

TOP TAKEAWAYS

Audit Committee Roundtable – Audit Committee Hot Topics

1. The panelists discussed whether the Board should be dealing with cyber security risks or whether the responsibility should be borne by the audit committee or a different committee. Panelists had differing views as to who should be handling cyber security risks, although several panelists and participants expressed the view that cyber security risks go beyond the purview of the audit committee and should be addressed, at least in part, by the Board. One middle path solution from the audience included cyber security oversight by a risk committee that includes a representative from the audit committee.
2. Boards are having more discussions regarding the digital realm of their companies and the question is no longer whether boards should be having this discussion, but rather how often they should be having these discussions. As such, companies should be doing a risk assessment on their exposure to cyber security risks. They should consider what are the company's valuable assets, where those assets are located and what protections the company has put in place to safeguard these assets (e.g.: what cloud servers are being used and what firewalls have been put in place).
3. A cyber security best practice is for a company to conduct an annual mock cyber breach test, which includes an understanding of who is implementing the plan and how the company actually responds to the breach. Conducting this kind of mock test will ensure that the company has the proper infrastructure in place to handle a cyber-breach.
4. The Board of Directors or responsible committee should be informed as to the cyber-insurance policies that are in place and whether the management of the company has taken all steps necessary to ensure the company will be covered in a data breach scenario.
5. The Committee of Sponsoring Organizations (COSO) Framework has evolved as risks have evolved and expanded. The 2013 Framework specifies 17 principles that should be present in an effective control environment. One panelist offered that good internal controls can also enhance operational results.
6. With the new COSO framework, fraud is something that should be specifically considered as part of the internal controls. One of the best anti-fraud controls is a hotline. If a company is going to have a hotline, it will only be successful if there is good training of the individuals running and working the hotline and if the process is truly anonymous or otherwise prevents retaliation.
7. Recently the SEC Chairman raised the possibility of giving U.S. issuers the option of adopting International Financial Reporting Standards ("IFRS"), but given the negative reaction from portions of Congress and industry, it is not expected that IFRS will be an option any time soon.
8. FASB's new revenue recognition standard (ASC 606) will be effective for public companies for the calendar year ended December 31, 2017. Because companies will need to show three years of comparative income statement data or calculate a cumulative catch up to retained earnings, companies will need to start tracking transactions beginning in January 2015. The standards will require companies across the board to follow the same standards, instead of the industry-specific guidance used in the past. Some companies may want to revisit their customer contracts and other items over which they can exert some control.

9. The Public Company Accounting Oversight Board (the “PCAOB”) has issued new revenue auditing guidance that identifies numerous areas of significant deficiencies based on PCAOB examinations. Don’t be surprised if your auditor does more work in this area this year.
10. The new PCAOB Auditing Standard 18 will require auditors to understand and evaluate the terms and business purposes of related party or unusual transactions, and auditors will need to evaluate unusual transactions for fraud or concealment of misappropriation of assets.

For more information

For more information on Audit Committee Hot Topics, please feel free to contact the moderators directly:

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