Executive
NDI Exchange

The Audit Committee of the Future: It's Not Just About Financial Risk Anymore

1. The audit committee's mission has evolved in recent years to examine and monitor general risks to the company.

2. Whether a company establishes a standalone risk committee – separate from the audit committee – depends on the company's industry. For example, financial service companies often have standalone risk committees given the regulations to which those companies are subject.

3. The risk committee membership should possess, at a minimum, the following attributes: previous experience in enterprise risk management; day-to-day operational experience to understand how risks apply to the company; diversity (i.e. the committee should be composed of individuals with experience in technology, operations, and finance); and an understanding of reputational risk.

4. While financial fraud cases against issuers brought by the Securities and Exchange Commission are down, other risks concerning culture, cyber, social media, and product safety are on the rise. In *Marchand v. Barnhill* (2019), the Delaware Supreme Court ruled that the board must make a good faith effort—*i.e*., try—to put in place a reasonable board-level system of monitoring and compliance. Audit committees must therefore monitor mission critical risks to the company's they serve.

5. Audit committees must focus their agendas. Members must immerse themselves in the company and ask, "What risks keep me up at night?" This exercise will avoid overburdening audit committees.

6. Even though audit committees are increasingly tasked with monitoring systemic risks, full boards must ultimately take responsibility for reviewing existential risks as well.

7. Audit committees should have frequent communication with the chief compliance officer or general counsel of their companies. That such communications took place should be included in the minutes of each committee or full board meeting.

8. When a crisis does arise, whether the audit committee should involve the CEO immediately depends in part on the severity of the crisis, the frequency that such a crisis arises, and whether the CEO is himself or herself involved.

9. Given that culture is often the root cause of crises and risks, it is the full board that must take responsibility for improving and monitoring culture.

10. Culture helps audit committees know what they don't know. Audit committees should maintain both quantitative measures of risk and culture, and qualitative measures by spending time with leadership and lower-ranking employees.