

Buffalo Urban Development Corporation

95 Perry Street

Suite 404

Buffalo, New York 14203

phone: 716-856-6525

fax: 716-856-6754

web: buffalourbandevelopment.com



Audit & Finance Committee Meeting Thursday - March 19th, 2020 - Noon BUDC Offices, 4th Floor, 95 Perry St.

Agenda

1. Approval of Minutes of February 5, 2020 Meeting *(Action) (Enclosure)*
2. Draft 2019 BUDC Audited Financial Statements *(Recommend)**
3. Draft 2019 683 Northland Master Tenant, LLC Audited Financial Statements *(Info.)**
4. Draft 2019 BBRF Audited Financial Statements *(Information) (Enclosure)*
5. 2019 BBRF Reimbursement Request *(Recommend) (Handout)*
6. 2019 BUDC Investment Report *(Recommend) (Enclosure)*
7. 2019 Management's Assessment of Internal Controls *(Information) (Enclosure)*
8. Audit & Finance Committee Training *(Information) (Enclosure)*
9. Regionally Significant Project Fund Update *(Information) (Handout)*
10. Funding Updates (Northland Misc., RCWJ, ECIDA Related, and National Grid) *(Information)*
11. BBRP/BUDC Loan Program Update *(Information) (Handout)*
12. Adjournment *(Action)*

** Will be distributed under separate cover prior to the meeting.*

**Minutes of the
Audit & Finance Committee Meeting
Buffalo Urban Development Corporation
95 Perry Street
February 5, 2020
12:00 p.m.**

Call to Order:

Committee Members Present:

Trina Burruss
James Comerford
Janique S. Curry
David J. Nasca
Dennis M. Penman (Committee Chair)

Committee Members Absent:

[None]

Officers Present:

Peter M. Cammarata, President
David A. Stebbins, Executive Vice President
Brandye Merriweather, Vice President
Mollie M. Profic, Treasurer
Kevin J. Zanner, Secretary

Others Present: Arthur Hall, BUDC.

Roll Call - The Secretary called the roll of the members of the Audit & Finance Committee at 12:10 p.m. A quorum of the Committee was present. Ms. Curry joined the meeting during the discussion of item 2.0.

- 1.0 Approval of Minutes of the October 2, 2019 Meeting** – The minutes of the October 2, 2019 meeting of the Audit & Finance Committee were presented. Mr. Comerford made a motion to approve the meeting minutes. The motion was seconded by Mr. Nasca and unanimously carried (4-0-0).
- 2.0 Northland Project Inter-Company Loan/Note Modifications** – Ms. Profic presented her February 5, 2020 memorandum regarding a proposed amendment to the inter-company loan agreement between BUDC and its wholly-owned subsidiary, 683 WTC, LLC, and a proposed amendment to the sub-recipient agreement between BUDC and Buffalo Brownfield Restoration Corporation. Ms. Profic also reviewed the tax credits organizational chart as part of her presentation of this item. The Committee had several questions regarding the tax credits structure and the proposed amendments to the inter-company documents. It was suggested that BUDC executive staff confer with tax credits counsel and Freed Maxick regarding the proposed changes. Mr. Cammarata indicated that the BBRC Board of Directors is scheduled to meet on February 18th. Audit & Finance Committee members were invited to attend the BBRC meeting, as clarification from the auditors and tax credits counsel is expected to be obtained prior to that meeting.
- 3.0 Corporate Line of Credit** – Ms. Profic presented her February 5, 2020 memorandum regarding a proposal to establish two lines of credit for BUDC and 683 Northland LLC with KeyBank. Ms. Profic explained that the timing for reimbursement from grant sources of costs incurred by BUDC for the 612 Northland and 541 E. Delavan projects has resulted in constraints on the BUDC operating cash account. The second line of credit, for 683 Northland LLC, would be used to maintain an interest reserve that was established as part of the KeyBank bridge loan for the 683

Northland project. The Committee discussed the proposal. Mr. Penman commented that staff should report all draws to the BUDC Board of Directors. At the end of the discussion, Mr. Nasca made a motion to authorize staff to negotiate the lines of credit with KeyBank, and to present the proposal to the BUDC Board for approval at the February meeting. The motion was seconded by Ms. Burruss and unanimously carried (5-0-0).

- 4.0 2019 Audit & Finance Committee Self-Evaluation** – Mr. Cammarata presented the 2019 Audit & Finance Committee self-evaluation. The Committee discussed the self-evaluation and the 2019 activities of the Committee. Ms. Curry made a motion to approve the Committee self-evaluation in the form presented. The motion was seconded by Mr. Comerford and unanimously carried (5-0-0).
- 5.0 Investment & Deposit Policy – Re-adoption** – Mr. Cammarata presented the BUDC Investment and Deposit Policy. No changes to the policy were proposed. Mr. Comerford made a motion to recommend that the Board of Directors approve the Investment and Deposit Policy as presented. The motion was seconded by Mr. Nasca and unanimously carried (5-0-0).
- 6.0 Audit & Finance Committee Charter Review** – Mr. Cammarata presented the Audit & Finance Committee Charter. No changes to the charter were proposed. Mr. Nasca made a motion to approve the charter in the form presented. The motion was seconded by Mr. Comerford and unanimously carried (5-0-0).
- 7.0 2019 Property Report** – Mr. Cammarata presented the BUDC property report for the year ending December 31, 2019. The sole change to the report from the prior year is the inclusion of the 714 Northland property, which was purchased in 2019. The property report will be submitted to the Authorities Budget Office as part of the BUDC annual report.
- 8.0 Buffalo Brownfields Redevelopment Fund (BBRF) Update** – Ms. Profic reviewed with the Committee a written summary of recent activity for the Buffalo Brownfields Redevelopment Fund. The balance of uncommitted funds (net of borrowings) is \$1,819,280.00.
- 9.0 Regionally Significant Project (RSP) Fund Update** – Ms. Profic reviewed with the Committee a written summary of revenues and expenditures for the Regionally Significant Project Fund. The balance of uncommitted funds in the RSP Fund as of December 31, 2019 is \$41.00.
- 10.0 Adjournment** – There being no further business to come before the Committee, upon motion made by Mr. Nasca, seconded by Ms. Burruss and unanimously carried, the February 5, 2020 meeting of the Audit & Finance Committee was adjourned at 1:15 p.m.

Respectfully submitted,



Kevin J. Zanner, Secretary

AUDITED
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

BUFFALO BROWNFIELDS REDEVELOPMENT FUND

DECEMBER 31, 2019

DRAFT

**BUFFALO BROWNFIELDS REDEVELOPMENT FUND
CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1-2
Schedule of Revenues, Expenses and Changes in Net Position	3
Notes to the Schedule.....	4

DRAFT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Erie County Industrial Development Agency
Buffalo Urban Development Corporation
Buffalo, New York

Report on the Financial Statements

We have audited the accompanying schedule of revenues, expenses and changes in net position of Buffalo Urban Development Corporation's (BUDC), Buffalo Brownfields Redevelopment Fund for the year ended December 31, 2019 and the related notes to the schedule.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedule of revenues, expenses and changes in net position referred to above present fairly, in all material respects, the revenues and expenses of BUDC's Buffalo Brownfields Redevelopment Fund for the year ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of BUDC as of and for the year ended December 31, 2019, and our report thereon, dated XXXXXX, expressed an unmodified opinion on those consolidated financial statements.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of the Erie County Industrial Development Agency, the Buffalo Urban Development Corporation, the County of Erie, and the City of Buffalo and is not intended to be and should not be used by anyone other than these specified parties.

Buffalo, New York
XXXXX

DRAFT

BUFFALO BROWNFIELDS REDEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

Operating revenue:

City of Buffalo PILOTs by end user:	
Sonwil	\$ -
Certainfeed	294,900
Cobey	135,654
Total City of Buffalo PILOTs	<u>430,554</u>

County of Erie PILOTs by end user:	
Sonwil	60,258
Certainfeed	73,307
Cobey	33,721
Total County of Erie PILOTs	<u>167,286</u>

Total operating revenues	597,840
--------------------------	---------

Operating expenses:

City of Buffalo share of PILOTs	215,277
County of Erie share of PILOTs	83,643
Eligible project costs	419,785
Total operating expenses	<u>718,705</u>

Operating loss	(120,865)
----------------	-----------

Nonoperating revenues:

Interest income	<u>12,421</u>
-----------------	---------------

Change in net position	(108,444)
------------------------	-----------

Net position - beginning	<u>1,798,106</u>
--------------------------	------------------

Net position - ending	<u><u>\$ 1,689,662</u></u>
-----------------------	----------------------------

See accompanying notes.

BUFFALO BROWNFIELDS REDEVELOPMENT FUND
NOTES TO THE SCHEDULE

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: The Buffalo Brownfields Redevelopment Fund (the Fund) was formed in July 2005 by agreement between Erie County Industrial Development Agency (ECIDA), the City of Buffalo (the City), the County of Erie (the County), and Buffalo Urban Development Corporation (BUDC) for the purpose of remediation and redevelopment of Brownfields properties in the City. Under this agreement, ECIDA receives payments in lieu of taxes (PILOTs) from property owners located within the Buffalo Lakeside Commerce Park (BLCP). These PILOT payments are the result of abated City and County property taxes, as authorized by ECIDA. A portion of these PILOT payments is paid to the City and County, while the remainder is held in the Fund to assist in further development of BLCP. After completion of BLCP, funds can be used in connection with similar projects located within the City that are undertaken by BUDC.

Basis of Presentation: The schedule of revenues, expenses, and changes in net position (the schedule) presents the activity of the Fund, which is accounted for and is part of BUDC's financial statements. The schedule has been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units and specifically business-type activities. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

DRAFT

Buffalo Urban Development Corporation

Investment Report

For the year ended December 31, 2019

Buffalo Urban Development Corporation

2019 Annual Investment Report

Purpose of Report:

Under Section 2925(6) of the Public Authorities Law, BUDC is required to annually prepare and approve an Investment Report. The Investment Report is to include: BUDC's Investment Guidelines (see below), the results of the annual independent audit (see below), a list of the total investment income received by the corporation and a list of the fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the corporation since the last investment report.

The attached schedule details the corporation's investment income and related fees for the year ended December 31, 2019 and was approved by the BUDC Board of Directors at their March 31, 2020 meeting.

Investment Guidelines:

In accordance with Section 2925 of the Public Authorities Law, BUDC is required to adopt Investment Guidelines which detail its operative policy and instructions to staff regarding the investing, monitoring and reporting of funds of the Agency. In addition, BUDC has elected to follow the deposit and investment restrictions contained in Sections 10 and 11 of the General Municipal Law as a "best practice".

BUDC's Investment Guidelines were approved by the BUDC Board of Directors at their March 31, 2020 meeting and are posted on the BUDC website at <http://www.buffalourbandevelopment.com/budc-corporate-policies>. The Investment Guidelines are consistent with the Guidelines adopted on March 26, 2019.

Investment Audit:

BUDC's auditors have audited the corporation's compliance with the Investment Guidelines for Public Authorities. In their report dated March __, 2020 Freed Maxick CPAs have indicated that BUDC complied, in all material respects, with these Investment Guidelines.

Buffalo Urban Development Corporation (BUDC) and Affiliates
Buffalo Brownfield Restoration Corporation (BBRC)
Annual Investment Report
For the year ended December 31, 2019

		2019																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
--	--	------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Notes:
All accounts are FDIC guaranteed and secured by collateral posted by the depository or its agent for balances above the FDIC limit.

* The Interest Rate is the annualized rate for the month of December 2019 and is prior to the deduction of fees (if any).
** This account is known as the Buffalo Brownfields Redevelopment Fund (BBRF) and is held by the ECIDA on behalf of BUDC.
*** This account is known as the Regionally Significant Projects (RSP) Fund and is held by the ECIDA on behalf of BUDC.

Buffalo Urban Development Corporation

95 Perry Street
Suite 404
Buffalo, New York 14203
phone: 716-856-6525
fax: 716-856-6754
web: buffalourbandevelopment.com



2019 Assessment of the Effectiveness of Internal Controls

Management of the Buffalo Urban Development Corporation (BUDC) is responsible for establishing and maintaining adequate internal controls over financial reporting. The accounting, financial reporting and cash management functions rely on a system of controls outlined in the organization's Financial Policies & Procedures documentation. Internal controls are reviewed continuously, and adjustments are made as needed. Many administrative processes (e.g. payroll, cash management) are performed by employees of the Erie County Industrial Development Agency under a shared services agreement due to shared office space. Examples of key internal controls are:

- Payroll: BUDC's payroll is processed by a third-party processor, Paychex. The CFO and Bookkeeper verify that payments are only made to employees that are entitled to be paid. As a service organization Paychex, Inc. undergoes a Service Organization Controls (SOC) audit each year. Their most recent SOC 1 audit asserts that the internal controls in place at Paychex are operating effectively.
 - Risk = Low
- Cash Disbursements: Disbursements are made primarily by check and wire transfer. Invoices require approval by the purchaser prior to payment. Invoices are reviewed by the Senior Accountant prior to processing by the Bookkeeper. Two signatures are required on all checks (President, Executive Vice President, or CFO). All wire transfers require dual approval. The CFO retrieves and reviews all bank statements and reviews all bank reconciliations. Only Finance Department staff have access to online banking sites.
 - Risk = Low
- Cash Receipts: Checks received are logged by the Receptionist and forwarded to the Senior Accountant. The Senior Accountant stamps checks "for deposit only", codes the checks and prepares deposits. The Bookkeeper deposits checks at the bank. The CFO reviews and initials deposit slips and deposit receipts and verifies proper account coding. The Bookkeeper records deposits in the general ledger software. Wire/ACH receipts are reviewed and coded by the CFO or Senior Accountant and are recorded in the general ledger software by the Bookkeeper.
 - Risk = Low

All computers are password protected and general ledger software is separately password protected. Access to the general ledger software is restricted to the CFO, Senior Accountant and Bookkeeper.

BUDC is subject to an annual financial statement audit by an independent accounting firm, in accordance with Government Auditing Standards. While auditors are not engaged to perform an audit of

internal controls, the auditors do review and test internal controls as part of their audit procedures. There have been no material weaknesses or significant deficiencies in internal controls nor other management letter recommendations noted by the independent auditors.

In summary, the present internal control structure appears to be sufficient to meet internal control objectives in preventing and detecting errors and irregularities.

This statement certifies that the Buffalo Urban Development Corporation followed a process that assessed and documented the adequacy of its internal control structure and policies for the year ending December 31, 2019. To the extent that deficiencies were identified, the authority has developed corrective action plans to reduce any corresponding risk.



On the board's agenda

The strategic audit committee: a 2020 preview

Introduction

To anyone familiar with the role and responsibilities of audit committees, it will come as no surprise that the audit committee is sometimes called the “kitchen sink” committee. That is because at many companies, any topic that isn’t clearly the responsibility of another committee or the full board frequently ends up on the audit committee agenda.

Due to this and other factors, the audit committee agenda is usually jam-packed, and audit committees need to be strategic, prioritizing the matters they handle and using their time efficiently and effectively. The need for this strategic approach will almost surely increase in 2020, as the number and complexity of issues faced by boards and audit committees continue to grow.

**Center for
Board Effectiveness**

Priorities

A big part of being strategic is the setting of priorities—determining which matters the audit committee should focus on, and how best to execute its responsibilities.

Financial reporting and internal controls

There are a number of areas that arguably fall within the core responsibilities of the audit committee, but first among these is oversight of financial reporting and internal controls. The accuracy and reliability of financial statements and information are critical to a company and a restatement or other adverse reporting event can cause long-term reputational harm. Some important areas of financial reporting focus for audit committees in 2020 are as follows:

- **Earnings quality:** Users of financial reports increasingly go beyond the numbers to consider whether financial statements reflect the balanced and consistent application of accounting and financial reporting requirements reflecting the spirit, as well as the letter, of those requirements. Another factor in assessing the quality of earnings is the nature of judgments made in a variety of risk areas, such as revenue recognition and loss reserves.

Another topic that continues to generate scrutiny from the SEC and investors is the use of non-GAAP financial information. The SEC has publicly spoken about the importance of appropriate controls regarding the disclosure of such measures, and non-GAAP measures remained among the top areas of SEC comment through 2019. As part of their reviews of earnings releases and other financial disclosures, audit committee members should evaluate whether the use of non-GAAP information is appropriate under SEC guidelines.¹

- **Implementation of new accounting pronouncements:** To varying degrees, the implementation of new accounting pronouncements can be extremely complex and time-consuming. Audit committee members should be asking management and their independent auditors about the company's implementation plans and processes, including whether the implementation team has adequate resources—which can increasingly involve the purchase and implementation of new technology—and whether and under what circumstances early adoption is advisable.

Audit committees should also inquire how the company is complying with Staff Accounting Bulletin (SAB) No. 74, Topic 11.M., *Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted*

in a Future Period. SAB 74 imposes financial statement footnote disclosure requirements in advance of a company's adoption of a new accounting standard.²

- Another critical component of the implementation process is to establish and maintain appropriate controls designed to assure compliance with new pronouncements. For this and other reasons, the audit committee's role does not end with adoption of a new pronouncement; post-implementation oversight, including of related controls, is important.
- **CAMs:** Beginning in 2019, audit reports must include discussions of CAMs, or critical audit matters. While CAMs disclosure is the responsibility of the auditor, rather than the company, audit committees need to be cognizant of the requirements and aware of the auditor's proposed CAMs disclosures throughout the audit process. In addition, committees should review the company's disclosures on the topics addressed in the CAMs in light of the auditor's reporting on those topics. Numerous publications clarifying CAMs disclosure requirements have been published since they were first issued, including interpretations by the Public Company Accounting Oversight Board.³ In addition, the Council of Institutional Investors has published a "first look" at CAMs disclosures, including suggestions for improvements in CAMs reporting.⁴ Audit committee members should consider reviewing these and other publications to effectively oversee how the company's CAMs are being reported.
- **Other disclosures:** Although the audit committee's key responsibility with respect to disclosures relates to financial reporting, it has an important role to play in oversight of the company's other disclosures. That role is increasingly played out in areas in which disclosure is not mandated by current SEC rules, including reporting on the company's environmental, social, and governance (ESG) activities. Moreover, as noted in a recent Deloitte report, "[c]ompanies are also recognizing that simply providing the data may not go far enough for investors; accordingly, 36 percent of S&P 500 companies now obtain assurance on select ESG information in their sustainability reports and 3 percent obtain assurance on sustainability reports as a whole."⁵ Audit committees will be on the "front line" in overseeing whether and the extent to which assurance can be provided as to ESG and other non-financial disclosures. Similar issues may arise in the event the SEC adopts recently proposed rules that would call for disclosure on "human capital."⁶
- **Financial Talent and Resources:** An important aspect of the audit committee's responsibility is oversight of the company's financial

1 <https://www2.deloitte.com/us/en/pages/audit/articles/a-roadmap-to-non-gaap-financial-measures.html>

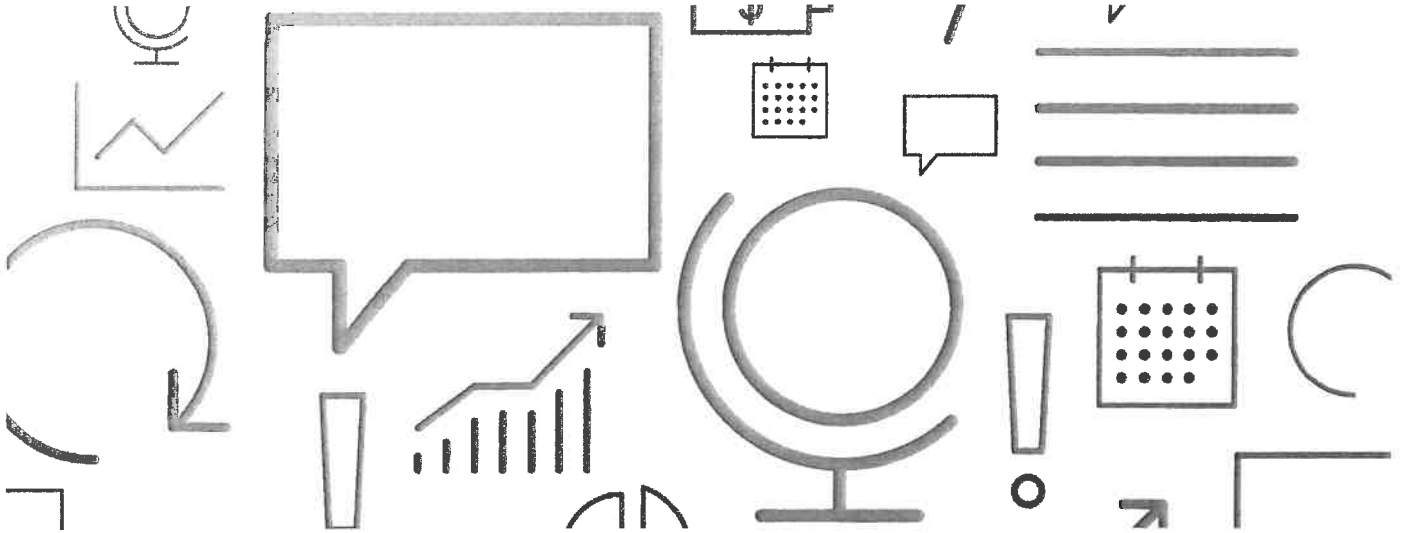
2 <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/ASC/HU/2017/us-aers-headsup-the-new-revenue-standard-are-you-still-assessing-the-impact.pdf>

3 See, for example, "Implementation of Critical Audit Matters: The Basics", at <https://pcaobus.org/Standards/Documents/Implementation-of-Critical-Audit-Matters-The-Basics.pdf> and "What to expect from auditor reporting of critical audit matters", at <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/auditor-reporting-critical-audit-matters.html>. Also see <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/ASC/HU/2019/us-aers-hu-critical-audit-matters-make-their-debut.pdf>.

4 See "Critical Audit Matters Reporting: A First Look", at https://www.ciiref.org/cams-reporting-a-first-look?utm_source=New+CII-REF+Report&utm_campaign=New+CII-REF+Report&utm_medium=email.

5 See "On the board's agenda - The front line of ESG disclosure: The board's role" at <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/sustainability-disclosure-and-expanded-reporting-trends.html>

6 See <https://www.sec.gov/rules/proposed/2019/33-10668.pdf>



talent and resources. Even high-quality financial systems may not be able to overcome inadequate human resources. For this reason, audit committees need to consider not only the competence of the financial team, but also its bench strength; for example, how would the company's financial reporting and internal control systems fare if the CFO or another key member of the team were to leave the company? At the same time, the committee cannot ignore the company's financial systems, including whether are able to benefit from technological advances. The latter point may be of growing importance as technology continues to create opportunities for finance transformation, providing more real-time financial data and insights into future performance. An inability to benefit from these and other technologies could negatively impact the company.

The importance of the audit committee's oversight of financial reporting and related matters is the focus of many stakeholders, including regulators. In fact, at the end of December 2019, the SEC issued a "Statement on Role of Audit Committees in Financial Reporting and Key Reminders Regarding Oversight Responsibilities"⁷ that outlines the SEC's views on the nature of the audit committee's responsibilities in these areas.

Risk oversight

Risk oversight has long been another key area of responsibility of the audit committee. Even as oversight responsibilities for certain key risks have increasingly been assigned to other committees—for example, compensation committees address compensation risk—or retained by the full board, the audit committee remains responsible for overseeing the entire risk process.⁸ This task has taken on additional significance with the seemingly endless emergence of risks facing companies, such as cyber, culture, geopolitical, technology, and disruption. The audit committee needs to consider how these and other risks are overseen and how the committees

and the board—as well as management—need to coordinate so that all key risks are effectively overseen and to avoid having certain risk areas “fall through the cracks.” Even for companies that have risk committees, the potential impact of various risks on financial reporting and disclosure requires that the audit committee have a key role.

While all the above and other risks merit attention by the audit committee, cyber is one that may require particular focus, as it can impact many areas of the company. For example, a breach or a ransom demand can impair the company's financial or internal control systems such that it may not be able to comply with financial reporting requirements.

Given the audit committee's role in risk oversight, it is also important that the committee consider the company's culture—the "tone at the top" (including the boardroom), the "mood in the middle," and the "buzz at the bottom." While culture oversight responsibility goes beyond the audit committee, culture is a major influence on compliance and associated risks, thus giving the committee an important role to play. Committee members should consider various ways of helping to oversee culture risk, such as "walking the halls"—i.e., interacting with people at all levels of the company—to assess the company's culture, including the extent to which employees understand the importance of compliance and their willingness to come forward when compliance concerns arise, whether through the company hotline, as a whistleblower, or otherwise.⁹ Evaluating the processes by which employees can convey those concerns, including conducting engagement surveys to assess their willingness to do so, are some of the areas in which the audit committee has a significant role. The audit committee can also review antifraud programs and controls and conduct periodic reviews of the company's code of conduct.

7 <https://www.sec.gov/news/public-statement/statement-role-audit-committees-financial-reporting>

8 See “On the board’s agenda — 2019 Proxy Review” at <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-board-effectiveness/us-cbe-2019-proxy-report.pdf>

9 See “On the board’s agenda — Board oversight of corporate compliance: Is it time for a refresh?” at <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-board-effectiveness/center-for-board-effectiveness-board-oversight-of-corporate-compliance.pdf>

Being more strategic

Making meetings more strategic

Given the number of priorities noted previously—which by no means addresses all of the audit committee's responsibilities—and the number of audit committee-specific requirements, it can be challenging to get through the agenda, while making sure to drive a strategic discussion. The committee should focus, therefore, on how to implement a strategic approach to meetings. In the absence of such an approach, it is questionable whether the committee can execute its responsibilities effectively. In our experience there are a number of process-related components that can make for a more strategic meeting, some of which include:

- An effective committee chair: The importance of having an effective chair cannot be overstated. The chair can facilitate strategic meetings in many ways, such as supervising the creation of the agenda (discussed in more detail below); directing presenters to spend most of their time on discussion rather than reading slides or other materials; and managing discussions so that topics can be appropriately—but not excessively—addressed. The chair should also engage with management around pre-reads and other meeting materials, confirming that their content and format will adequately inform committee members and drive meeting discussions. And in cases where it becomes apparent that a committee member has not read pre-reads or is otherwise unprepared, it is the chair's responsibility to address the matter.
- The agenda and meeting materials: A well thought-out agenda, including the accompanying materials, can greatly enhance the quality of a committee meeting. The agenda can focus the committee's discussions on priority topics and help avoid spending too much time on less consequential ones. Ordering the agenda to address challenging areas at the beginning of the meeting rather than waiting until the end of the meeting—when time may be short—can also help to focus the committee on the most important matters.

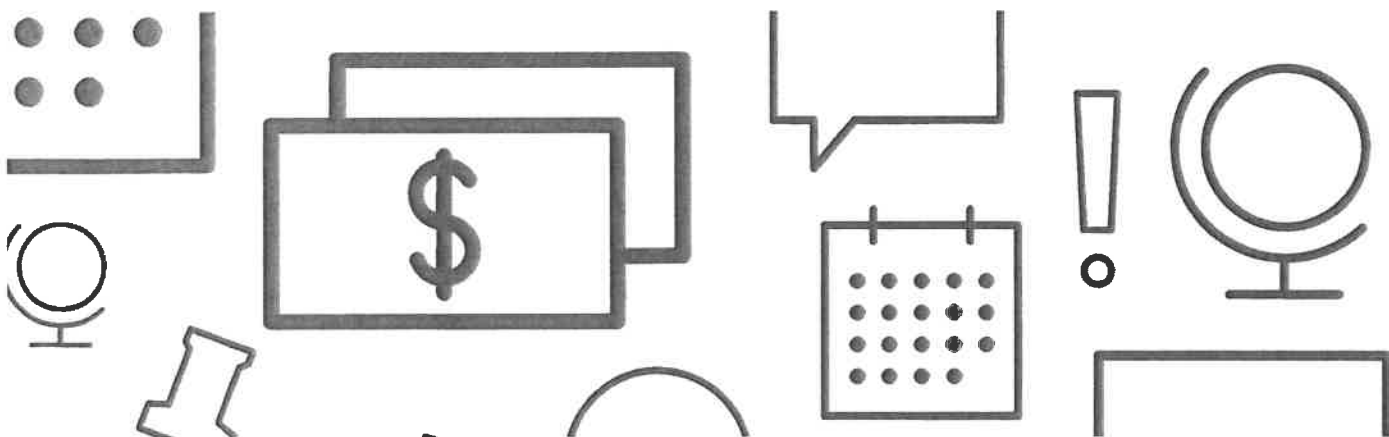
Pre-reads and other meeting materials also influence the quality of committee meetings. Extensive materials in which important information is "buried" or hard to find can result in committee members overlooking things they should consider; and overly

lengthy materials can deter committee members from reading materials carefully. Even the format of materials can be very important. Is an executive summary provided? Do the materials indicate why they are being provided to the committee (e.g., for action, for discussion, or for information only)? Is the important information easy to find? The timing of delivery of materials is also critical—materials delivered shortly before a meeting may not be read, or read carefully. While technology has enabled committee members to review materials on a tablet, phone, or laptop rather than having to carry voluminous materials, it has also been cited as making it too easy to send voluminous materials and to wait until the last minute to send them.

- Executive sessions: The effective use of executive sessions can help the audit committee to have more strategic and efficient and effective meetings. There are various types of executive sessions, which may include: a brief (5–10 minute) audit committee-only session immediately before the audit committee meeting to align on priorities; individual post-meeting sessions with the CFO, other individuals responsible for financial reporting and internal audit, the independent auditor, the general counsel, etc.; and audit committee-only sessions following the meeting to discuss follow-up items and matters to be addressed at future meetings. Each of these sessions should be conducted to afford the committee and the individuals an opportunity to discuss issues—including sensitive ones—candidly. These executive sessions should be scheduled, and on the agenda, at every meeting regardless of whether or not there are things to discuss. This avoids the awkwardness that may occur if these sessions are scheduled only when issues arise.

Being—and staying—informed

While all of the matters discussed above are important, they cannot substitute for knowledge. Reading and digesting committee materials and company disclosures and staying on top of business, industry, and other relevant publications is important; however, audit committee members—indeed, all directors—can greatly benefit from going beyond these basics to learn about new and developing trends, become familiar with new technologies, and understand how other committees and boards are meeting the challenges of being a director and a member of the audit committee in the 21st century.



On the board's agenda

Director education is increasingly being provided in a variety of ways. Some companies are providing education as part of or as an adjunct to regularly scheduled meetings, often in conjunction with the independent auditor. Others are providing education annually, such as in connection with board retreats, to discuss strategy and other matters. And there are many programs conducted by governance related organizations, colleges and universities, and other educational institutions at which directors can not only learn but also network with other directors to discover how their companies address challenges. Attending meetings of investor organizations can also be very helpful to gain a better understanding how these key stakeholders view the company.

Conclusion

The responsibilities of audit committees continue to grow, seemingly geometrically or even exponentially, with new challenges arising all the time. While these responsibilities can seem overwhelming, focusing on the committee's most important priorities and taking actions to make the committee and its meetings more strategic, can greatly assist the committee in executing its responsibilities in a comprehensive and effective manner.



Questions for audit committee members to consider asking:

1. Does our committee have a clear understanding of the company's priorities?
2. What does the investing public think of the quality of our earnings?
3. Are there any new or proposed accounting pronouncements or disclosure requirements that we should concentrate on? Are we adequately prepared to address and implement them?
4. Are we satisfied that the risks facing the company have been appropriately allocated among all committees and the full board? In particular, have we properly allocated oversight responsibility for cyber risk?
5. What are we doing to be able to provide assurance on ESG and other "soft" information?
6. Do we adequately understand the company's culture? Do we need to do more work (such as conducting an engagement survey) to better understand it?
7. Are our hotline and other processes to report compliance matters up to speed? How is the information in those reports conveyed to us?
8. Is the committee agenda prioritized such that we are able to discuss the most critical matters? Are the committee materials formatted and prepared in a way that enhances our effectiveness as a committee?
9. Do we have the right financial team with the capabilities needed for current and future needs? Are we providing appropriate development opportunities and addressing succession planning for the team?
10. Are we keeping up with trends and developments relevant to the company? What educational opportunities should we take advantage of?

Authors



Krista Parsons
Managing Director
Center for Board Effectiveness
Deloitte & Touche LLP
kparsons@deloitte.com



Bob Lamm
Independent Senior Advisor
Center for Board Effectiveness
Deloitte LLP
rlamm@deloitte.com

Contact us



Deborah DeHaas
**Vice Chairman and
National Managing Partner**
Center for Board Effectiveness
Deloitte
ddehaas@deloitte.com



Maureen Bujno
Managing Director
Center for Board Effectiveness
Deloitte & Touche LLP
mbunjo@deloitte.com



Debbie McCormack
Managing Director
Center for Board Effectiveness
Deloitte LLP
dmccormack@deloitte.com

About this publication

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About the Center for Board Effectiveness

Deloitte's Center for Board Effectiveness helps directors deliver value to the organizations they serve through a portfolio of high quality, innovative experiences throughout their tenure as board members. Whether an individual is aspiring to board participation or has extensive board experience, the Center's programs enable them to contribute effectively and provide focus in the areas of governance and audit, strategy, risk, innovation, compensation, and succession.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2020 Deloitte Development LLC. All rights reserved.