

# INTEGRATING ENHANCED AUDIT EXPECTATIONS INTO INTERNAL CONTROL

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# WHAT HAS CHANGED?

- **Eleven years later and the fundamental change is subtle; corporations are still struggling with how to address the risk of 'fraud'**
- **Corporations remain very dependent on their external auditors for their perspective on:**
  - specific corporation risks,
  - industry sector risks,
  - accounting / tax positions,
  - valuations / estimates,
  - internal controls
- **Simultaneously, auditors have been lax in audits of internal controls over financial reporting**
  - The PCAOB Staff Audit Practice Alert No.11, issued Oct. 24, 2013, which discusses findings and has strongly worded recommendations for auditors in their audits of ICFR



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# WHISTLEBLOWING HIGHLIGHTS

## **Dodd-Frank (2010)**

(H. R. 4173—466) *Dodd-Frank Wall Street Reform and Consumer Protection Act Section 921 and Section 922*, increases the Securities and Exchange Commission award payouts for information that leads to a successful enforcement action yielding monetary sanctions of more than \$1 million.

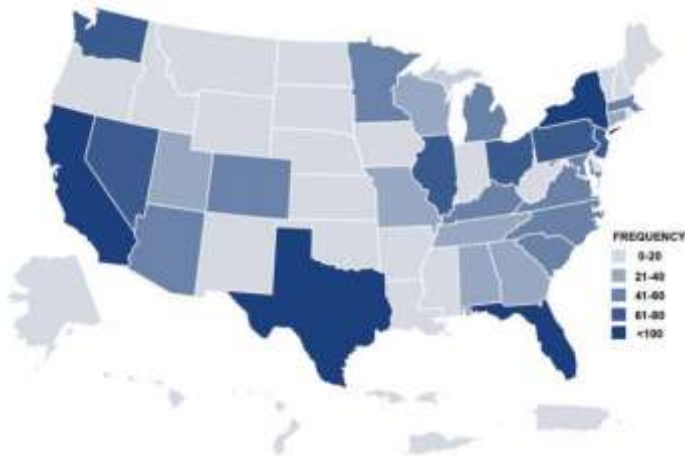
## **U.S. Supreme Court Decision (2014)**

*Lawson v. FMR Corp.* (March 4, 2014) was the U.S. Supreme Court's second Sarbanes-Oxley Act lawsuit and the first involving a whistleblower. In its decision, the U.S. Supreme Court expanded the protection to include employees of a public company's private contractors and subcontractors.

# WHISTLE BLOWING HIGHLIGHTS

## U.S. District Court: District of Columbia (2014)

- (Case No. 1:05-cv-01276-JSG) United States of America *ex rel.* HARRY BARKO (Plaintiff-Relator) v. HALLIBURTON COMPANY, *et al.*, Judge ruled that the defendants' claims to attorney-client privilege and attorney work-product doctrine does not apply to items such as Code of Business Conduct (COBC) investigations, as the primary purpose was not seeking legal advice.
- *"Most importantly, the Court finds that the COBC (Code of Business Conduct) investigations were undertaken pursuant to regulatory law and corporate policy rather than for the purpose of obtaining legal advice."*



## The U.S. SEC Whistleblower is just as popular

The U.S. Securities and Exchange Commission, Office of the Whistleblower just published its annual Whistleblower Report for 2013 that shows the volume increased to:

### •3,238 Calls

*The map on the left shows the states with the largest volume of Whistleblower calls.*

<http://www.sec.gov/whistleblower/reportspubs/annual-reports/annual-report-2013.pdf>



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# IDENTIFYING THE POTENTIAL OPPORTUNITIES

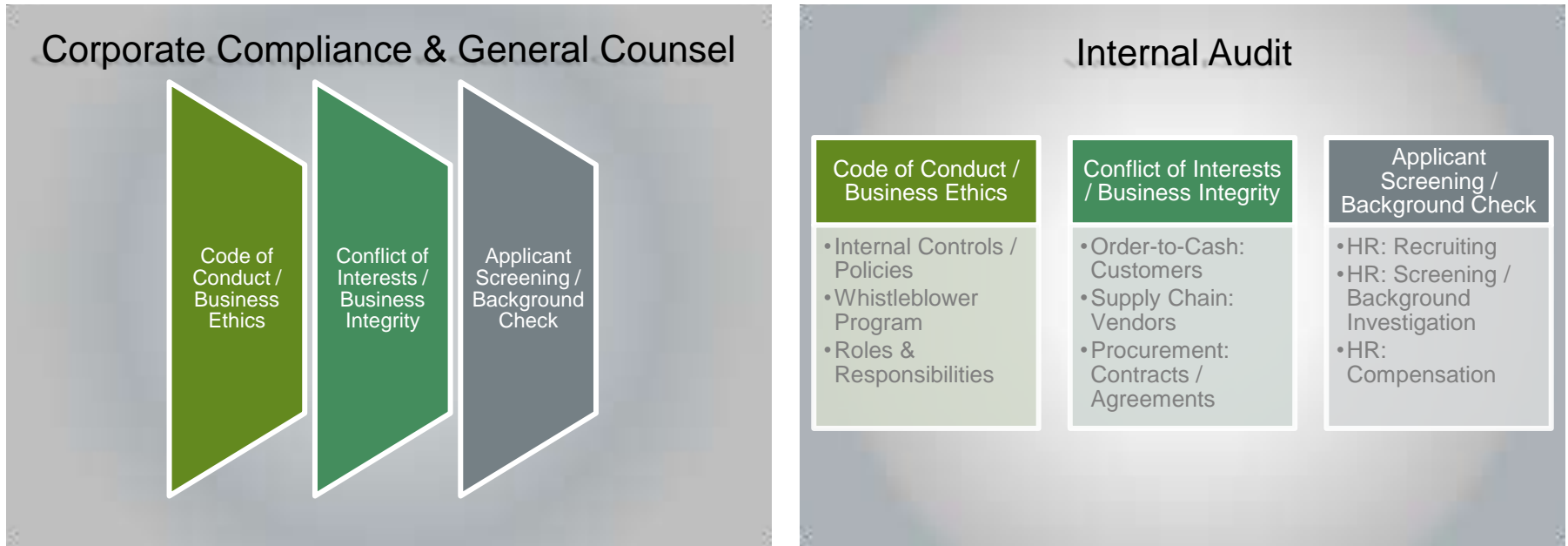
## Reality

- As the speed and complexity of business has increased; the decisions and supporting evidence to support such change has substantially decreased;
- In the move to principles-based financial accounting standards and frameworks such as COSO, COBIT, and others; the need for management to defend its positions will increase;
- The increase in knowledge-sharing portals is challenged by quick ad-hoc communication via email, instant messaging, text messages, Twitter, etc.;

## Good Practices

- Knowledge management: focus on openly authoring, sharing, and challenging of decisions,
  - Think: hacking of Policies, Procedures, Guidance, and Cheat Sheets,
- Review the world of internal controls by applying the definition to real world matters,

# IDENTIFYING THE POTENTIAL OPPORTUNITIES



- The corporate compliance department, along with the general counsel, establishes the legal foundation for the organization.
- Internal audit can perform various activities as outlined to provide independent and objective confirmation on whether the legal foundation is operating as designed.