

## Effective audit committee meetings: Warning signals and potential responses



Agenda overload is not a new issue for audit committees, but our latest ACI survey shows that it's becoming a major concern: 75 percent of the 1,500 audit committee members responding to our 2015 Global Audit Committee Survey said the amount of time required to carry out their audit committee responsibilities has increased moderately (51%) or significantly (24 %) over the past two years.

So actual face-time across the audit committee table is really precious. Audit committee meetings should be well thought-out and structured in a way that allows the committee to make the most of its time together.

Effective planning and organisation can help ensure that meetings, are used effectively.

In brief, this could include:

- Mapping out the calendar to ensure meetings cover all critical subject matter, but are still flexible enough for inclusion of urgent business when the need arises.
- Avoiding items that should be addressed in board or management meetings.
- Planning the specific agenda for each session ahead of time. Where possible the

planned conversation should also be effectively framed so that the committee members know the purpose of each item. e.g. whether an item is for challenge, debate or "for information".

- Ensuring that committee members have access to the right information and papers in advance of the meeting.
- Identifying clear outcomes i.e. whether a decision or agreed position, and appropriate follow-up.

Inevitably there will be times where, despite a robust planning process, well thought out agenda and timely papers, meetings are still not as effective as they might be. The table overleaf identifies potential issues, the likely warning signals and offers some suggestion as to how the issues might be addressed.

## Effective audit committee meetings: Warning signals and potential responses

Underlying issue	Warning signals	Potential responses		
		Audit committee chair	Audit committee members	Management
Overly dominant personalities or groups in the audit committee meetings controlling the debate	<ul style="list-style-type: none"> <li>■ Dissenting voices marginalised</li> <li>■ Difficult issues not sufficiently discussed</li> <li>■ Debate becomes personalised not issue focused</li> <li>■ Special insights not used</li> <li>■ Individuals appear reticent to speak up</li> <li>■ Third parties stereotyped as out of touch</li> <li>■ Management team is defensive or aggressive</li> </ul>	<ul style="list-style-type: none"> <li>■ Build trust and respect with all members. Speaking with them ahead of meetings and make sure they are sufficiently briefed to contribute effectively</li> <li>■ Give weight to the views raised</li> <li>■ Lead by example showing that uncertainty and questioning of assumptions is appropriate</li> <li>■ Play 'devil's advocate' by offering a counter-argument to provide balance</li> <li>■ Encourage and give air time to new committee members, by asking for opinions</li> <li>■ Address directly with the chairman of the board if dominance continues</li> </ul>	<ul style="list-style-type: none"> <li>■ Speak up but avoid dominating airtime</li> <li>■ Ensure you are fully briefed to offer alternative insights</li> <li>■ Add value by adding fresh insight</li> <li>■ Build relationships with other members and rehearse difficult questions or concerns before the audit committee meeting</li> </ul>	<ul style="list-style-type: none"> <li>■ Seek to understand the knowledge levels amongst the committee members and address when members may be out of their depth and reluctant to contribute.</li> <li>■ Encourage calling out from induction onwards</li> <li>■ Consciously ask for input and advice</li> <li>■ Seek input from specific directors outside board meeting – does overall consensus reached reflect majority of individual opinions?</li> </ul>
The audit committee is being 'managed' by the executive team in attendance	<ul style="list-style-type: none"> <li>■ Executive present answers rather than options</li> <li>■ Insufficient focus on the big picture/too much focus on operational matters</li> <li>■ Probing challenge not welcomed by the executive team</li> <li>■ Insufficient emphasis on risk</li> <li>■ Papers not tailored to board needs</li> </ul>	<ul style="list-style-type: none"> <li>■ Use the company secretary actively in preparation of papers</li> <li>■ Pre-agree with relevant executives how particular issues should come to the committee</li> <li>■ Personally demonstrate behaviour required by querying judgements and assumptions</li> <li>■ Insist on meeting relevant executives ahead of papers coming to committee</li> </ul>	<ul style="list-style-type: none"> <li>■ Respect the executive need for instant decisions, but push back in the discussion</li> <li>■ Get to know the business and the people below the top executive team</li> <li>■ Be active conduits to the external world</li> </ul>	<p>Where management team is enlightened and keen to redress the balance:</p> <ul style="list-style-type: none"> <li>■ Use scenarios to show the range of options being considered</li> <li>■ Use 'reverse stress testing' to demonstrate risk awareness and control</li> <li>■ Show willingness to suspend own assumptions and seek feedback on approach</li> </ul>
'Groupthink' - The audit committee lacks diversity of thought	<ul style="list-style-type: none"> <li>■ Constant drive to get through the agenda and move on to next topic</li> <li>■ Scenarios rarely used</li> <li>■ Lack of any external input or challenge</li> <li>■ Assumptions not tabled openly</li> <li>■ Different options or ideas not presented or evaluated</li> <li>■ 'Out of the box' thinking discouraged</li> </ul>	<ul style="list-style-type: none"> <li>■ Use a facilitative style to manage the debate</li> <li>■ Use third party briefings or facilitation to increase insight and facilitate opposing views</li> <li>■ Review the committee membership or their working styles to identify potential gaps in thinking – openly discuss this as a risk</li> <li>■ Review the style and effectiveness of the boardroom conversation</li> </ul>	<ul style="list-style-type: none"> <li>■ Use 'intelligent naivety' to ask the 'non-obvious questions'</li> <li>■ Keep asking questions in different ways until satisfied</li> <li>■ Suspend prevailing assumptions</li> <li>■ Change the angle of debate</li> </ul>	<ul style="list-style-type: none"> <li>■ Present options and alternatives rather than a fait accompli</li> <li>■ Actively request debate when positioning difficult issues seen as hanging in the balance</li> <li>■ Overtly welcome the committee's views</li> <li>■ Ensure the committee has all the relevant information to take a balanced view</li> </ul>
The audit committee is overly focussed on process	<ul style="list-style-type: none"> <li>■ Overemphasis on ticking the boxes at the expense of open discussion or debate</li> <li>■ Inappropriate allocation of time to critical issues</li> <li>■ Sense of pressure to get through the agenda</li> <li>■ Failure to stand back and look at the big picture</li> <li>■ Unwillingness to challenge the way things are done</li> </ul>	<ul style="list-style-type: none"> <li>■ Involve multiple inputs when setting the agenda</li> <li>■ Differentiate agenda items by importance</li> <li>■ Listen hard for signals of discomfort</li> <li>■ Don't be afraid to park items for further review where necessary</li> <li>■ Be prepared to call additional meetings where necessary</li> </ul>	<ul style="list-style-type: none"> <li>■ Raise concern either in meeting or offline with the audit committee chair</li> <li>■ Offer to lead the discussion on a specific upcoming issue</li> <li>■ Specifically cover during the annual evaluation process</li> </ul>	<ul style="list-style-type: none"> <li>■ Ensure committee members are properly briefed on critical issues and audit committee priorities</li> <li>■ Provide meaningful and constructive feedback if asked to contribute to the evaluation process</li> <li>■ Proactively volunteer constructive thoughts from outside the committee</li> </ul>
Low commitment, engagement or capability of some audit committee members	<ul style="list-style-type: none"> <li>■ Attendance in person but not in spirit</li> <li>■ Lack of preparation is evident</li> <li>■ Consistent lack of contribution</li> <li>■ Focus narrowly on own perspective</li> <li>■ Too much shooting from the hip</li> </ul>	<ul style="list-style-type: none"> <li>■ Get to know each member by spending time with them outside formal committee meetings</li> <li>■ Be clear and realistic with members about the contribution and commitment required from outset</li> <li>■ Encourage that mobile phones are switched off</li> <li>■ Change the committee's constitution if appropriate</li> </ul>	<ul style="list-style-type: none"> <li>■ Raise any issues promptly with the audit committee chair</li> <li>■ Consider whether this is the right NED appointment for you and whether another position may provide greater engagement and job satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>■ Be sensitive to committee members feeling out of their depth or marginalised</li> <li>■ Discuss offline and encourage greater contribution, even in areas outside their domain specialisation</li> <li>■ Share own thinking process with committee members</li> <li>■ Set expectations of level of commitment and engagement early on at induction stage</li> </ul>
Lack of reflection time about the committee's own performance, style and way of operating	<ul style="list-style-type: none"> <li>■ Little discussion on how debate could be improved</li> <li>■ No opportunities to consider 'what might be done differently or better next time'</li> <li>■ Process suggestions are put down</li> <li>■ Annual committee evaluation does not get to the real core issues</li> </ul>	<ul style="list-style-type: none"> <li>■ Encourage occasional wide ranging discussion on meeting evaluation at post meeting dinners.</li> <li>■ Meet with each director to gather their views on the quality of conversation/debate and get their suggestions for improvement</li> <li>■ Consider use of other tools to provide additional awareness e.g. team or personality profiling/evaluation or external facilitation</li> </ul>	<ul style="list-style-type: none"> <li>■ Insist on the maintenance of high standards</li> <li>■ Use external experience to support behavioural change</li> </ul>	<ul style="list-style-type: none"> <li>■ Provide meaningful and constructive feedback if asked to contribute to the evaluation process</li> <li>■ Proactively volunteer constructive thoughts from outside the committee</li> </ul>

# Warning signals to look out for during your audit committee meetings:



**Discussion and debate is insufficient or even stifled/discouraged**



**Decisions are frequently presented as answers rather than options**



**There is over-dominance or under-contribution from certain individuals**



**Focus is on the quantity of areas covered rather than the quality of the discussion**



**The level of challenge and consideration of fresh ideas is limited**



**The group rarely self-reflects or accesses third parties for input**

Based on Tomorrow's Company's Good Governance Forum's publication 'Improving the Quality of Boardroom Conversations'.

## Contact

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Further reading and resources:

The ACI Audit committee handbook is packed full of useful tools:

[Download handbook](#)