

# **Audit Committee Trends and Tools: A Time for Change**

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## **Audit Committee Trends and Tools**

### *A Time for Change*

#### **Purpose**

*Today's turbulent business environment has increased the pressure on audit committees to improve oversight effectiveness. It has also amplified the need for executives and auditors to give more support to audit committees. This report provides an overview of the changing environment relating to audit committees and their oversight responsibilities, summarizes changes in audit committee behavior, and offers practical tools to assist audit committees in further developing their effectiveness in certain relevant areas. Guidance for effective support of the audit committee by financial management is also provided.*

#### **Executive Summary**

The oversight responsibilities of the audit committee have taken on new meaning in the post-Blue Ribbon Committee era. Additional requirements of the stock exchanges, the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA) are now in effect. The membership, responsibilities and activities of many audit committees are changing accordingly.

With a year's experience under the new requirements, audit committees are reconsidering their areas of focus and how and with whom they interact. They are also evaluating the supporting information they receive from management and the external auditors. Highly publicized financial failures have further increased public awareness and concern with respect to the oversight responsibilities and performance of audit committees.

"Audit committees in the United States right now are very scared," noted Richard Walker, general counsel of Deutsche Bank AG. "Many of their lawyers are counseling them that the best protection is due diligence. That means doing their job, including not taking at face value the earnings and other data auditors and company officials give them."<sup>1</sup>

Audit committees are seeking information proactively, changing how audit committee members interact with each other, the external auditors, the internal auditors and company management.

*The Appendices to this report include information on audit committee inefficiencies, a self-assessment questionnaire, a discussion of nonaudit services, a checklist for the audit committees' usage in private sessions with the external auditor, and guidelines for gathering information about the external auditor.*

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<sup>1</sup> "Audit Committees Face Actions by SEC and Investors, published by Accounting Web <http://www.accountingweb.com/cgi-bin/item.cgi?id=73263>, February 26, 2002.

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## **DISCLAIMER**

This Executive Report and the checklists, guidelines and self-assessment tools included herein are limited in nature, and do not comprehend all matters that might be pertinent to an audit committee with respect to the subjects addressed. While this Executive Report attempts to provide useful information, there are no claims, promises, or guarantees about the accuracy, completeness, adequacy, or compliance with authoritative guidance, including, without limitation, rules of the Securities and Exchange Commission, generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). Neither Deloitte & Touche LLP nor the Financial Executives Research Foundation accept any responsibility for any errors this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it. The information presented in this publication can and will change.

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## **The Recent Evolution of the Audit Committee**

Following former SEC Chairman Arthur Levitt's 1998 "Numbers Game" speech, which served as a wake-up call, many audit committees assumed a more active role in the audit and corporate governance processes. In his speech, Levitt voiced concern about the quality of earnings and financial reporting and those responsible for the financial reporting processes<sup>2</sup>. The New York Stock Exchange and National Association of Security Dealers (NASD) responded by sponsoring the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees.

The Committee's report, issued in February 1999, recommended, among other matters, the institution of new requirements for audit committees. Later that year, the stock exchanges and the AICPA issued final rules and standards implementing most of the Committee's recommendations. Companies were required to comply with the new rules by June 2001. For audit committees, the recommendations required a stronger oversight process, a greater emphasis on the financial literacy and independence of members, and adoption of a formal charter.

Expectations of audit committees are continuing to evolve. A new, higher standard is being set for audit committees and boards. Although this is partly in response to the Enron collapse, evidence suggests that this trend was well under way in 2001. In a study conducted by the National Association of Corporate Directors (NACD) in November 2001, 74% of respondents said they believe that audit committee members are being held to a higher standard than they were in the past<sup>3</sup>. The SEC agrees. Although the SEC has never brought an enforcement action against an audit committee or its members, this may change.

Stephen Cutler, the SEC's Director of Enforcement, has publicly stated, "An audit committee or audit committee member can not insulate herself or himself from liability by burying his or her head in the sand. In every financial reporting matter we investigate, we will look at the audit committee."<sup>4</sup> The role and behavior of the audit committee continues to evolve as public scrutiny of boards, company management, and auditors intensifies.

## **Trends in Audit Committee Behavior**

Several significant trends are surfacing with respect to audit committee behavior. One is the greater amount of time committee members are investing in the process, including their interaction with company management.

### ***Time Invested in Audit Committee Processes***

Audit committee members recognize that a greater time commitment is needed to enhance effectiveness and are now meeting at least several times a year. A recent Deloitte & Touche study focusing on audit committees in the energy and utility industry indicates that they are already spending more time together. Thirty-five percent of respondents reported that the number of in-person audit committee meetings had increased in the past year, and 47% indicated that the number of telephonic meetings had increased. The rise was primarily attributable to changes in the rules set by the stock

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<sup>2</sup> "The Numbers Game," remarks of Chairman Arthur Levitt at the N.Y.U. Center for Law and Business, New York, N.Y., September 28, 1998

<sup>3</sup> "2001-2002 Public Company Governance Survey," published by the National Association of Corporate Directors, November 2001.

<sup>4</sup> "Audit Committees Face Actions by SEC and Investors," published by Accounting Web <http://www.accountingweb.com/cgi-bin/item.cgi?id=73263>, February 26, 2002.

exchanges and the SEC, but it is noteworthy that this study was conducted before the Enron collapse. If the survey were conducted today, the percentages would likely be even higher.

In a Korn/Ferry International study, 39% of the directors surveyed planned to increase both the frequency and the amount of time allocated to audit committee meetings.<sup>5</sup> Given the complexities inherent in conducting business today and the importance of their role, it is not surprising that these studies indicate that audit committees have realized that more time is needed to fulfill their responsibilities. Company management and external auditors need to work with them to determine how their time together is best spent, including time spent in private sessions.

A focus on the quality of audit committee activities is also driving the increased commitment. The additional time allows the audit committee to expand its procedures and conduct more substantive meetings with candid discussions and expanded agendas. In a recent Deloitte & Touche survey of the audit committees of consumer businesses, the majority of respondents indicated that emerging issues, especially in revenue recognition and special purpose entities, have been added to the agenda.

Because they are closest to these issues, management and the external auditor should work with the audit committee chairperson to determine the agenda and meeting attendees. For example, it may be appropriate to have a leader of one of the company's business units meet with the audit committee to discuss the risks associated with a particular aspect of operations.

The most effective audit committees take their duties beyond preset meetings and agendas. For example, they maintain open lines of communication with management and the auditors throughout the year, and continually ask forthright questions that are critical to success in their oversight role. This commitment to more frequent, candid communication is changing the relationship between the audit committee, management, and the external auditor.

### **A Changing Relationship**

The three-way relationship of the audit committee, company management, and the external auditor is undergoing a transformation. As the role of the audit committee continues to evolve, members are looking to management, inside or outside counsel, external auditors, and other resources, such as Financial Executives International (FEI), to help them meet their responsibilities.

Audit committees are working with management and the external auditors to determine their organizations' unique risks, opportunities, and challenges. A new relationship is developing as a result of this need to interact with each other. An optimal relationship can only be achieved when the audit committee, management, and the external auditor recognize the benefits in working together and interacting with each other through candid, and potentially difficult, dialogue. Management, the external auditor, and the audit committee should work together in a spirit of mutual respect and cooperation. As suggested by the accompanying illustration, the relationship must be balanced to be effective.

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<sup>5</sup> "28<sup>th</sup> Annual Board of Directors Study – 2001," Korn Ferry International, November 2001.

## A Balanced Relationship

(insert circle graph here)

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Each party should be prepared to participate in challenging, forthright discussions during these meetings. For example, in meetings between management and the audit committee, management should be prepared to respond to challenges on complex accounting issues, high-risk business practices, and the assumptions behind significant judgments or decisions reflected and disclosed in financial statements.

When meeting with the external auditors, the audit committee should present similar challenges, and the auditor should be prepared to respond to issues regarding the quality of the company's financial reporting. Further, the auditor should comment on pressures facing management, such as earnings targets and performance measures, as they may have an impact on the quality of financial reporting. The audit committee should also seek the external auditors' view on the depth of experience and the sufficiency of staff in the company's finance, accounting, and internal audit organizations. In addition, the audit committee should make inquiries of management and the external auditors on the depth of experience and sufficiency of the audit professionals assigned to the engagement.

Company management must support an open relationship between the external auditors and the audit committee. Stakeholders should not condone a relationship between the external auditors and the audit committee that is constrained or guarded by management, or one that is too formal, or even ceremonial in nature. The audit committee chairperson should work with management to ensure that the auditors have unrestricted access to the audit committee.

In the Deloitte & Touche consumer business survey, all respondents reported that their audit committees meet privately with the external auditor. Although most of the audit committees reported private meetings with the internal auditors and management at least once a year, 34% responded that they do not meet privately with management and 15% responded that they do not meet privately with the internal auditors. This is clearly an area in need of improvement. Too often, audit committees limit their interaction with senior management to the CEO and the CFO. Management should work with the audit committee chairperson to ensure the involvement of other key members of the management team, including general counsel, business unit management, corporate management, the chief information officer, the tax director, and others who understand the processes used to identify, mitigate, and control risk.

SEC Chairman Harvey Pitt supports this relationship:

Audit committees must be proactive, not merely reactive, to ensure the quality and integrity of corporate financial reports. Especially critical is the need to improve interaction between audit committee members and senior management and outside auditors. Audit Committees must understand why critical accounting principles were chosen, how they were applied, and have a basis to believe the end result fairly presents the company's actual status.<sup>6</sup>

This will also provide opportunities for audit committees to enhance their financial literacy and knowledge of the company, primarily through the support of the auditors and management.

### **Financial Literacy**

Considerable uncertainty surrounds the way the financial literacy of audit committee members is assessed. This focus began with the Blue Ribbon Committee's recommendations and has intensified in the wake of recent bankruptcies. In February 2002, the SEC asked the stock exchanges to consider how to improve corporate governance and audit committee effectiveness. The SEC's expectation, according to Chief Accountant Robert Herdman, is that the stock exchanges will form committees to focus on matters of audit committee independence and financial literacy.<sup>7</sup>

Financial literacy is defined differently for every organization, and each board must consider the competencies required to effectively serve on its audit committee. Financial executives are encouraged to take an active role in identifying the keys to understanding the financial statements of their organizations. The CFO and external auditor should help the audit committee identify critical accounting policies and other areas of importance to the users of the financial statements. Herdman emphasized the significance of financial literacy in making audit committees more effective by saying, "The balance point between how much an audit committee member needs to know him or herself versus how much they can rely on financial management and the auditors will continue to be most important, and delicate."<sup>8</sup>

Previously, audit committees that did not include a member with a clear financial background, such as a CFO for another company, still believed they had the expertise to fulfill their responsibilities. Now that financial literacy is under scrutiny, many boards are enhancing their expertise. Greater financial literacy among all members allows better assessment of the adequacy of financial statements and disclosures, the assumptions and judgments of management, and the scope of audit procedures.

Enhanced financial literacy of audit committee members is likely to raise the committee's understanding of the audit process. Some are beginning to recognize a gap between their expectations of the audit scope and the requirements of an audit performed in accordance with generally accepted auditing standards (GAAS). This realization has been widely discussed at audit committee meetings. Many auditors are

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<sup>6</sup> Harvey Pitt, SEC Chairman speech on February 19, 2002 to the Federal Bar Council, Puerto Rico (<http://www.sec.gov/news/speech/spch539.htm>)

<sup>7</sup> Robert K. Herdman, SEC Chief Accountant speech, Tulane Corporate Law Institute, New Orleans, LA, March 7, 2002 (<http://www.sec.gov/news/speech/spch543.htm>)

<sup>8</sup> Robert K. Herdman, SEC Chief Accountant speech, Tulane Corporate Law Institute, New Orleans, LA, March 7, 2002 (<http://www.sec.gov/news/speech/spch543.htm>)

being engaged to do more work than is normally required under GAAS to assist committees in fulfilling their responsibilities. Audit committees are also requesting more information about audit quality. They are interested in the auditing firm's quality assurance and control processes, as well as independence, technical consultation processes, industry experience, and quality record.

Audit committees are recognizing that financial literacy is imperative; it is not an option. Accordingly, they are seeking more frequent, more proactive interaction with management and the external auditor in an effort to keep abreast of the latest matters affecting financial statements.

### **Scope of Services**

The scope of services audit firms provide to clients has long been a topic of debate. The question is whether the benefits of providing integrated, multidisciplinary services that enhance the effectiveness and value of the audit outweigh the concern that the fees paid for those services impair the auditors' independence. This issue is at the forefront of the debate that is taking place not only in audit committee meetings, but also in both houses of Congress. SEC independence rules currently allow companies to receive many varied services from their audit firms, but require audit committees to consider those services when evaluating their external auditors' independence. Some audit committees are recommending corporate policies that better define allowable services that the auditors may provide beyond the audit.

When evaluating the scope of services provided by auditors, audit committees are responsible for determining what nonaudit services are provided by the audit firm, differentiating audit and nonaudit services, considering the appropriateness of nonaudit services, and considering potential conflicts of interest. In today's changed environment, audit committees are not simply determining whether services are permitted by the SEC, but are also considering how investors and other stakeholders will perceive those services. The audit committee must rely on its own judgment in assessing the appropriateness of retaining the external auditor to perform certain nonaudit services.

Thus, it may be difficult to differentiate between audit and nonaudit services. There has been significant publicity and debate about the amount of nonaudit fees paid to accounting firms and the ratio of nonaudit to audit fees. Audit committees often turn to proxy filings of companies of similar size or in the same industry. It is important to recognize that there are inherent limitations to using proxy fee data alone to draw reliable conclusions.

There seems to be a general misunderstanding among the investing public regarding the nature of services that are classified in the "All Other Fees" category. Fees for many services that companies consider "audit-related," such as fees related to consents, comfort letters, employee benefit plan audits, or regulatory reports, are required to be disclosed in "All Other Fees." Where appropriate, management should consider disclosing the amount of audit-related fees included in "All Other Fees" in their annual proxy statement. Such disclosure helps shareholders and investors to better understand the relationship between the auditor and the company. The SEC has informally indicated its support for this additional voluntary disclosure, which will provide meaningful additional information on the proxy statements. Management should inform the audit committee of the components of the "All Other Fees" category in the proxy disclosure.

Although there is no easy resolution of this important issue, a thoughtful and balanced approach will allow the audit committee to better understand the relationship between



the auditor and the company, and to make informed decisions surrounding perceived scope of services concerns.

### **Increased Focus on Accounting Policies and Disclosures**

The Enron failure caused audit committees to ask that all-important question: "Could it happen here?" As audit committees work with their management teams and auditors to determine the answer, there is increased focus on accounting policies and disclosures. Many audit committees are challenging the assumptions used by management in the adoption and application of accounting policies, especially ones that could be viewed as controversial or inconsistent with those of other companies in the industry. They are paying special attention to revenue recognition policies and practices.

Audit committees are now asking management to provide the methodology used in determining financial statement and disclosure components such as asset impairments and valuations, inventory reserves, loan losses, loss contingencies, etc. Management should be prepared to support its positions and consider providing the audit committee with information regarding alternatives and standard industry practices.

Disclosure transparency is receiving a great deal of attention from audit committees, particularly as the SEC implements its Fortune 500 review program. The SEC will now conduct a limited review of the disclosures included in current filings of all Fortune 500 companies. A full review may be initiated if any deficiencies are noted during the limited review, or for reasons such as the use of particular accounting policies. Although no management team can guarantee that a company's financial statements and disclosures will not be subject to a full review, they should inform the audit committee of the steps they have taken to ensure the filing is of the highest possible quality. In reviewing the statements, audit committees should focus on whether the disclosures are clear and understandable. Some audit committees are challenging management to go beyond the minimum disclosure requirements to ensure transparency.

### **Tools to Navigate this Sea of Change**

Audit committees are looking for practical ways to improve their oversight effectiveness, such as sharing best practices from one audit committee to another. They expect their auditors and management to assist them in meeting these responsibilities. The appendices to this report are intended to assist in this process.

#### **Audit Committee Inefficiencies (Appendix A)**

Many audit committee publications talk about instituting best practices, a term that refers to actions by audit committees to improve effectiveness. We cannot overstate the value of sharing these practices, many of which were presented earlier; however, audit committees sometimes engage in practices that actually reduce their efficiency. Appendix A presents some examples of such inefficiencies. Audit committees and management teams are urged to take a candid look at their own practices and work together to improve them.

#### **Audit Committee Effectiveness Self-Assessment (Appendix B)**

The questionnaire in Appendix B is intended to help audit committees assess their own effectiveness. By performing a self-assessment, the audit committee can identify opportunities for improvement. The self-assessment form included here is part of a three-step approach designed as part of the new Deloitte & Touche Audit Committee Effectiveness (ACE) program to enhance audit committee activities.

The topics covered by the self-assessment questionnaire are:

*Risk Management* – The January 2002 Audit Risk Alert, prepared and distributed by the AICPA and the Big Five accounting firms, outlined several action steps for audit committees to enhance their understanding of key risks facing a company and how management identifies, assesses and responds to those risks.

*Financial Reporting and Compliance* – Expectations regarding audit committee members' understanding of a company's financial accounting and reporting policies continue to grow. This section includes guidelines that can be used to obtain a better understanding of the audit process and scope.

*Internal Control Environment* – To be effective, an audit committee must have an understanding of the organization's internal control structure. Consideration of the internal audit function is also addressed here.

*Corporate Governance* – Factors considered include audit committee competency, knowledge, and procedures. Many of the procedural items here represent best practices that have been widely adopted by audit committees to improve their effectiveness.

Deloitte & Touche is collecting responses to this self-assessment questionnaire with the goal of providing audit committees with benchmarking information. The responses are kept confidential, but you can request a customized benchmarking report. To participate in the study anonymously, fax the completed questionnaire to (212) 653-6760. If you would like to receive a customized benchmarking report, please include the appropriate contact information on the last page of the form. If you would like to speak with someone regarding the self-assessment form, or Deloitte & Touche's Audit Committee Effectiveness Services, call Nicole Haims at (203) 761-3221.

### **Matrix of Nonaudit Services (Appendix C)**

Appendix C provides a matrix of services that may assist audit committees and management in understanding what types of nonaudit services may be provided by their audit firm. SEC regulations, including several restrictions that will become effective later this year, are the primary basis for the information presented. Other qualitative factors may need to be considered when determining the appropriateness of services provided by the external audit firm. Management should consider reviewing this information with the audit committee; however, the matrix is presented as a guide only, and is not a substitute for consulting with the company's external auditor and corporate counsel as services are proposed.

### **Financial Literacy Self-Assessment Tools**

In March 2002, Deloitte & Touche and the FEI Research Foundation released an executive report entitled, *Audit Committees and Financial Literacy: Three Steps to Meet Higher Standards*. The report, which can be ordered online at <http://www.fei.org/rfbookstore/default.cfm>, outlines considerations related to the financial literacy of audit committees.

### **Checklist for the Audit Committee Private Session with the External Auditor (Appendix D)**

Audit committees often ask what they should discuss in private sessions with the external auditor. There is remarkably little guidance available to address this question. Warren Buffett, chairman of Berkshire Hathaway and one of America's most astute investors,

provided his insights at an SEC Roundtable on improving financial disclosure and oversight. Buffett believes that audit committees have a duty to assess whether “management is playing with the numbers.” He believes audit committees should have the auditor respond to the following questions:

- ❑ If the auditor were solely responsible for the company's financial statements, would they have been prepared differently than the manner selected by management?
- ❑ If the auditor were an investor, would he or she have received the information essential to a proper understanding of the company's financial performance during the reporting period?
- ❑ Is the company using the internal audit procedures that would be followed if the auditor were CEO?<sup>9</sup>

Deloitte & Touche partners were asked to provide information on the areas most often addressed by proactive audit committees during private sessions. These areas are incorporated in the checklist in Appendix D, which can be tailored and used by the audit committee to facilitate conversations with the external auditor. Be advised, however, that it is not feasible to create a checklist that includes all, or even most, of the areas that an audit committee should discuss with the external auditor.

### ***Guidelines for Gathering Information About the External Auditor (Appendix E)***

After the Blue Ribbon Committee issued its report, many audit committees revised their charters to include the explicit authority to hire, assess, retain, or fire external auditors. Audit committees and management continue to struggle to develop a practical means of meeting this responsibility.

Appendix E provides a number of questions that may be helpful in gathering useful information about the external auditor. The evaluation of the answers to these questions should be based on factors pertinent to a long-term, mature relationship. It may also be beneficial for all audit committees to revisit these questions periodically. This list of questions is not intended to cover all of the questions to which the audit committee may need answers. Company management, which works most closely with the external auditor, should actively participate in interviewing the external auditor and should take the lead on compiling information for the audit committee to consider.

## **Additional Resources**

### ***SEC Speech: Making Audit Committees More Effective***

Robert K. Herdman, Chief Accountant of the SEC, delivered a speech on March 7, 2002 to the Tulane Corporate Law Institute in New Orleans. The speech includes a number of steps for audit committees to take in enhancing their effectiveness. It is available on the SEC Web site at [www.sec.gov/newa/speech/spch543.htm](http://www.sec.gov/newa/speech/spch543.htm).

### ***Report of the NACD Blue Ribbon Commission on Audit Committees: A Practical Guide***

Published in 2000, this guide remains one of the most comprehensive roadmaps for audit committees. It includes a number of best practice recommendations organized around key steps to be taken by audit committees. The guide also includes sample charters, questions to ask the internal and external auditors and management, a list of financial reporting “red flags,” and many other useful tools. The guide is available on the NACD Web site at [www.nacdonline.org/default.asp](http://www.nacdonline.org/default.asp).

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<sup>9</sup> “Buffet Tells Directors to Really Dog the Auditors”, *USA Today*, March 6, 2002

### ***Impact of the Current Economic and Business Environment on Financial Reporting***

In January 2002, the Big Five accounting firms and the AICPA issued this joint publication as an overview of risk factors anticipated within the current environment. The report covers many of the historical and current issues related to financial reporting, and includes a call to action for management, the audit committee, and the external auditor. It is available on the Deloitte & Touche Web site at [www.deloitte.com/vs/0,1010,sid=2006,00.html](http://www.deloitte.com/vs/0,1010,sid=2006,00.html).

### ***Synopsis of the FEI/Deloitte & Touche Virtual Roundtable: "Addressing Audit Committee Concerns in Today's Environment"***

On January 17, 2002, the FEI Research Foundation and Deloitte & Touche co-hosted a virtual roundtable for financial executives to assist in addressing audit committee concerns proactively, rather than reactively. Speakers included several national partners from Deloitte & Touche, and specific discussions included the Enron collapse, important internal control considerations, and the rapidly changing regulatory environment. The synopsis is available on the Deloitte & Touche Web site at [www.deloitte.com/vs/0,1010,sid=2006,00.html](http://www.deloitte.com/vs/0,1010,sid=2006,00.html).

The virtual roundtable series will continue in May 2002. For information on registration, visit the FEI website at [www.fei.org](http://www.fei.org).

## Audit Committee Inefficiencies

1. **Meeting materials are distributed to the audit committee without enough time to allow a thoughtful review prior to the meeting, and are limited to the agenda and draft financial statements.** Audit committee members should insist on receiving relevant materials several days in advance. The audit committee, management, the internal auditors, and the external auditors should develop a package of materials that elaborates on agenda items in areas of heightened risk, judgment, or subjectivity. Care should be taken to keep the information concise and to avoid overwhelming the audit committee with an inappropriate level of detail.
2. **Meetings are scheduled at the same time as other board committee meetings (compensation or executive committees, for example), making it difficult for key management representatives to attend, or limiting the time they are available to participate.** Audit committee meetings should be given the same weight and level of commitment as other board committees, and should encourage all parties to raise concerns or discussion points at any time.
3. **Executive sessions or private sessions with the auditor are rare, and held only on an “as needed” basis.** Audit committees should provide time to speak privately with each other and with the external auditor. The audit committee should not wait for the external auditor to initiate private sessions—encouraging an open and frank dialogue is imperative to ensure audit committee effectiveness. Meetings among all the parties are also beneficial, and provide an opportunity for the free exchange of ideas and insights.
4. **Meetings are scheduled immediately before the full board meeting or another committee meeting, sometimes leaving little time for in-depth discussions.** Those attending the audit committee meeting may hesitate to raise issues that are not on the agenda or to explore topics in detail if there is concern that doing so will mean board members will miss the subsequent meeting.
5. **Management is allowed to screen and approve all materials or agenda topics suggested by the external auditor.** Although it is important that management, the external auditors, and the audit committee be equally informed, the external auditor must be free to communicate important information without management acting as a gatekeeper. The audit committee chairperson should be actively involved in setting the agenda.
6. **Auditor comments or suggestions are used to attack management performance.** The auditors' comment letter is most valuable when management and the auditor work together to address areas where improvement can be made. This is not to say that the audit committee should not express its concern over control or other weaknesses; however, if the audit committee is overly critical, management becomes preoccupied with the ramifications of presenting issues to the audit committee. The incentive to cooperate with the auditor is diminished, and the auditor/management relationship may be damaged.
7. **Quarterly meetings are limited to reviewing the press release and financial statements.** Well-informed audit committees address issues as they arise during the quarter rather than waiting for the year-end meeting. These audit committees also discuss the auditor's quarterly review findings in detail.

8. **The board delegates responsibilities to the audit committee that distract from the performance of its core functions.** Audit committee meetings should focus on achieving the objectives set forth in the charter. Once the board begins delegating other projects to the audit committee, the audit committee may not have the resources to take on those projects and still achieve all of the charter objectives. For example, meeting time spent reviewing board performance takes time away from the audit committee's oversight activities. Additional time should be scheduled outside the regular audit committee meeting to address additional projects the board intends to delegate.
9. **The audit committee gives opposing instructions to management, the internal auditors, or the external auditors.** Effective audit committees cannot ask management to improve controls while refusing to champion the financial initiatives designed to do so, or ask the internal audit department to increase its scope while dismissing requests to augment staffing levels. Given the current turbulence, audit committees need to consider the resources needed to meet their oversight objectives.
10. **The audit committee spends an inordinate amount of time addressing analyst expectations.** It is important to understand what the analyst expectations are in order to put passed adjustments, estimates, and financial results in perspective. It is not the role of the audit committee, however, to counsel on managing the analysts' reaction to reported results.

Recognizing that the above practices affect efficiency is an important step. To further improve efficiency, audit committees should revise their practices in some of these areas. For example, when performing an annual review of the audit committee charter, members should challenge the inclusion of activities that are not closely aligned with the committee's core objectives. The audit committee should consider if they are receiving appropriate advanced materials, and if these materials are sent with enough time for a careful review. Similarly, an audit committee chairperson might want to review the process used to create agendas for meetings to ensure that all parties are given ample opportunity to provide input.

**APPENDIX B**

**Audit Committee Effectiveness Self-Assessment**

The following questionnaire is intended to assist audit committees in completing a thorough self-assessment of their effectiveness. The questions were derived from various sources, including the "Call to Action" items in the January 2002 Impact of the Current Economic and Business Environment on Financial Reporting prepared by the Big 5 accounting firms and the AICPA. The responses should represent the committee's collective view. It is not critical that audit committees follow the format or rating mechanism set forth below, but that they consider each point carefully in determining strengths and areas in need of improvement.

	<b>Rate Effectiveness</b> <b>1 = less effective</b> <b>5 = Highly effective</b>	<b>Comments</b>
<b>Risk Management</b>		
1. The audit committee has assessed the effectiveness of the risk management processes used by management.	1 2 3 4 5	
2. The audit committee meets periodically with the chief risk officer or his or her equivalent to better understand the risks facing the organization and how those risks are monitored for possible financial reporting implications.	1 2 3 4 5	
3. The audit committee periodically meets with key members of management, such as the general counsel, the chief information officer, the director of environmental compliance, the tax director, and others to assist in identifying significant risks.	1 2 3 4 5	
4. The audit committee reviews and understands the processes used by management, the external auditors, and the internal auditors to identify and respond to risks related to critical third-party interdependencies (suppliers, customers, outsourced operations, counterparties) that affect the organization's operations.	1 2 3 4 5	
5. The audit committee questions management and the external auditors about how they assess the risk of material misstatement, what the major risk areas are, and how they respond to identified risks.	1 2 3 4 5	

6. The audit committee reviews and understands the processes used by management, the external auditors, and the internal auditors to identify and respond to risks related to subsidiary locations, joint ventures, equity affiliates, off-balance-sheet transactions, and related entities.	1 2 3 4 5	
7. The audit committee has an understanding of the company's critical business continuity risks and management's plans to address such risks.	1 2 3 4 5	
<b>Financial Reporting and Compliance</b>		
8. The audit committee requests and obtains sufficient information related to important financial reporting issues, such as the use of complex financial instruments, areas of judgment or high subjectivity, unusual transactions, and changes in accounting policies.	1 2 3 4 5	
9. The audit committee reads the company's annual report, financial statements, and MD&A to determine if anything is inconsistent with their own knowledge, including areas such as liquidity, unusual transactions, and off-balance-sheet arrangements.	1 2 3 4 5	
10. The audit committee understands why critical accounting principles were chosen and how they were applied, and considers the quality, not just the acceptability, of financial accounting and reporting, including the transparency of disclosures.	1 2 3 4 5	
11. The audit committee understands the process used by management to identify related parties and considers the transparency of the related-party disclosures.	1 2 3 4 5	
12. The audit committee obtains from management and the external auditors an understanding of significant transactions and how they were accounted for, including acquisitions, dispositions, and special-purpose entities.	1 2 3 4 5	



13. The audit committee reviews all unrecorded audit adjustments with management and the external auditors and understands why they were not recorded.	1 2 3 4 5	
14. The audit committee asks the external auditors about pressures on management that may have an impact on the quality of financial reporting, such as earnings targets and performance measures.	1 2 3 4 5	
15. The audit committee makes inquiries of management and the external auditors on the experience and sufficiency of the audit team assigned to the engagement.	1 2 3 4 5	
16. The audit committee considers the level of non-audit services provided by the external auditors in determining the external auditors' independence.	1 2 3 4 5	
17. The audit committee reviews the external auditors' scope and audit plan to its satisfaction prior to commencement of the audit.	1 2 3 4 5	
18. The audit committee chairperson meets with the external and internal auditors outside the regularly scheduled meetings to encourage open and frank dialogue.	1 2 3 4 5	
19. The audit committee chairperson communicates to the external auditors the expectation that the external auditors will contact the committee when necessary.	1 2 3 4 5	
20. The audit committee is satisfied that management exhibits the proper "tone at the top" and is committed to promoting high-quality financial reporting and strong internal controls.	1 2 3 4 5	
21. The audit committee receives enough information to review, understand, and assess the organization's system of internal controls, including information technology controls.	1 2 3 4 5	
22. The audit committee makes inquiries of the external auditors and management on the	1 2 3 4 5	

experience and sufficiency of staff in the finance and internal audit organizations.		
23. The audit committee reviews the internal audit plan annually.	1 2 3 4 5	
24. The audit committee reviews the management recommendation letters, written by the internal and external auditors, to ensure that all significant matters raised are properly addressed.	1 2 3 4 5	
25. The audit committee assesses both the compliance effectiveness and the value of service of the internal audit department.	1 2 3 4 5	
Corporate Governance		
26. The board of directors or the audit committee assesses the financial literacy of audit committee members in accordance with the applicable stock exchange rules.	1 2 3 4 5	
27. The audit committee has an orientation program to educate new members on their responsibilities.	1 2 3 4 5	
28. The audit committee participates in a continuing education program to enhance audit committee members' understanding of relevant accounting and reporting areas.	1 2 3 4 5	
29. Management, the external auditors, and the board of directors provide input on the audit committee charter and meeting agendas.	1 2 3 4 5	
30. Audit committee meetings are scheduled with sufficient time to cover all agenda items.	1 2 3 4 5	

**APPENDIX C**

**Matrix of Nonaudit Services  
AUDIT COMMITTEE NONAUDIT SERVICE DISCUSSION DOCUMENT**

On November 15, 2000, the Securities and Exchange Commission (SEC) adopted rule amendments regarding auditor independence. The amendments modernize the SEC's rules for determining whether an auditor is independent with respect to the financial interests of auditors, their family members, and dependents, employment relationships between auditors or their family members and audit clients, and the scope of services provided by audit firms to their audit clients. The amendments, among other things, identify certain nonaudit services that, if provided by an auditor to public company audit clients, impair the auditor's independence.

In considering whether a nonaudit service would be permitted, the SEC set forth certain factors to consider, including whether a relationship or the provision of a service would 1) create a mutual or conflicting interest between the accountant and the audit client, 2) place the accountant in the position of auditing his or her own work, 3) result in the accountant acting as management or an employee of the audit client, or 4) place the accountant in a position of being an advocate for the audit client. The rule provides examples of some of the most common nonaudit services and whether each would be permitted or proscribed under the general standard. Two sections of the nonaudit service guidance, related to valuation services and internal audit services, do not become effective until August 5, 2002. All other guidance related to nonaudit services became effective February 5, 2001.

The following table details the nonaudit services discussed in the SEC rule, and provides examples of the types of services that would be proscribed and, where applicable, examples of certain types of services that would be permitted. This list is not meant to be all-inclusive.

<b>Type of Service</b>	<b>Independence Would Be Impaired</b>	<b>Independence Would Not Be Impaired</b>
<p><b>Bookkeeping or other services related to the client's accounting records or financial statements</b></p>	<ul style="list-style-type: none"> <li>• Maintaining or preparing the SEC audit client's accounting records.</li> <li>• Preparing the audit client's financial statements that are filed with the SEC or form the basis of financial statements filed with the SEC.</li> <li>• Preparing or originating source data underlying the SEC audit client's financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• When the accountant provides these services to an SEC audit client in emergency or other unusual situations, provided the accountant does not undertake any managerial actions or make any managerial decisions.</li> <li>• When the accountant provides these services to foreign divisions or subsidiaries of an SEC audit client, provided all the following criteria are met:               <ul style="list-style-type: none"> <li>○ The services are limited, routine, or ministerial</li> <li>○ It is impractical for the foreign division or subsidiary to make other arrangements</li> <li>○ The foreign division or subsidiary is not material to the consolidated financial statements</li> <li>○ The foreign division or subsidiary does not have employees capable or competent to perform the services</li> <li>○ The services performed are consistent with local professional ethics rules</li> <li>○ The fees for all such services collectively do not exceed the greater of 1% of the consolidated audit fee, or \$10,000.</li> </ul> </li> </ul>

<p><b>Financial information systems design and implementation</b></p>	<p>Directly or indirectly operating, or supervising the operation of, the information system or managing the local area network.</p>	<ul style="list-style-type: none"> <li>• Designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the financial statements taken as a whole, provided that the SEC audit client's management complies with all of the following:             <ul style="list-style-type: none"> <li>○ Acknowledges in writing to the accounting firm and the audit client's audit committee its responsibility to establish and maintain a system of internal accounting controls in compliance with the securities laws</li> <li>○ Designates a competent employee or employees with the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system</li> <li>○ Makes all management decisions with respect to the design and implementation of the hardware or software system</li> <li>○ Evaluates the adequacy and results of the design and implementation of the hardware or software system</li> <li>○ Does not rely on the accountant's work as the primary basis for determining the adequacy of its internal controls and financial reporting systems.</li> </ul> </li> <li>• This does not limit the services an accountant performs in connection with the assessment, design, and implementation of internal accounting controls and risk management controls, provided the auditor does not act as an employee or perform management functions.</li> </ul>
<p><b>Appraisal or valuation services or fairness opinions<sup>1</sup></b></p>	<p>Any appraisal service, valuation service, or any service involving a fairness opinion where it is reasonably likely that the results of these services would be material to the financial statements or where the results of these services will be audited by the accountant.</p>	<ul style="list-style-type: none"> <li>• The accounting firm's valuation expert reviews the work of the client or a specialist employed by the client, and the client or specialist provides the primary support for the balances recorded in the financial statements.</li> <li>• The accounting firm's actuaries value a client's pension, other post-employment benefit, or similar liabilities, provided that the client has determined and taken responsibility for all significant assumptions and data.</li> <li>• The valuation is performed in the context of the</li> </ul>

		<p>planning and implementation of a tax-planning strategy or for tax compliance services.</p> <ul style="list-style-type: none"> <li>The valuation is for nonfinancial purposes, where the results of the valuation do not affect the financial statements.</li> </ul>
<b>Actuarial services</b>	<p>Any actuarially oriented advisory service involving the determination of insurance company policy reserves and related accounts, unless:</p> <ul style="list-style-type: none"> <li>The client uses its own actuaries or third-party actuaries to provide management with the primary actuarial capabilities</li> <li>Management accepts responsibility for any significant actuarial methods and assumptions</li> <li>The accountant's involvement is not continuous.</li> </ul>	<ul style="list-style-type: none"> <li>Assisting management in developing appropriate methods, assumptions, and amounts for policy and loss reserves and other actuarial items.</li> <li>Assisting management in the conversion of financial statements from a statutory basis to one conforming to GAAP.</li> <li>Analyzing actuarial considerations and alternatives in federal income tax planning.</li> <li>Assisting management in the financial analysis of various matters, such as proposed new policies, new markets, business acquisitions, and reinsurance needs.</li> </ul>
<b>Internal audit services<sup>1</sup></b>	<p>Internal audit services in an amount greater than 40% of the total hours expended on the client's internal audit activities (not including operational internal audit services unrelated to the internal accounting controls, financial systems, or financial statements) in any one fiscal year, unless the client has less than \$200 million in total assets.</p>	<ul style="list-style-type: none"> <li>Performing procedures that generally are considered to be within the scope of the engagement for the audit of the SEC audit client's financial statements, even if the extent of testing exceeds that required by GAAS.</li> <li>Where management accepts certain specific responsibilities: <ul style="list-style-type: none"> <li>Operational internal audit services unrelated to the internal accounting controls, financial systems, or financial statements</li> <li>Internal audit services related to the internal accounting controls, financial systems, or financial statements for a client that do not exceed 40% of the total hours expended on such activities.</li> </ul> </li> </ul>
<b>Management functions</b>	<p>Acting, temporarily or permanently, as a director, officer, or employee of a client, or performing any decision-making, supervisory, or ongoing monitoring function for the audit client.</p>	
<b>Human resources</b>	<ul style="list-style-type: none"> <li>Searching for or seeking out prospective candidates for managerial, executive, or director positions.</li> <li>Engaging in psychological testing or other formal testing or evaluation programs.</li> <li>Undertaking reference checks of prospective candidates for an executive or director position.</li> </ul>	<p>Upon request by the client, the accounting firm may interview candidates and advise the client on the candidate's competence for financial accounting, administrative, or control positions.</p>

	<ul style="list-style-type: none"> <li>• Acting as a negotiator on the audit client's behalf.</li> <li>• Recommending, or advising the client to hire, a specific candidate for a specific job.</li> </ul>	
<b>Broker-dealer services</b>	<ul style="list-style-type: none"> <li>• Acting as broker-dealer, promoter, or underwriter, on behalf of a client.</li> <li>• Making investment decisions on behalf of the client.</li> <li>• Having discretionary authority over a client's investments, executing a transaction to buy or sell a client's investment, or having custody of client assets, such as taking temporary possession of securities purchased by the audit client.</li> </ul>	<ul style="list-style-type: none"> <li>• Recommend the allocation of funds that an audit client would invest in various asset classes; provide a comparative analysis of the client's investments to third-party benchmarks; review the manner in which the SEC audit client's portfolio is being managed by investment account managers; and transmit a client's investment selection to a broker-dealer, provided that the client has made the investment decision and has authorized the broker-dealer to execute the transaction.</li> <li>• Publish a newsletter with financial planning information, provided the newsletter does not recommend any specific industry sectors or securities, to identify categories of mutual funds that satisfy an advisory client's investment objectives and to recommend two or more mutual funds in each category.</li> <li>• Provide an SEC audit client with a list of two or more investment advisers or broker-dealers that meet certain predetermined criteria, provided that the accountant does not receive any fee or other economic benefit from the mutual funds, investment advisors, or broker-dealers recommended.</li> </ul>
<b>Legal services</b>	Providing any service to a client under circumstances in which the person providing the service must be admitted to practice before the courts of a United States jurisdiction.	<p>Legal services provided outside the United States where:</p> <ul style="list-style-type: none"> <li>▪ Local law does not preclude such services and</li> <li>▪ The services relate to matters that are not material to the consolidated financial statements of an SEC registrant, or are routine and ministerial.</li> </ul>
<b>Other business relationships</b>	Direct and material indirect business relationships with a client, other than as a consumer in the normal course of business, for example; joint business ventures, limited partnership agreements, investments in supplier or customer companies, leasing interests (except immaterial landlord-tenant relationships), and sales by the accountant of items other than professional services.	<ul style="list-style-type: none"> <li>• Transactions as a consumer in the normal course of business.</li> </ul>

<sup>1</sup> Pursuant to additional standards on nonaudit services that become effective on August 5, 2002.

**Checklist for the Audit Committees' Private Session with the External Auditor**

Audit committees often ask, "What should we be talking to the external auditor about?" There is remarkably little guidance available to address this question. Deloitte & Touche partners were asked to provide information on areas most often addressed by proactive audit committees. The audit committee could use the following document as a checklist. Be advised, however, that this document is only a guide. It is not feasible to create a checklist that includes all, or even most, of the areas that an audit committee should discuss with the external auditor. Unscripted conversation between the audit committee and the external auditor is invaluable and should be encouraged.

**1. Quality of Earnings**In-depth discussion of financial reporting issues raised in general sessionSignificant estimates and areas of judgment

- Which areas require the highest level of management judgment? How does management approach these judgments?
- Are management estimates typically aggressive or conservative?
- Are there any judgment areas where the company is applying methodologies that are internally inconsistent, or inconsistent with those applied by others in the industry?

Accounting principles and related disclosures

- Has the company applied the most appropriate principles in instances where there are acceptable alternatives?
- Are principles adopted by the company consistent with those adopted by others in the industry?
- Has management generally agreed to expand disclosures in areas where the auditor believes that additional information may be useful to the financial statements' users?

Reasons for unadjusted errors

- What was the underlying cause of unadjusted errors?
- Are the unadjusted errors the result of a systemic issue?
- Has management generally agreed to expand disclosures in areas where the auditor believes additional information may be useful to the financial statements' users?

Pressures on Management

- What pressures on management may have an impact on the quality of financial reporting, such as earnings targets and performance measures?

**2. Quality of Internal Audit and Finance Personnel**Quality and depth of financial management

- Is the finance department overly dependent on one or two key individuals?
- Is there an adequate support system to allow financial management to continually improve the quality of the financial reporting process in a timely manner, or are projects routinely put on hold while critical issues are addressed?
- Are financial managers setting an appropriate tone for the finance organization?

Quality and depth of the internal audit department

- What is the overall quality of the internal audit function?
- Do the internal auditors have the appropriate experience needed to execute the internal audit plan?

- How do management and others view the internal audit department in the organization?
- Are focused primarily on operational issues or internal control?
- Do they use a risk-based approach to setting audit scope?

#### Quality and depth of the accounting department

- Is the accounting department staffed adequately?
- Are closings and reconciliations done in a timely manner?
- Is the accounting staff committed to effective internal controls?
- How would you grade the accounting and reporting staff?

### **3. Auditors' Relationship with Management**

#### Management attitude toward the audit process

- Were there any disagreements with management?
- Does management cooperate with the audit process?
- What was management's response to proposed adjustments?

### **4. Internal Control Environment**

#### Tone at the Top

- Is senior management setting the appropriate tone at the top?
- Are middle managers encouraged to bring control issues to senior management without fear of reprisal?
- Is senior management committed to bringing significant control issues to the board or the audit committee?

#### Quality of internal control systems

- Are the control systems in place adequate given the size and complexity of the company's operations?
- Are there significant manual control processes that would be more appropriately automated?

#### Impact of management compensation arrangements

- Does the structure of management bonus or other compensation arrangements influence its commitment to effective internal controls?
- How do these arrangements influence management's behavior regarding financial reporting?

#### Impact of analyst expectations

- How do analyst expectations influence management's behavior regarding financial reporting?
- Does management typically resist proposed adjustments that affect areas of focus for analysts or investors?

### **5. Submission of Matters to the Audit Committee**

- Are the internal and external auditors able to influence the audit committee agenda to the appropriate degree?
- Does management screen and/or approve materials before the auditor is able to present them to the audit committee?



## **Guidelines for Gathering Information About the External Auditor**

Many audit committees have the authority to hire, assess, retain, or fire the external auditor. The following document provides a number of questions that may be helpful to the audit committee in gathering useful information about the external auditor. Of course, this list of questions was not intended to cover all of the questions to which the audit committee may need answers. Company management, which works most closely with the external auditor, should play a significant role in interviewing the external auditor and should take the lead on compiling information for the audit committee to consider.

### **Independence and Quality Control**

- What are the firm's processes for addressing compliance with independence requirements and freedom from conflicts of interest?
- Has the firm, or any of its partners, been involved in recent disciplinary actions, investigations, or other actions by the AICPA, the SEC, or other regulatory bodies? If so, what were the nature and outcome of those actions?
- What are the firm's processes for addressing compliance with professional standards (e.g., peer or practice review)?
- What is the firm's process for dealing with potential conflicts of interest resulting from services provided to other clients or competitors of the company?
- What is the firm's philosophy regarding nonaudit services and their effect on independence?
- What is the firm's rotation policy with respect to partners and managers?
- How are partners supervised and evaluated?
- How will the firm's senior management be involved in the supervision and oversight of services provided to the company?

### **Firm and Industry Capabilities**

- What is the firm's position in relation to its competitors, including size, number of professionals, quality measures, and similar factors in the company's key markets?
- Does the firm have offices in the company's key locations? If not, how will be services being delivered at these locations?
- How does the firm manage consistent delivery of services throughout the world?
- Does the firm use other firms to perform audit services in certain countries? If so, how are such firms supervised?
- What are the firm's capabilities with respect to nonaudit services such as tax, merger and acquisition, information systems, human resources, actuarial, and other consultative services?
- What is the firm's experience and acknowledged expertise in the company's industry?
- How is industry expertise distributed throughout the firm and how will such expertise be focused on the company?
- Does the local office serving the company possess relevant industry experience?
- What is the engagement team's depth and breadth in the company's industry?
- What other clients does the firm serve in the same industry?

## **Engagement Team**

- Who are the key members of the engagement team, including those in international locations?
- What is the professional background of each key member of the engagement team, including partners, managers, and senior staff?
- What are the roles and responsibilities of key members of the engagement team?
- How will the engagement team be structured and managed? Specifically address management and oversight of the engagement in international locations.
- How will engagement hours be allocated among the company's business units?
- How will hours be allocated among the engagement team? Indicate hours allocated among each level (partner, manager, senior, staff) by significant location or business unit.
- What is the process for replacing key members of the engagement team should the need arise?

## **Communications and Service Approach**

- How will the firm provide accessibility of top engagement personnel to the company's audit committee and management?
- What will be the firm's approach in communicating with the audit committee? How often will the firm engage in formal communication with the audit committee, and what types of issues are likely to be communicated?
- How will the firm assist the audit committee in fulfilling its responsibilities for financial reporting and GAAP/SEC compliance?
- What approach will the firm use in making recommendations to management either formally (e.g., management or commentary letter) or informally?
- What is the timeline for performing key audit activities?
- How and when will updates regarding the progress and results of audit procedures be communicated to management and the audit committee?
- How does the firm monitor and report client satisfaction to management and the audit committee? How are client service issues addressed and resolved?

## **Engagement Planning and Risk Assessment**

- What is the firm's approach for assessing risk, and how does the firm's assessment of risk affect the audit procedures performed?
- How will the firm's audit approach be tailored to the company's specific needs?
- How will the firm address complex accounting and auditing issues that may require the use of specialists (tax provisions, business combinations, derivatives, pensions, etc.)?
- How will the firm's evaluation of internal controls affect the audit plan and the procedures performed?
- What will the scope of procedures be at interim reporting periods?
- How will the firm coordinate with the company's internal audit team to develop a collaborative audit plan and minimize duplication of effort?

## Consultation and Technical Matters

- What is the consultation process for resolving difficult or controversial accounting and tax issues (both U.S. and international), with specific focus on the engagement team's role in the process?
- What is the role of the company's management in the consultation process?
- Are decisions regarding technical accounting and other matters bound by positions taken in audits of other clients?
- What authority will the engagement team have to resolve issues? What issues will require national office consultation?
- What is the firm's process for providing training and technical updates to partners, managers, and professional staff?
- How will the firm update the company regarding emerging accounting, tax, or other issues?
- What is the firm's involvement in various policy and rulemaking bodies?
- Has the firm taken any recent positions relative to the FASB, SEC, AICPA/AcSEC, IAS, or issues that could be viewed as significant or controversial with respect to the businesses in which the company operates?

## Fee Structure

- What are the firm's estimates for professional hours and the average billing rates on which fee estimates are based?
- What services are included in fee estimates? Will such services include routine phone calls and minor research or consultation?
- What process is used to determine when services are not covered in base fee estimates and should be billed separately?
- What billing rates will be used for services not covered under the base fee estimates?

## Technology and Value-Added Audit Benefits

- How will the firm use technology to provide value-added audit services to the company?
- What benefits and value-added services can the company expect to receive from the firm's service approach?
- Will the firm provide training on industry matters, current accounting developments, and similar topics to the company's management and audit committee?
- What products and services will be provided in connection with base services and fees (e.g., publications, access to online resources with technical accounting, professional literature and/or best practices information)?

## About the Author

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After joining Deloitte & Touche in 1973, Weaver was admitted to the partnership in 1984. He is a certified public accountant and holds a BS in mathematics from Albright College and an MBA from Rutgers University.

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