

Audit Committee Brief



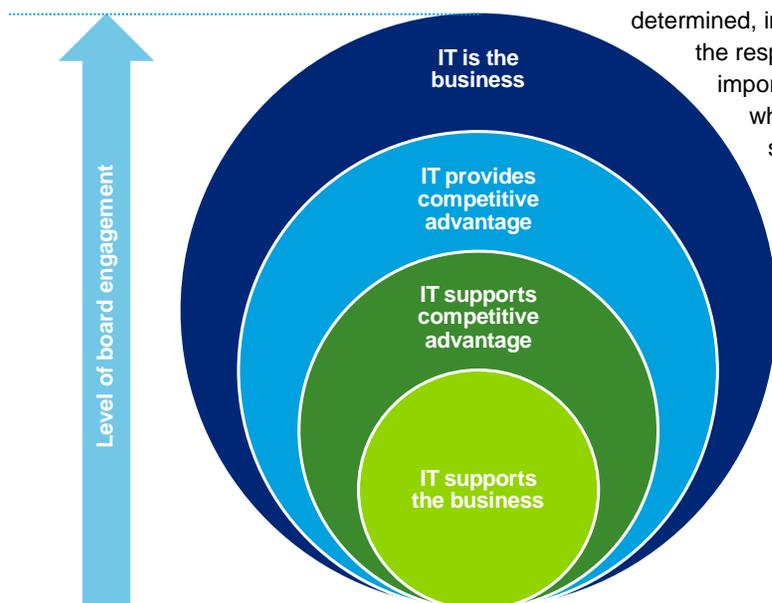
The Tech-Savvy Audit Committee

Until recently, information technology (IT) was not an area of focus for most boards of directors. Increasingly, however, many directors view IT as being crucial to their companies, given its widespread application at all organizational levels and its inclusion within governance structures. This reliance on IT—both from a governance and strategic perspective—underscores the importance of including IT-related issues on the board agenda.

“More often, we are seeing companies adding IT to the board agendas. This makes good business sense and helps directors stay abreast of how technology can be used within the organization and to become informed of IT-related matters before they materialize into significant issues,” said Adel Melek, global managing director, information and technology risk, Deloitte Touche Tohmatsu Limited.

Whose Job Is IT?

Whether IT should be the purview of the entire board or a designated committee is determined, in part, by the nature of the company’s business. In deciding where the responsibility should fall, boards of directors should consider the role, importance, and complexity of IT to the organization. For companies where IT is crucial to the core business, the board of directors or a special IT committee may be designated to oversee technology matters. At companies where IT plays only a supporting role, it may fall under the oversight of the audit committee. Regardless of where the overall responsibility for oversight is delegated, audit committees should have a role due to the significant impact IT has on internal control over financial reporting (ICFR).



Using technology to support the board

Technology can play a significant role in helping boards of directors run efficient meetings, improve director participation, and increase communication among their members.

By using video conferencing and online video links, directors who cannot attend a meeting in person can still participate in real time. The use of e-mail and instant messaging can also increase communication between board meetings, but directors must be careful that this use complies with company standards for security and document retention.

To address security concerns, companies may consider using dashboards or portals to allow directors access to a secure platform or Web site that holds relevant information for board meetings. Dashboards can inform directors of issues affecting the company or its industry, key performance indicators for operating units, company financials, regulatory filings, minutes, or articles about the company and its competitors.

Company-wide platforms that deal with anti-fraud measures are another tool that directors may find useful. Direct access to a list of whistleblower hotline calls, for example, could allow audit committees to be notified when new entries are logged.

Visit the Center for Corporate Governance at www.corpgov.deloitte.com for the latest information for boards of directors and their committees.

IT Risk Oversight

While directors generally agree that considering IT is an important element in successfully managing risk, discussions about risk remain reactive in many organizations, occurring only after something goes wrong. When focusing on IT risk, many directors concentrate on business continuity and information security. These risks present clear dangers and are, therefore, important areas of focus, but they are not the only ones. Some boards also address IT operational risks that could affect day-to-day functions in a material way. Far fewer boards or committees address IT strategic risks that could limit the organization's ability to realize its vision or achieve its objectives.

Boards and audit committee members should consider the following questions to help assess the appropriate level of IT oversight:

- Do we have the appropriate knowledge and background regarding IT and IT-related issues?
- Do we devote sufficient time to overseeing IT-related risks given the importance of IT to our organization?
- Do we understand and oversee the IT risks associated with acquisitions and joint ventures, including IT integration?
- Does management provide enough information to allow for a clear understanding of IT risks?
- Do we understand the extent of IT outsourcing?
- Are we fully aware of the current and future financial, compliance, operational, and strategic risks associated with IT?
- Should IT be covered as a general board topic or only at the committee level?

IT Implications for ICFR

Because IT is an essential foundation for disclosure controls and ICFR for nearly every company, the responsibility for overseeing technology falls on the audit committee in the majority of public companies. Regardless of whether oversight of IT is delegated to the audit committee, the committee should focus on the impact of technology on the entity's internal controls. IT risks related to compliance with legal and regulatory requirements should be a key part of discussions with management, the internal auditor, and independent auditors.

Audit committee members should consider asking internal audit leaders and the independent auditors the following questions:

- Has the organization mapped key IT risks to the controls in place? Have clear accountabilities and responsibilities been established for IT risk management?
- Are IT controls sufficient, operational, and sustainable?
- Should the company be evaluating investments in IT that could strengthen internal controls?
- Are the plans for monitoring, reporting, escalating, and testing sufficient to mitigate identified IT risks?
- How do the company's IT controls compare to peer entities and industry benchmarks?
- Is the company's process to identify and assess IT risks broad enough to encompass issues beyond information security, regulatory compliance, and operating matters?
- Do those tasked with IT risk management have the necessary background to understand the issues and capabilities surrounding IT?



Questions the board and audit committee should consider asking regarding IT initiatives:

- Does the board receive adequate information to assess the justification for a major IT investment?
- How does the proposed IT project fit into the overall business strategy?
- How has the entity assessed risks and evaluated controls in new systems projects?
- Are we sufficiently involved in the oversight of major IT projects—such as transformations, upgrades, and outsourcing—both at the planning and monitoring stages?
- Has the internal audit function evaluated the effectiveness of the process to develop and implement new IT projects?

Oversight of Large IT Projects

Regardless of whether the full board of directors or a committee has responsibility for overseeing IT, it is important to monitor the implementation of all technology projects as closely as a capital project would be scrutinized. Poorly managed IT projects can result in significant financial, operational, and reputational repercussions for an organization.

Given that the board or committee's involvement with respect to IT is in an oversight capacity, directors do not need in-depth experience with technology to assess the potential risks of an IT project. Instead, they need to satisfy themselves that the financial, nonfinancial, and strategic attributes of the investment have been considered properly and are aligned with the company's objectives. The board not only should inquire about the process that has been established to oversee the project, but also should track the investment to ensure the organization fully realizes the benefits of the new technology. The board should request updates on the project's implementation and consider whether past IT projects have met its objectives.

Summary

As the use of IT expands, directors' responsibility for IT oversight grows. Boards need to ensure that their organization maximizes the benefits of IT, both through the alignment of IT with business strategies and through the ability of IT to help identify and mitigate risks to the organization (including those associated with IT itself).

To be effective in this oversight role, boards need to build their knowledge and understanding of IT. Just as the growing complexity of accounting and disclosure issues made financial literacy a requirement for audit committee members, the growing complexity and pervasiveness of IT is increasingly making IT literacy an essential competency for directors. In the future, the contributions of a tech-savvy audit committee will likely become an indispensable component of organizational success.

Additional Resources

For more information and insights on board oversight of IT, please see Deloitte's new publication, [*The Tech-Intelligent Board: Priorities for Tech-Savvy Directors as They Oversee IT Risk and Strategy*](#).

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