Insights from audit committee survey 2023

Board Leadership Centre

The perspective of the audit committee continues to be a bellwether for both the executive committee and the board of an organization. As highlighted by our global audit committee survey, the expanding scope and complexity of the committee's workload and oversight responsibilities are an important indicator of the challenges facing the corporate world. Uncertainty and disruption across the global business landscape are intensifying pressures on the risk and control environment in new and unexpected ways. From economic and geopolitical volatility, growing cyber threats, and artificial intelligence (AI) to climate, talent, and other environmental, social, and governance (ESG) matters, the range and interconnectedness of risks and macro forces are putting corporate governance to the test. In this paper, we highlight the key findings of the survey, with our interpretation of the way forward.

As a sign of encouragement, the global survey results show that most audit committees view their company's risk management processes as sophisticated or keeping pace. But their confidence is muted by sobering concerns, in particular by risks posed by the company's digital activities, potential gaps in the oversight of emerging risks, and talent needs in the finance and internal audit organizations. The best ways to improve the audit committee's effectiveness are better information quality and flow from management and spending more in-person time with management and other directors between committee meetings.

The audit committee's focus and agenda are being impacted by macrotrends and related risk and complexity.
Among the macrotrends driving the audit committee's priorities are the increasing complexity of the business and risk environment posed by cybersecurity, developments in AI, supply chain disruptions, and workforce challenges. Further, geopolitical and economic risks, including inflation and risk of recession are high on the agenda, while regulatory and stakeholder demands for disclosure and transparency, including ESG reporting are becoming increasingly important. All of these factors will put pressure on the company's risk and internal control environment, as well as the finance and internal audit functions.

While the full board oversees mission-critical risks, the audit committee's risk oversight responsibilities continue to expand.
Although the majority of survey respondents reported that their full board has oversight responsibility for the company's mission-critical risks, most say the audit committee continues to shoulder heavy risk agendas and oversight responsibilities beyond its core responsibilities.

Recommendations for the board

Based on these findings and observations, we recommend that board members take the following into account:

- Streamline and prioritize the topics discussed during committee meetings.
- Distribute the workload more evenly across different committees, ensuring a more effective use of resources.
- Reassess the committee's skill, expertise, and composition to ensure it aligns with the evolving needs of the organization.
- Greater use of subcommittees for more in-depth work, enabling the main committee to focus on key strategic matters.
- Reassess the audit committee charter to review the committee's purpose and responsibilities.
- Expand the size of the committee to manage the workload effectively, if required.

Respondents reported their audit committees having substantial oversight responsibility for management's enterprise risk management (ERM) system and processes, cybersecurity and IT, legal/regulatory compliance, and data governance. Many audit committees also have significant oversight responsibilities for other risks, including those related to ESG, climate geopolitical and economic risks, as well as supply chain and other operational risks. And while many survey respondents expressed concern about their audit committee's workload, a very small number said their boards were reallocating risk oversight responsibilities among committees.

Audit committees are heavily involved in overseeing ESG and sustainability disclosures, and many should anticipate even deeper involvement.

Most survey respondents said that their audit committee oversees ESG-related disclosures in regulatory filings, almost half of the respondents consider management's disclosure committee activities in connection with these disclosures, and a quarter reported that their committee oversees voluntary ESG and sustainability reporting.

Generally, risk management and reporting are considered strong while digital activities, oversight gaps, and talent are mentioned as areas of concern.

A large majority of the respondents said their company's risk management and reporting capability was "sophisticated" or "keeping pace with the risk environment." They identified three critical challenges ahead: the risks posed by the company's data/digital activities—cybersecurity (including ransomware and IP), vulnerabilities posed by third parties/vendors, and data privacy, potential oversight gaps when multiple standing committees have oversight responsibilities for a category of risk such as cybersecurity, data privacy, compliance, and supply chain issues; and whether talent and skill sets in the finance and internal audit organizations are keeping pace.

The audit committee's skills and expertise are getting a closer look.

While almost half of respondents said they had "no concerns" about their committee's composition and skill sets, a quarter had concerns about lack of expertise in cybersecurity, and a quarter were concerned about lack of expertise in climate and other ESG issues. There is a number of respondents who were concerned about the audit committee's size — and the potential need to add members to spread the workload or add expertise. In addition, a quarter of respondents expressed concern that their audit committee was over-relying on the chair or a single member who has the background and expertise to oversee complex financial reporting, disclosure, and control issues.

Key adjustments would improve the audit committee's effectiveness—starting with the quality and flow of information.

When asked about the most important opportunities to maximize their audit committee's effectiveness, respondents cited improving information quality and flow from management, more in-person time with directors and management between committee meetings, more open dialogue/white space time, adding specific expertise to the audit committee, and more focused agendas.

Elements for effective audit committees

Enhance communication

Foster open and transparent communication channels within the audit committee, with management, and other stakeholders. Regular meetings, reporting mechanisms, and information sharing platforms should be established to facilitate effective collaboration and decision-making.

Comprehensive risk assessment

Conduct a comprehensive risk assessment to identify and prioritize key risks faced by the organization. Engage key stakeholders in the assessment process and allocate resources strategically for risk mitigation. Regular reviews and updates to the risk assessment ensure that emerging risks are promptly identified and addressed.

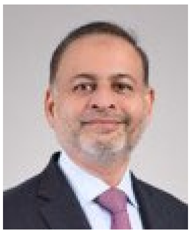
Robust monitoring mechanisms

Implement robust monitoring mechanisms to track the progress of risk mitigation efforts, evaluate the effectiveness of controls, and identify emerging risks. Regular reporting, data-driven analysis, and key performance indicators enable the committee to make informed decisions and take timely actions.

Periodic reviews and evaluation

Conduct periodic reviews and evaluations of the audit committee's performance, effectiveness, and adherence to best practices. Engage in self-assessments and consider external assessments to identify areas for improvement and implement necessary changes.

Contacts



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Board Leadership Centre

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