4 ways to improve the effectiveness of your audit committee

Audit committees face many challenges in 2021. As the economy rebounds from the COVID-19 pandemic, there are new dimensions to the oversight roles and responsibilities of the audit committees. Consider taking these following four steps to fortify your committee's effectiveness.

1. Focus on fundamentals

Once you've wrapped up the financial reporting process for fiscal year 2020, take the time to revisit goals and expectations to develop an agenda for 2021 that directs the audit committee's attention back to the basics. The committee is responsible for oversight of the following key areas:

- Financial reporting,
- Disclosures,
- Internal controls, and
- The company's audit process.

Each agenda item before the audit committee should ideally relate to one of these areas.

2. Assess the composition of the audit committee

Periodically, it's appropriate to assess the level of financial expertise that each member of the committee possesses, especially if the composition of the group has recently changed. If the company anticipates significant changes in the regulatory environment under the Biden administration, now may be the time to add suitably qualified members to the audit committee. At least one member of the audit committee should possess in-depth financial expertise. (Publicly traded companies have specific "financial literacy" requirements.)

Today, companies are increasingly recognizing the value of adding gender and racial diversity to decision-making bodies, including audit committees. These companies believe diversity is a strength that leads to better-informed decisions and fresh perspectives.

3. Get a handle on operational risk

Your company's risk profile may have changed during the pandemic. For example, you may have temporarily cut staff or deferred capital investments to preserve cash flow during uncertain times.

However, these crisis-driven decisions may adversely affect the company's long-term financial performance. The audit committee should consider asking management to review significant operational decisions made in the last year to determine if excess risk was created and whether it's time to change course.

In addition, operational changes and increased financial pressures on accounting staff may expose the company to increased risk of internal and external fraud. And remote working arrangements could lead to cyberattacks and theft of intellectual property. It's a good time to request that internal auditors commission a fraud and cyber-risk assessment. Proactively assessing these issues can dramatically reduce the probability of losses occurring.

4. Consider exposure to financial difficulties across the supply chain

The pandemic also may have affected certain suppliers and customers, especially those located overseas or in states with COVID-19-restrictions on business operations. The audit committee should evaluate whether management has identified the company's material relationships and the potential financial and operational impact if any of those businesses close or file for bankruptcy.

Full speed ahead

By taking proactive measures, your audit committee can help improve your company's performance as the economy returns to full capacity. Contact us to help position your company to minimize risks and maximize value-added opportunities in 2021 and beyond.