix by outsourcing. We chose to outsource."* Another members said: *"We made the decision a long time ago to outsource. I think it was an excellent decision [when] I look at the expertise and background and connections that we have been able to access through an outsourced internal audit function. [The outsourced internal audit firm] was able to bring a knowledge base we never would have been able to create in-house."*

However, several members noted that they generally prefer building the team internally: *"There are some cases where the domain expertise that grows through company knowledge and tenure is more valuable than someone coming from the outside."*

Internal audit and the audit committee can provide mutual support

NYSE listing requirements state that "the audit committee must have a written charter that addresses the committee's purpose, which, at minimum, must be to assist board oversight of ... the performance of the company's internal audit function."⁷ According to the IIA, "Audit committee members must play an active role in supporting the independence of internal auditing and ensuring it has enough resources to provide the appropriate level and quality of information."⁸

Members appreciate that the relationship between internal audit and the audit committee is one of mutual support and are quick to acknowledge the value: *"Without a well-developed and well-functioning internal audit department, audit committees can't do their job."*

Indeed, members described a deeper and more strategic relationship with internal audit. As one audit committee chair remarked prior to the meeting: *"We've done a lot in recent years in terms of enhancing our overall relationship with the internal audit and improving our overall agenda. We have a very engaged committee and have established a wonderful environment for good feedback and dialogue."*

Most audit committee chairs reach out to CAEs informally, whether in the form of weekly telephone conversations or in-person meetings once or twice a quarter. One member remarked: *"I try to come in the day before every board meeting and have ... lunch with the head of internal audit. It takes some extra time, but it's a good way to touch a lot of points."*

⁷ New York Stock Exchange, *Final NYSE Corporate Governance Rules*, 10.

⁸ Institute of Internal Auditors, *Internal Audit Standards: Why they matter* (Altamonte Springs, FL: Institute of Internal Auditors, 2005).



In part, the relationship is deep because, in almost all cases, the CAE reports directly to the audit committee chair. Many feel that the direct report to the audit committee is essential for internal audit objectivity. But they also see a potential conflict of interest. Ms. Wagner pointed out: “[As an internal auditor] you walk a fine line. You have to get along inside the company and sometimes that runs afoul of having a strong backbone and having the courage to stick with convictions.” Members agreed that the strong reporting line to the audit committee is critical: *“As long as it’s out there that the CAE has a direct line of authority to the audit committee, it gives them the credentials to state their case and stick to it. That culture and structure is important.”*

The audit committee chair has a role to play in re-enforcing the value of internal audit

Several members reported that efforts to change wider management perceptions of the value of internal audit have been an uphill battle, but many believe that the audit committee chair can play an important role in ensuring that internal audit is valued: *“I think it’s important that we, as an audit committee, support the internal audit function because the function, by and large, feels underappreciated and to the extent we can get out there and appreciate them more that can be a very positive thing.”*

Members highlighted several specific ways audit committee chairs can serve as an advocate and supporter of the internal audit function:

- **Send personal notes to internal audit staff.** *“One of the things I’ve done is that if someone has done really well on the internal audit staff, I’ll have the CAE let me know and I’ll drop that person a handwritten note so they know someone is appreciating them.”*
- **Attend annual internal audit meetings.** *“When internal audit has their week-long seminar once a year, I go for the first day and tell them how wonderful they are and how much we rely on them.”*
- **Drop in for informal visits.** *“It’s important to just show up every once in a while. It can be hard if you’re from out of town, but doing it at least once a year can mean a lot.”*

Assessing the internal audit function

As members pointed out, the CAE has a unique reporting relationship and accountability to both the board and management. As a result, the annual internal review of both the CAE and the internal audit function’s performance is somewhat unique. In many companies, a portion of the review is conducted by the person in management to whom internal audit reports, and a portion is conducted by the audit committee chair: *“The head of internal audit reports directly to me and administratively to the CFO. The CFO will do the first round of the assessment and then will call me up and ask my opinion of the internal audit group and I will tell him.”*

Members report that oftentimes they look to their external auditor to provide feedback as well: *“I always ask the external auditor for feedback because it’s a fresh set of eyes.”* Another member remarked, *“I really like to involve the external auditor in [internal audit’s review] as well because they see so many other companies. It’s very useful when they can make comparative statements.”* Another member said, *“We are constantly asking the external auditor for his feedback on the internal audit’s performance – and vice versa.”*



The IIA lists an external quality assessment as one of its requirements for compliance with the international standards for the professional practice of internal auditing. They encourage companies to conduct these assessments once every five years. While Ms. Wagner agrees that using the IIA template is useful, she remarked: “I fully support the IIA standards, they are the things you expect every professional to do ... I think compliance with the IIA standards is a must but, if you want views into what you can be doing better, ask that the review include recommendations that will enable you to take the function to the next level.”

Almost all members report that their internal audit group has undergone a peer review, or are currently in the process of undergoing one: *“We’re doing an exchange right now where our head of internal audit is going to another company and the head of internal audit at that company is going to a third company. It’s our first time doing it, but we’ll see.”* Members agreed that it is important to have a third company involved to ensure objectivity: *“If you only have two companies involved it could lead a bit to, ‘I’ll say wonderful things about you if you say wonderful things about me.’ If you have multiple companies trading that works better for independence.”*

Many members also noted the benefits of bringing in an independent audit firm to do a review: *“I felt that going to an outside audit firm was an important sign of showing support for the internal audit function. We had to sell senior management on this and convince them it was important. But we wanted to send the message that we believe in the quality of the organization and we were going to spend money on this. We wanted to invest in the internal audit function in a way that was more significant than the lower level peer review.”*

Conclusion

Members agreed with the audit committee chair who remarked, *“There is no magic cookbook for how we define internal audit’s role. A lot of it remains a big question.”* However, they also agree that of all the resources at an audit committee’s disposal, one of the most valuable is an effective internal audit function. Creating and sustaining such a capability is not a trivial task, and leading audit committee chairs have identified a number of helpful practices.

Audit committees should partner with senior leadership to ensure internal audit is staffed by outstanding professionals whose contributions are valued and appreciated. Audit committees should ensure adequate audit resources, with sufficient technical expertise, both at home and abroad; and can encourage internal audit to play a key role in identifying a wide range of risks across the enterprise. In following these principles, audit committees often find that modest investments of time and resources yield substantial returns.



Appendix 1: Participants at the network meeting

Network members who participated in the meeting were:

- Eddie Adair, Audit Committee Chair, Tech Data
- Denny Beresford, Audit Committee Chair, Kimberly-Clark and Legg Mason
- Jim Copeland, Audit Committee Chair, ConocoPhillips, Equifax, and Time Warner Cable
- John Farrell, Audit Committee Chair, Lender Processing Services
- Doug Ivester, Audit Committee Chair, SunTrust Banks
- Claude Lilly, Audit Committee Chair, FairPoint Communications
- Dean O'Hare, Audit Committee Chair, H. J. Heinz Company
- Steve Raymund, Audit Committee Chair, Jabil Circuit
- Jim Robbins, Audit Committee Chair, DSW
- Erik van der Kaay, Audit Committee Chair, RF Micro Devices
- Bunny Winter, Audit Committee Chair, Wellesley College

Ernst & Young was represented by:

- Steve Konenkamp, Southeast Assurance Managing Partner
- Karole Lloyd, Vice Chair and Southeast Managing Partner
- Chuck Seets, Principal



Appendix 2: Selected questions audit committee members might generally ask about internal audit

- ?** What activities should fall within the scope of internal audit’s responsibility? What factors must be considered when determining scope?
- ?** How has internal audit’s role evolved over the last eight years? What additional changes do you expect in the coming years? What is driving these changes?
- ?** What role should internal audit play in risk management? Regulatory compliance?
- ?** How can a company ensure that it has enough qualified internal audit staff? What skills must internal auditors possess? How might these skills change in the future?
- ?** What are the characteristics of an exceptional CAE? How can companies recruit, develop, and retain such individuals?
- ?** What are the advantages and disadvantages of using internal audit as a training ground? What elements are necessary to make the training model truly successful?
- ?** Of the sourcing models, both internal and external, that you have seen, which work best? What was internal audit’s mission in those successful environments?
- ?** What is the appropriate relationship between internal audit and the audit committee? What communication practices have you found to be most effective?
- ?** How can audit committees ensure that the existence of a practical administrative reporting line to senior management does not impair internal audit’s independence and objectivity?
- ?** Who evaluates internal audit? Has the internal audit function undertaken a self-evaluation? Do you see internal and external audit evaluating one another?



Appendix 3: Education session on the major FASB/IASB joint convergence projects

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are currently forging ahead with an unprecedented agenda of standards development, in an attempt not only to bring International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP) closer together but also to achieve substantial reform of these standards. As an Ernst & Young brief said, “The boards have been working closely together since 2002, when they entered into the Norwalk Agreement that formalized their commitment to convergence. This commitment was renewed in a Memorandum of Understanding (MoU) in 2006, which was updated in 2008 and reaffirmed in November 2009.”⁹

Prior to the Southeast Audit Committee Network (SEACN) meeting, Ken Marshall, Ernst & Young partner and Americas Financial Accounting Advisory Services market leader, and Steve Schuetz, professional practice director of Ernst & Young’s National Accounting, and Auditing Technical Group, ran an education session on potential changes to US GAAP as a result of the joint convergence projects between the FASB and the IASB. Mr. Marshall said that, regardless of any future decision to require IFRS reporting in the United States, audit committees and their companies should be preparing for what one observer called a “tsunami of accounting change.”¹⁰

The FASB and the IASB are on course to bring about major changes to US GAAP

Mr. Marshall said the FASB and the IASB have committed to complete a significant number of convergence projects by June 2011. The projects most likely to be completed include leases, revenue recognition, and financial instruments. Indeed, the FASB released an exposure draft (ED) on financial instruments in May 2010,¹¹ and is expected to release EDs on the projects around leases and revenue recognition in June 2010.

Mr. Marshall said the FASB will generally provide a four month comment period for larger projects after releasing the EDs. As an Ernst & Young brief said, “Regardless of any future decision to require IFRS reporting in the US, the projects underway are expected to ultimately result in substantial changes to US GAAP in many areas.”¹² Mr. Marshall said the timeline for the convergence process is ambitious. Indeed, subsequent to the meeting, the chairmen of the FASB and the IASB sent a letter to the G20 acknowledging that a few projects will extend into the second half of 2011, preventing the boards from reaching the earlier target date. However, in the letter, the FASB and IASB chairmen said they will keep the June 2011 target date for many projects where converged accounting rules are “urgently required.”¹³ Indeed, Mr. Marshall said that the convergence projects “will happen eventually,” and audit committees should be speaking to their companies’ chief accounting officers and finance organizations to start planning for the potential

⁹ Ernst & Young, “Hot Topic Update on major accounting and auditing activities: FASB/IASB projects update.” May 14, 2010, 2.

¹⁰ Ernst & Young and Tapestry Networks, “Regulatory change is driving audit committee agendas.” *InSights* for North American Audit Committee Members, April 2010, 3.

¹¹ Reuters, “FASB proposes financial instrument rule change.” May 27, 2010.

¹² Ernst & Young, “Hot Topic Update on major accounting and auditing activities: FASB/IASB projects update.” 2.

¹³ See, Financial Accounting Standards Board, “Joint Statement by the FASB and the IASB on their convergence work.” June 2, 2010.



changes. SEACN members were taken aback by the scale of the proposed changes, and said they intended to address them with their finance organizations and external auditors.

Finance executives are urging the FASB and the IASB to ‘slow down’

Some finance executives believe the timelines are too aggressive, and are asking the accounting standards-setters to slow down. In a letter to the FASB and the IASB sent in May, Financial Executives International (FEI) wrote: “Collectively, we do not believe we have sufficient technical resources in industry to respond effectively to such a large quantity of complex proposals issued over a very short period of time. Even if it were not so, it is not clear to us that the FASB and IASB have the requisite resources to absorb and resolve all of the issues that would be posed by all of these proposed standards in such a compressed time period.”¹⁴

Members were concerned that the accounting changes might require a massive overhaul of internal controls systems, processes, and procedures, and suggested that companies planning to upgrade major information systems take into account the impact the proposed changes will have on these systems. They also recommended that finance organizations consider submitting a letter to the FASB during the comment period, either alone or in cooperation with industry peers.

About this document

The Southeast Audit Committee Network is a group of audit committee chairs drawn from leading North American 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.

VantagePoint 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 *VantagePoint* lies in its power to help all constituencies develop their own informed points of view on these important issues. Anyone who receives *VantagePoint* 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.

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¹⁴ Financial Executives International, [“FEI Committee Files Letter with FASB, IASB on Impact of MoU Standards.”](#) May 10, 2010.