



Circle of Trust: Critical connections between the CAE and the Audit Committee



As companies shifted their strategies and risk profiles in response to the events of 2020 and 2021, many boards shifted their oversight into high gear, amplifying the need for insights into the risks and opportunities ahead.

During the Institute of Internal Auditors' 2021 Global Audit Management Conference, Michael A. Smith and Stephen Brown of KPMG LLP and Debbie Messemer, a director on public and private company boards, discussed how internal audit can be a valuable asset as directors turn their attention to preparing for a new vision of the future.

Chief audit executives (CAEs), they said, can play a role in helping the board prioritise a heavy agenda to focus attention on the right risks and opportunities. By communicating the issues that are keeping them awake at night to the audit committee, CAEs can provide valuable input to help the committee and the board identify critical areas for discussion and action.

Reassessing key risks and assumptions

In particular, CAEs can provide input on how the disruptive events of the last year—including increased social and reputational risks as well as the broad impacts arising from COVID-19—have affected the company's strategy and risk profile. "The concept of social and reputational risk must be part of the risk discussions," Brown said. "Help the audit committee understand how those risks materialise at your company. What should keep the audit committee up at night? Board members are not managers. You have to put things into context for them."

The CAE can also help the audit committee to think about the questions they should be asking management to challenge whether fundamental assumptions still hold true. "So much got turned upside down during the past year; new opportunities and risks appeared," said Messemer. "At times like this, there's a temptation to help other parts of the business. But as an audit committee chair, it's important to think about whether we have gotten the fundamentals for the audit committee right."

Bridging the risk appetite delta

Recognising that balancing the ongoing tension between smart risk-taking and risk management is table stakes, internal auditors should be helping the audit committee think ahead about the company's strategic risks and priorities.



To help bridge the risk appetite delta, said Messemer, **"Immerse yourself in what the CEO says are the strategic priorities of the company. Read the analyst reports. Read the proxies. Link the things you're doing back to the operational priorities of the company."**



For example, if new product launches or M&A are expected, the CAE should have discussions with the committee about what modifications may be needed to the audit plan. “Make sure you are collaborating with the first and second lines of defence,” said Messemer. “Think about technology. Are you leveraging it in the right way to get a better product and build in efficiencies?”

And leadership is critical. **“As a CAE, ask whether you are the kind of leader showing the core values and inclusive work environment that the company holds dear?”** said Messemer. **“CAEs must communicate effectively with the audit committee, with their team, and with other parts of the organisation.”**

Building trust—internally and externally

“Trust is an important element of a company’s brand, to grow as a business and to attract and retain the right people,” said Messemer. “With its deep, holistic understanding of the company and its risks, the internal audit group can play an important role to enabling organisational trust.”

Indeed, as highlighted in Edelman’s fourth annual InvestorTrust report, earning and retaining the trust of shareholders and other stakeholders continues to take on greater importance and value. Among the report’s findings: more than three-quarters of investors said they have more trust in a company that maintains a healthy corporate culture. Edelman polling also finds that business—in terms of competence and ethics—is now more trusted than NGOs and government.¹

Internal audit is viewed as the eyes and ears of the audit committee and as a trusted advisor. In that capacity, “the CAE should help the audit committee think about whether what the company is doing will help engender authenticity and trust with its employees and customers as well as what will help move the ball forward in long-term shareholder value,” said Brown.

¹ [2021 EdelmanTrust Barometer](#)

One area where internal audit can help build trust is around understanding the Environmental, Social, and Governance (ESG) issues impacting the company. “It’s important for management to help the board get up to speed quickly in this area,” Brown said. One way to do that is to help board members understand investor concerns around ESG. “A handful of institutional investors hold most of the votes, and they’re very clear on what they want from boards and companies,” said Brown. “They’re only one type of stakeholder, but you should know what’s on their minds and help focus board members on those issues.”

For example, many companies made public statements and commitments related to diversity and inclusion in 2020. “Investors are asking: How are you doing with those commitments? Is the company doing what it says it is? Those social and reputational risks in 2021 are higher than they’ve ever been.”

Insights inspire relationships

CAEs should also build relationships across the broader senior leadership team beyond audit and finance, help to develop the next generation of internal audit leadership, and work proactively with the audit committee chair on modifying the audit plan and approach based on the committee’s agenda.

Executive sessions, said Smith, are a valuable opportunity for CAEs to have full and transparent conversations with the audit committee. “Don’t waste executive sessions. There’s always something on the CAE’s radar or insights to share with the audit committee.”



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