

# INTEGRATING ENHANCED AUDIT EXPECTATIONS INTO INTERNAL CONTROL



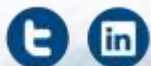
Cameron Jackson  
GRC Manager  
Columbia Sportswear



- Innovative product
- Passionate employees and customers
- Surpassing \$2b+ sales in next 30 days
- Global Business Transformation
- High velocity of change

**"THE STUFF IS LEGIT!"**

We fused down with Omni-Heat™ synthetic insulation for lightweight warmth and heat retention.



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**COMPLIANCE WEEK WEST**  
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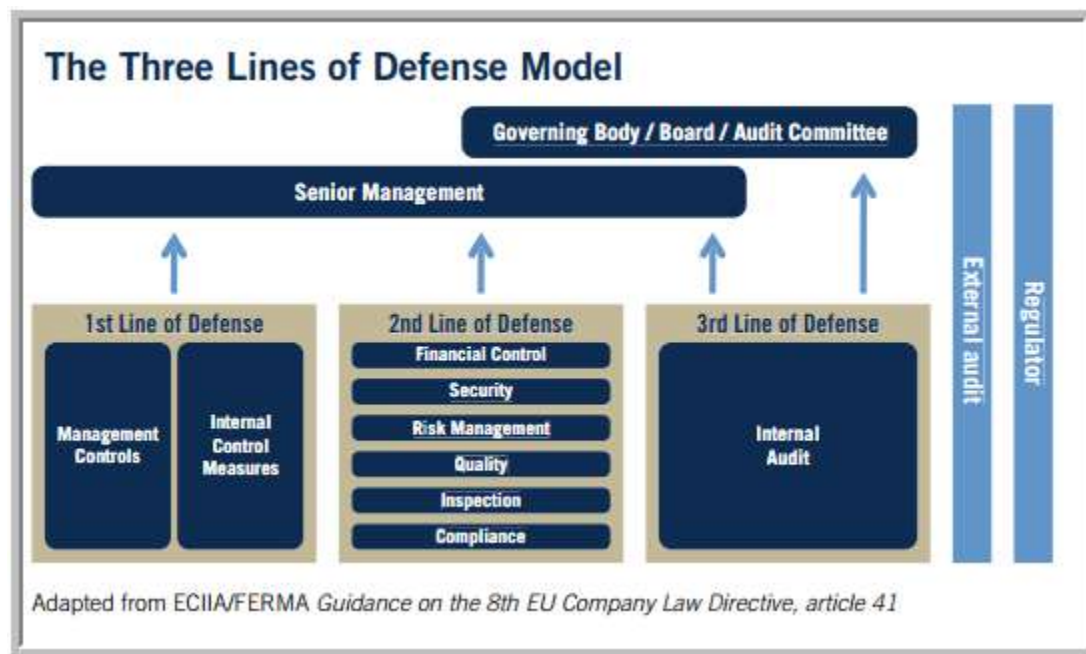
# Overconsumption

- High volume of change that requires significant judgment, critical decisions and resources to execute
- Key Change Impacts
  - PCAOB Staff Alert 11 Impact
  - COSO '13 Transition
  - Global Business Transformation
- Implications of a short execution cycle
- Increasing number of auditor conversations
- Expanding demand by executive management to be informed and involved
- Evolving external auditor positions



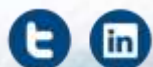
# Breaking Down Communication Barriers

- The importance of the **2<sup>nd</sup> line of defense**. Leverage compliance to:
  - Establish front line communications with the Business and Auditors
  - Manage audit relations
  - Centralize ownership
  - Meet emerging issues head on
  - Facilitate scoping and risk profiling
  - Document key internal control related positions



# Drawing the Line – The Proliferation of Guidance

- Proactively establish management's position
- Address the spirit of the guidance
  - Avoiding the checklist mentality
  - Delineating audit requirements vs. management requirements
  - Intent of the guidance is **not new**; extent of documentation is new
- Engage the auditors for greater transparency
  - Maturing from passive guidance to proactive partnering; no surprises
  - Engaging the auditors for substance, examples and client comparisons
  - Inquire of the testing strategy upfront; know the end state
- Establish a monitoring plan for the external audit
  - Measuring the 'Health of the Audit'
  - Formally evaluate auditor performance
  - Project managing the audit

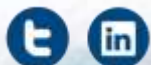


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# Increased Audit Scrutiny

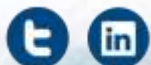
- **Staff Alert 11** - Substantial impact to management to implement and be audited (IPE/MRC)
  - MRC: Management Review Controls
    - Exhaustively testing the design and operation (investigation, precision, etc.)
    - Rigorous in-depth walkthroughs
    - Prior year documentation and responses are not sufficient
    - Extent of evidence rises substantially with the risk level
    - In depth competency and authority questions
    - Tuning in to the degree of judgment
  - IPE: Information Produced by the Entity
    - High degree of focus on the completeness and accuracy of key reports and spreadsheets
    - Document of report parameters, tie-out of source data and formula validation, etc.
- **COSO**
  - Year 1
    - What do we need to do now?
    - Do I map to the points of focus? ‘My audit firm told me to.’
    - To what extent do we document? To what extent do we remediate?
    - Why are the COSO ’13 adoption rates for KPMG clients different from Deloitte?
  - Year 2+
    - Iterative cycle of continuous improvement – roadmap and refine. Use COSO ’13 as a lever to target future opportunities



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# Example: Increased Audit Documentation

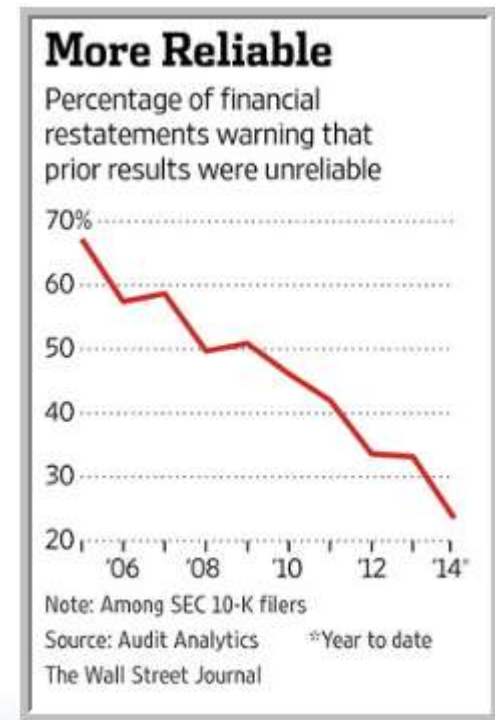
<b>Control ID:</b>	C-FAS-08
<b>Control Description:</b>	On a monthly basis, the Fixed Asset Supervisor reviews for completeness, accuracy and reasonableness the fixed asset rollforward (i.e., the general ledger account reconciliation) that is prepared by a Fixed Asset Accountant.
<b>Authority of Control Owner / Performer:</b>	<p>The primary control owner has the necessary competence and authority to effectively carry out the control activity. See commentary over Ms. Thompson's experience with the document mentioned with control C-428-26.</p> <p>The reconciliation is performed by Ellen Santos, FA Accountant, and reviewed by Mary Thompson Fixed Asset Supervisor. Ellen has several years of experience working with fixed assets for CEM. As the Fixed Asset Supervisor, Mary Thompson is the primary reviewer of many controls throughout the fixed assets cycle, which we would expect to be typical of an individual in her position.</p> <p>Mary is in constant communications with Ron Beale, Controller, and Tom Quick, CFO, regarding significant asset additions and disposals. She stated that management typically sends her to plans of any large purchase or disposal. She observed as Mary retrieved several emails from Ron, Tom, and Yarden Smit, Global Real Estate Mgr, around plans for the disposal of a building worth \$1.5M. The emails discussed details of depreciation impact, projected dates, and meetings of which Mary was in attendance. This amount is not qualitatively nor quantitatively material to the PPE balance on the financial statements as a whole, but illustrates the extent to which she is aware of fixed asset activity. Additionally, Mary is responsible for distributing a list of corporate assets to relevant management each quarter and following up with them in order to identify any unidentified disposals. In contrast with FY, this follow up is now largely automated with an automatic, scripted email sent to all relevant management and Mary's manual follow up. This follow up and communication between the Fixed Asset Supervisor and upper management and relevant process owners would provide Mary with sufficient knowledge to identify any material discrepancies in the fixed asset rollforward.</p> <p>The position was created in the CY and Ms. Thompson assumed the role in June 2014. Prior to this, Ms. Thompson worked for multiple years in the Company's Retail Accounting Department where she worked with similar issues, such as accounting for leases. Additionally, throughout our interactions, she appeared to be appropriately knowledgeable about the performance of the control and its correlation to risks of misstatement. As such, Ms. Thompson appears competent and to be acting with proper authority.</p>
<b>Level of Aggregation and Predictability</b>	The rollforward is performed for each company (e.g. 1001, 1002, 2001) and aggregated by GL account. A detail of any changes in each PPE account, aggregated by Internal Order number specific to each asset, is also included in the binder and



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# Marketplace Trends

- PCAOB is observing an increase in control opinion restatements
- SEC is increasingly questioning control opinions in relationship to immaterial restatements
- Increase in SDs and MWs in the IT space – assessing the pervasiveness of ICFR impact
- Allocation of resources and budget to audit and compliance is on the rise
- Regulatory burden is weighing on the business, but it can be managed
- Reliability of financial statements is steadily improving





# Key Takeaways

1. Plan and scope carefully
2. Compliance is increasingly a moving target, establish a position, document it, periodically reassess
3. Define what a successful audit relationship means to you
4. Align external audit and internal audit activities to the extent feasible
5. Identify opportunities to ease the burden on the business
6. Educate and communicate for increased proficiency and adoption rates
7. Leverage the compliance function to serve in an advisory capacity to management
8. Delineate audit requirements vs. management requirements
9. Each audit firm's level of transparency differs; challenge it; ask for it
10. Engage management to formally evaluate external auditor performance

THANK YOU

