Global audit committee survey

As uncertainty and disruption across the global business landscape are intensifying pressures on the risk and control environment in new and unexpected ways, the audit committee's perspective can serve as a bellwether for the business and the board. To gain a better understanding of how audit committee members are managing their expanding workload and oversight responsibilities amid this uncertainty and disruption, we surveyed 768 audit committee members and chairs in February and March 2023.

Encouragingly, the survey results show that most audit committees view their companies' risk management processes as sophisticated or keeping pace. But their confidence is muted by sobering concerns – particularly risks posed by a company's digital activities, potential gaps in the oversight of emerging risks, and talent needs in both finance and internal audit. Few audit committees are looking to reallocate risk oversight responsibilities to ease their own workload, although some expressed concerns about skill sets and expertise on the audit committee and the importance of maximising the committee's in-person time with the executive. The following are some of the key UK survey findings.

Macrotrends impacting the committee's work

Among the macrotrends influencing the audit committee's focus and agenda are the increased complexity of the business and risk environment posed by cybersecurity, artificial intelligence developments, supply chain disruptions, and workforce challenges (65%); geopolitical and economic risks, including inflation and risk of recession (58%); and regulatory and stakeholder demands for disclosure and transparency around climate and other environmental, social, and governance (ESG) risks (41%). These macrotrends will put pressure on the company's risk and internal control environment, as well as the finance and internal audit functions.

Oversight responsibilities continue to expand

While the full board oversees mission-critical risks, audit committee risk oversight responsibilities continue to expand.

Although 82 percent of survey respondents reported that their full boards have oversight responsibility for the companies' mission-critical risks, most say the audit committee continues to shoulder heavy risk agendas and oversight responsibilities beyond its core responsibilities. Respondents reported that their audit committees have substantial oversight responsibility for legal and regulatory compliance (80%); data governance (70%); cybersecurity and information technology (IT) (62%); and management's enterprise risk management system and processes (61%).

Many audit committees also have significant oversight responsibilities for other risks, including 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 committees' workload, only 11 percent said that their boards were reallocating risk oversight responsibilities among other committees.

Oversight of ESG

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

A majority of survey respondents (58%) said that their audit committees oversee compliance with ESG-related legal and regulatory requirements, 50 percent oversees voluntary ESG/sustainability reporting; 47 percent oversee ESG-related disclosures in regulatory filings; and 35 percent report that they oversees management's processes to determine which ESG issues are material to the business.

Audit committee chairs of FTSE 350 companies* reported significantly more involvement in the oversight of voluntary ESG/sustainability reporting (75%), the oversight of ESG-related disclosures in regulatory filings (75%), and the oversight of compliance with ESG-related legal and regulatory requirements (65%).

Proposed changes to the UK Corporate Governance Code that expand the audit committee's role to include oversight over the integrity of narrative reporting, including sustainability matters – along with the SEC's climate disclosure proposals and the European Union's Corporate Sustainability Reporting Directive – will increase the audit committee's workload and oversight responsibilities and potentially require greater coordination with other standing committees.

Risk management and reporting

Risk management and reporting are generally viewed as strong, but with key areas of concern related to digital activities, potential gaps in oversight, and talent.

While 74 percent of all survey respondents – and 96 percent of FTSE350 audit committee chairs* – said that their companies' risk management and reporting capability was "sophisticated" or "keeping pace with the risk environment," nearly a fifth (17%) reported that their risk management and reporting capability was "struggling to keep pace with the risk environment".

Three critical challenges were identified. These are the risks posed by the company's data or digital activities, such as cyber risk (including ransomware and intellectual property theft), vulnerabilities posed by third parties or 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, or supply chain issues; and whether talent and skill sets in the finance and internal audit organisations are keeping pace.

Skills and expertise are getting a closer look

Only 24 percent of respondents said they had "no concerns" about their committees' composition and skill sets. 42 percent had concerns about a lack of expertise in cybersecurity, 30 percent were concerned about a lack of expertise in climate risk and other ESG issues, and 17 percent were concerned about the audit committee's lack of diverse views.

Significantly, 50 percent of respondents expressed concern that their audit committees were over-relying on the chair or a single member who has the background and expertise to oversee complex financial reporting, disclosure, and control issues.

* Data taken from a simultaneous survey of around 60 FTSE100 and FTSE250 audit committee chairs

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