What Is Your Role?

When Accounting Policy Meets ICFR

July 11, 2017

CPE Credits

This program qualifies for 1.8 CPE credits

NACD Skill-Specific Credit

This session offers 1.0 NACD skill-specific credit.

If you have any questions regarding NACD credit please contact Ronnell Perry (Fellowships@NACDonline.org).

Goals of Today's Program

- Provide insights into how to leverage accounting policies and internal controls to stem fraud and reduce the likelihood of financial restatements
- Discuss the benefits of aligning accounting policies to technical accounting guidance
- Discuss the benefits of developing an effective ICFR regime that accounts for complex accounting areas

Panelists

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Moderator

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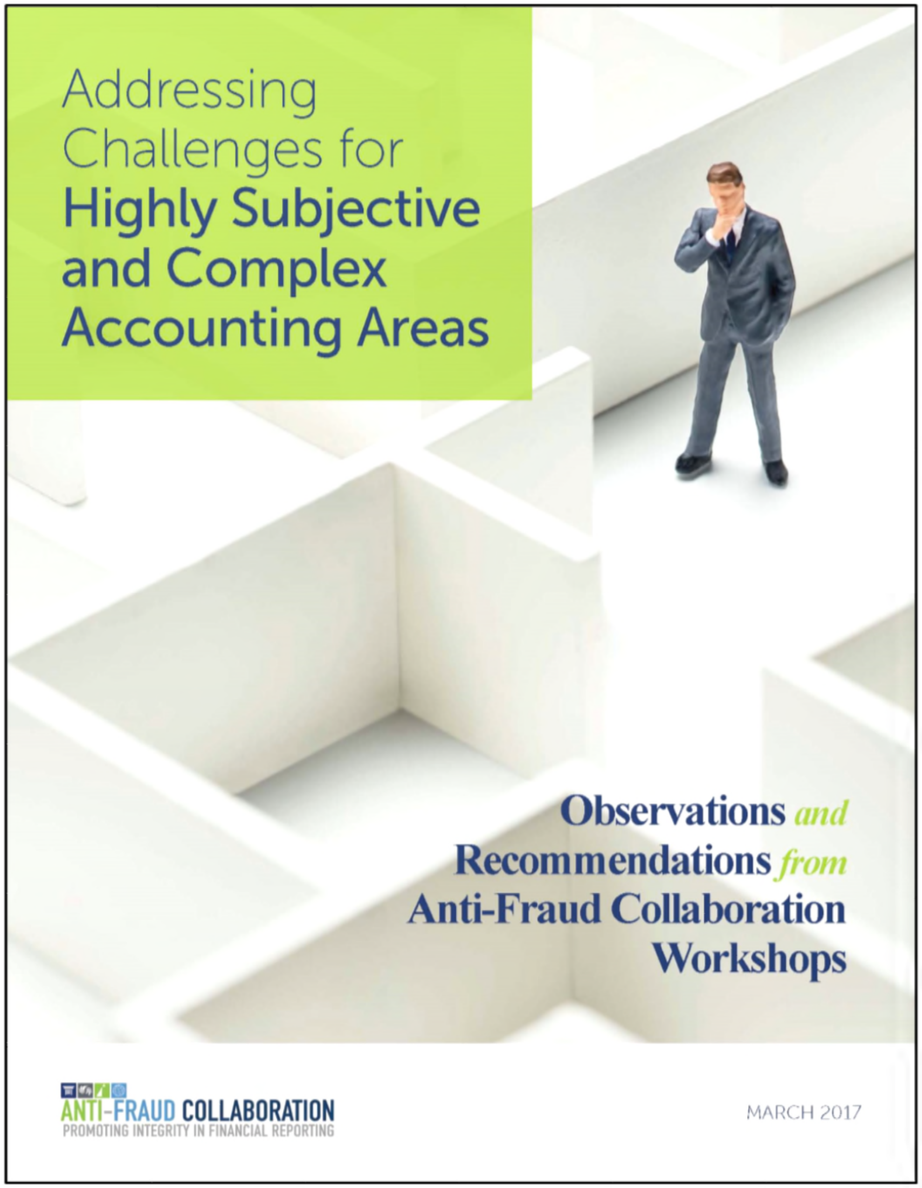
Addressing Challenges for Highly Subjective and Complex Accounting Areas
Observations and Recommendations from Anti-Fraud Collaboration Workshops
ANTI-FRAUD COLLABORATION
PROMOTING INTEGRITY IN FINANCIAL REPORTING
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Role of Company Accounting Policies

- Accounting policies should be:
  - Aligned with technical guidance but tailored to the Company
  - Understandable to non-accountants
  - Aligned to business processes
  - Reviewed periodically, based on risk
  - Tested in the field prior to implementation
  - Integrated with ICFR to monitor compliance
  - Communicated with auditors

2005 SEC Statement

- The SEC encourages frequent and frank dialogue among management, auditors and audit committees with the goal of improving internal controls.
- As long as management determines the accounting to be used and does not rely on the auditor to design or implement the controls, the SEC does not believe that the auditor's providing of advice or assistance, in itself, constitutes a violation of the independence rules.

The full Commission Statement on Implementation of Internal Control Reporting Requirements is available at https://www.sec.gov/news/press/2005-74.htm

2005 PCAOB Policy Statement

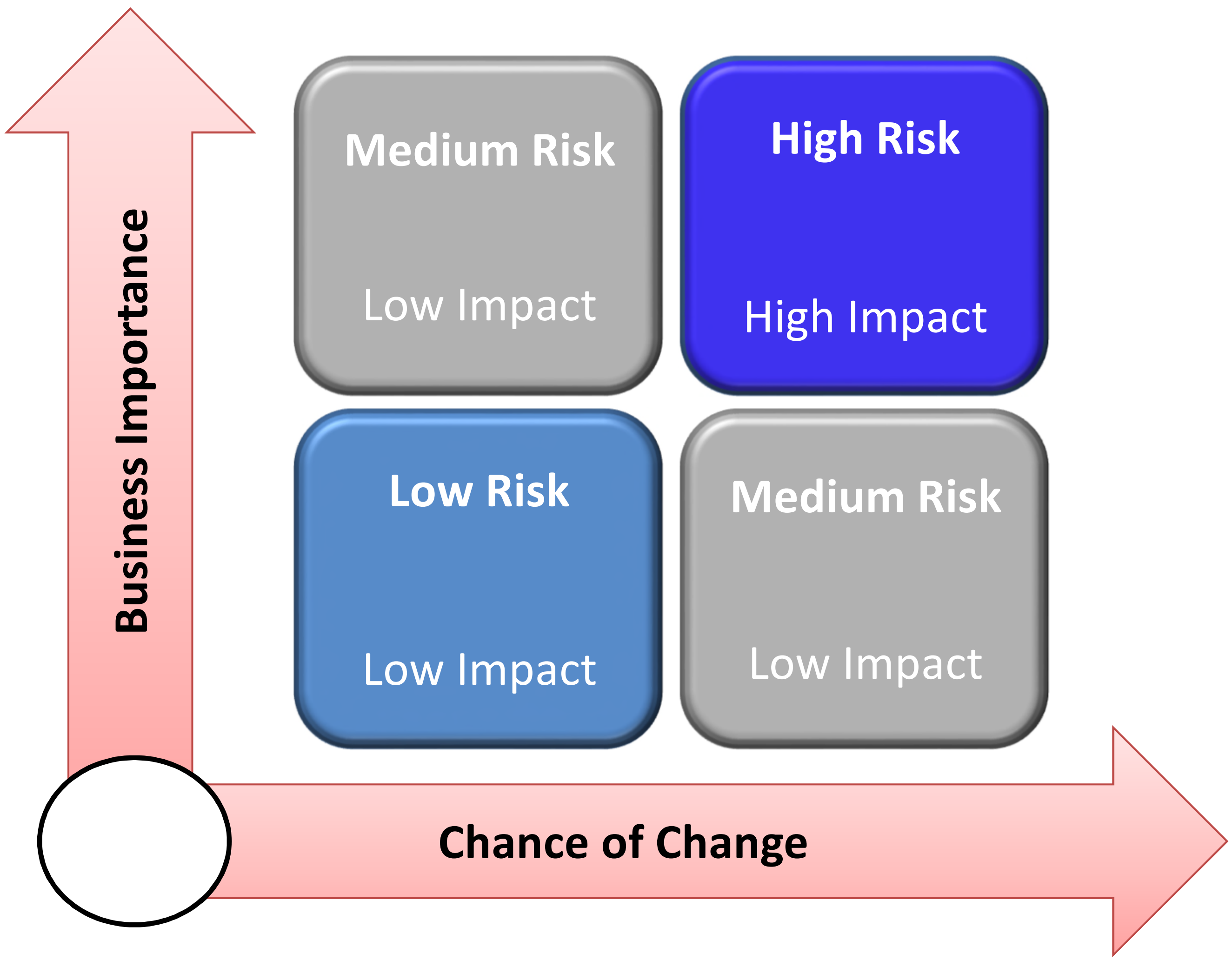
- The PCAOB has stated that "…a company contemplating a transaction may ask the auditor for assistance in determining the proper accounting for the transaction. In this situation, the auditor may provide substantial help, including explaining how applicable accounting principles apply to the transaction, offering sample journal entries, and reviewing management's preliminary conclusions."

The full 2005 policy statement is available at https://pcaobus.org/Rulemaking/Docket008/2005-05-16_Release_2005-009.pdf

Suggested Framework for Implementing New Accounting Standard

	Exposure Draft Issued by Standard Setter	Implementation/ Operationalization of Standard	Final Implementation	Post-Implementation Review
Timing	**As soon as proposed standard is released**	**As soon as final standard is issued**	**1 to 3 months prior to effective date of standard**	**Shortly after implementation and as needed**
Actions	▶ Assess potential impact on operations and financial reporting ▶ Identify internal stakeholders and process owners and advise them of anticipated changes (e.g., business leaders, divisional CFOs, Tax, Risk, etc.)	▶ Develop policies in lock-step with authoritative guidance and in plain language, where possible ▶ Develop examples to help affected business lines understand how to apply policy ▶ Identify process owners' roles and responsibilities ▶ Design SOX-compliant controls ▶ Develop user training ▶ Communicate policies frequently to ops teams	▶ Validate that accounting and disclosure data are in compliance ▶ Test ICFR ▶ Ensure impacted staff are adequately trained ▶ Communicate policies frequently to ops teams	▶ Review lessons learned ▶ Follow-up open items
Who should be involved	▶ Controllers ▶ Accounting Policy Team ▶ Financial Reporting Team	▶ Controllers ▶ Accounting Policy Team ▶ Financial Reporting Team ▶ Internal Audit	▶ Controllers ▶ Accounting Policy Team ▶ Financial Reporting Team ▶ Internal Audit	▶ All relevant teams

Revisiting an Accounting Policy



Best Practices: Developing Accounting Policies for New Accounting Standards

- Policies should be granular
- Policies should include examples
- Policies should be tested
- Clearly outline responsibility and lines of communication
- Communicate among your colleagues, your team, your leaders, your internal functional specialists, your external advisors, others in the industry - early and often
- Consider industry guidance

Best Practices: Revenue Recognition Readiness

- Assess systems, processes, and internal controls
- Revisit business models and contract terms carefully (including consideration of standardization of contract terms where appropriate)
- Consider compensation plan implications early to avoid unintended consequences
- Review debt agreements to assess needs for modifications of covenants to avoid unintentional constraints or violations

ICFR Considerations

- Tone at the top is important
- Use a risk-based approach
- Develop controls for unusual and non-routine transactions
- Be knowledgeable of culture of subsidiaries and communicate regularly
- Line up level of evidence of control with financial reporting risk
- Tap external resources when needed

Optimize Audit Committee Effectiveness

- Have direct contact with senior management
- Engage with external specialists
- Be proactive and ask questions
- Communicate with employees
- Seek formal and informal discussions regarding staffing with external auditors
- Engage with internal and external auditors

Unusual and Non-Routine Transactions

- Strong tone at the top encourages consultations between business units and corporate accounting
- Tax implications of unusual transactions should be considered early in the process, as they are often complex
- Discuss on a proactive basis developing transactions and situations with external auditor, together with accounting conclusions
- Put the right resources on these transactions as they arise; stay close to the related business leaders to avoid surprises

Management Override

- Strategies to minimize risk of management override
  - Review adjustments
  - Challenge significant changes and estimates
  - Evaluate management on non-traditional metrics
  - Monitor largest customers
  - Discuss quality of earnings analysis

Potential Warning Signs

- Inappropriate tone at the top
- Unreasonable earnings pressure
- Audit committee ineffectiveness
- Bias in accounting estimates
- Compensation structure heavily based on obtaining performance targets

Assess Staff Competencies

- Critical thinking skills
- Communication skills
- Ability to work with staff at different levels of the organization to obtain information
- Business and industry knowledge
- Ability to navigate technology and evolving systems, techniques
- Natural curiosity

Key Takeaways

- It's your responsibility to keep asking questions
- Internal audit has an important role to play – be involved
- Don't let control considerations around accounting policies be an afterthought
- Communicate, communicate, communicate

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If you do not have an opportunity to obtain your CPE certificate during today’s presentation, you may obtain your certificate *after* 24 hours by logging back into the event and clicking the orange CPE icon. Please note that you will not be able to respond to the attendance checks in the archive, and you must fulfill the attendance requirements during the actual presentation to receive your CPE certificate.

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