

Audit committees use executive sessions to meet with key members of executive management and financial management teams. The sessions give participants the opportunity to offer candid views on sensitive issues that may not be appropriate for an open forum.

During open sessions, the audit committee should avoid asking whether an individual has anything to discuss in an executive session — that question alone could put the individual in an awkward position with others in the company.

Ask questions, obtain information

Executive sessions should be an element of every audit committee meeting. The audit committee's ability to ask open-ended questions in a safe environment renders the sessions a major source of information for the audit committee.

The audit committee's questions help start a conversation and create dialogue between the individual and the committee, and committee members may want to use the answers to develop appropriate follow-up questions.

It is likely that the audit committee will ask similar questions of key executives, the independent auditor and/or the internal auditor. Thus, a comparison of their responses could be a good source of insight.

Depending on the answers, follow-up action may also be necessary, and the audit committee must be prepared to take that action. The most important thing to do when conducting an executive session is to listen to the answers and ask for clarification, if needed.

Consider the context

When asking questions in executive session, audit committee members should also consider the history of the company, the industry in which it operates, the current economic climate, the competitive environment, etc.

Finally, each executive session should be concluded with a reminder to the member of management that they should feel free to reach out to the audit committee at other times (i.e., in addition to scheduled meetings) if the need arises.

AUDIT COMMITTEE BRIEF

From the Audit Committee Effectiveness Center

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Economic outlook

It appears that 2009 will be a challenging year for most businesses. Audit committees may want to have a discussion with the financial management team, internal audit team, or independent audit team, in an open or executive session, about topics such as:

FRAUD

- During these uncertain times, most experts believe there is increased risk of fraud, particularly related to management override. How might this apply to the company's environment?

GOING CONCERN

- Is management or the auditor worried about possible going-concern issues for the company or a business unit, division, subsidiary, joint ventures, partnerships, alliances, etc., given the global economic outlook and the industry in which the company operates? What assessments are being done to evaluate these issues?
- Is the company taking a critical look at its business model? Or is it just looking for short-term solutions that may not be sustainable?
- Has management completed an analysis of the company to determine which areas of the business contribute to liquidity and profitability and which ones do not?
- Are resources (people, etc.) being allocated in accordance with the company's strategic plan?
- Is the company beginning discussions now to refinance debt coming due in the next year? What are the existing loan covenants, and is the company in danger of failing to meet any of them? What are the consequences of such a failure?

RISK MANAGEMENT

- Is risk management part of the company's culture? Are companies looking at their risk in a holistic way, including operational and financial risks that range from possible to unimaginable?
- Are there any operational risks likely to manifest themselves in next year's financial statements?
- Does the company's compensation plan have the proper alignment of reward for actions that promote profitability while using the appropriate level of risk?

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Current Accounting Issues and Risks: An Alert for Audit Committee

<http://www.aicpa.org/download/audcommctr/AuditCommitteeOctober2008.pdf>

Off-Balance-Sheet Arrangements and Other Disclosures

http://www.aicpa.org/download/audcommctr/Audit_Committee_Effectiveness_Center.pdf

Board and Audit Committee Involvement in Risk Management Oversight

<http://www.aicpa.org/download/audcommctr/riskmanagementoversight.pdf>

S&P's ERM Reviews for Non-Financial Issuers – Where Do We Stand?

<http://www.aicpa.org/download/audcommctr/enterpriseriskmanagement.pdf>

International Financial Reporting Standards

<http://www.ifrs.com>

TONE AT THE TOP

- What findings, if any, does internal or external audit have regarding the tone at the top?
- According to management and auditors, what role should the board have, relative to the tone at the top?
- Is there a clear definition and understanding of the responsibilities of the internal audit team that management and the audit committee agree upon?
- Is the reporting relationship of the internal audit team appropriate?

TAX

- What is management's assessment of the new tax proposals and their effect on the company's tax structure?

AUDIT PLANS

- In light of the current economic situation, how are audit plans (internal and external) going to change for 2009?

IFRS

- Has the company reviewed the SEC's proposed IFRS Roadmap? What analysis has the company completed regarding adoption of IFRS?

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