

Audit chairs share practical guidance for running effective meetings

On June 29, 2017, members of the North American and European Audit Committee Leadership Networks (ACLN and EACLN) met in Washington, DC, for their 12th annual summit. In a members-only session, they discussed audit committee effectiveness, providing insight into how committees can improve performance in the face of mounting stakeholder demands. **For a full list of participants, see Appendix 1, on page 10.**

Executive summary

In conversations before, during, and after the meeting, members touched on the following topics:¹

- ***Thorough preparation enables committees to focus on the critical issues*** (page 2)

Financial reporting oversight remains the key task of the audit committee, but the committee must also tackle an ever-increasing number of critical, sometimes unexpected, issues. Effective agenda setting allows the committee to cover the basics and meet the mandate of their charters, while also attending to emergent topics. Audit chairs have to work closely with management to focus the agenda, ensure committee materials are fit for purpose, and set the committee up for success.

- ***Executive sessions can help keep committee meetings on track*** (page 5)

Executive sessions provide the audit committee with the opportunity to speak candidly on issues without management or the external auditor present. Audit chairs use these sessions before the meeting to address members' unanswered questions and to bring the group into agreement on the topics of the upcoming discussion. The committee can also hold executive sessions at which members of management or external advisers are present; these meetings can help allay committee members' concerns and help the committee focus on critical issues.

- ***Engaging other committee members helps to balance the workload*** (page 6)

The audit chair usually shoulders much of the committee's work, especially outside of committee meetings. There are, however, effective strategies for increasing the level of engagement of other committee members and distributing some of the committee's responsibilities among members. Getting the full committee more involved can help a committee take full advantage of its collective expertise, and also help prepare a future audit committee chair for succession.

¹ *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.

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- **Regular reporting keeps the board informed on the audit committee's work** (page 8)

Audit chairs often find it difficult to engage non-committee members in an audit committee's activities. Frequent communication through regular reporting helps a committee foster broader board understanding.

For a list of discussion questions for audit committees, see Appendix 2, on page 11.

Thorough preparation enables committees to focus on the critical issues

An audit committee is obligated both to meet the objectives outlined in its charter and to deal with unanticipated issues that arise. Agendas must allow sufficient time for recurring duties while also reserving time to address key emerging concerns, and the materials management provides to the audit committee should be designed to maximize efficient use of scarce meeting time. Members also raised the issue of how best to work with management to set the agenda. Some reported that management takes primary responsibility for generating a draft agenda, which is then revised with input from the audit committee, but some audit chairs take on the responsibility themselves.

Setting an effective agenda

Members said that it is tough for an audit committee to cover regulatory and charter requirements while remaining flexible enough to accommodate emerging areas of concern. Stock exchange rules determine many of the components of an audit committee charter, such as the committee's oversight of financial statements, the external auditor, and internal controls, as well as other legal and regulatory requirements.² Many committees use the charter as the starting point for setting meeting agendas on an annual basis.

Members offered practical tips for ensuring that the agenda covers charter requirements while leaving room for emerging issues.

- **Use planning calendars.** Several members said planning calendars are helpful for setting the agenda. One described a process of outlining all requirements listed in the charter and planning scheduled meetings accordingly: *"The charter gives you a road map. It's your commitment to shareholders showing what you'll carry out during the year, such as reviewing risk and ensuring regulatory requirements are met."* Another member recommended using a planning calendar as a *"scorecard"* to keep track of the committee's progress on required issues.
- **Focus on one key accounting issue and one special item per meeting.** Members reiterated that audit chairs need to focus the committee's discussions on what matters most to the company. To deal with time constraints, one member's committee focuses on a different accounting policy at each meeting to ensure that all are covered on an annual basis. *"We do a deep dive into a critical policy each time we meet in order to understand how judgments are being made,"* said the member. Another member noted, *"The toughest thing to deal with is time. We have so much to do and little time. We start by laying out the*

² See New York Stock Exchange, *"Audit Committee Additional Requirements,"* in Listed Company Manual (New York: NYSE Euronext, 2013), 303A.07.

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calendar and all the items we need to cover. We then schedule special topics in advance and bring in management and the rest of the committee ahead of time to concentrate on those topics. You can be overwhelmed by the check-the-box issues, so forcing the discipline of scheduling special topics has helped us get to those issues.”

- **Stay attuned to market trends.** Members also advised staying alert to issues arising with companies in their industries, and the corporate world more broadly, and noted that experience on other boards also helps them to stay informed. One said, *“I started asking the internal auditor to give us a report on corporate failures outside of the company to show us where we might need to spend more time.”* In a similar vein, one member advised, *“Listen to the news – for example, news on fraudulent activity at similar companies – comparing to our company and seeing where we could also fail to catch that type of activity. It’s about asking, could this happen here?”*
- **Request that management work with external audit on special projects.** One member reported, *“We do special projects that include collaboration between management and the external auditor, where they dive into a topic and then present to the audit committee. This is a very valuable practice for the group. We also ask them to work together to understand what other companies are concerned with.”*
- **Ask committee members for feedback on the agenda.** One member suggested requesting feedback on the agenda from the committee members during the annual evaluation process. *“It’s important to ask each member what went right and what went wrong during the committee meetings,”* the member said.

Streamlining material from management

With limited time and a host of topics to cover, audit committees seek concise, concentrated doses of information delivered in a timely fashion. Members shared useful examples of practices implemented to manage pre-meeting material:

- **Ensure the committee has time to review and digest the materials.** Members emphasized the importance of receiving materials in advance, with enough time to read them and prepare. Several members require management to provide materials at least a week in advance. This allows members of the committee to raise questions before the meeting. Members said that when a committee has more time to prepare, meetings are more productive. One member explained, *“We can move right to the discussion without the need for presentation of the information.”* Another member said, *“I get full reports two weeks in advance. While these materials may not be fully fleshed out, it gives me time to run through the agenda several times before the meeting happens. We don’t have the luxury of time. We have to make sure we are dealing with the real issues when meeting.”*
- **Coach management on effective communication.** Several members described pre-meeting reviews with management to make sure that presentations were crisp, relevant, and on target. In some cases, the audit chair will have an advance call with each presenter to help focus the discussion and to prepare for controversial issues. One member noted, *“If you get the ream of paper without a focused outline, you have unfocused presenters, and you never get to what’s of real concern.”* The member continued, *“Our committee started asking each presenter, ‘What’s your number one concern? What keeps you awake at*

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night?’ The focus changed from a slide presentation to a discussion of what really matters.” Members also discussed the importance of management considering a particular audit committee’s needs when preparing materials. Depending upon the backgrounds and preferences of the chair and the other members, some committees request concise materials, others might want more detail.

- **Require an impactful executive summary and limit the amount of prereading.** Most members mentioned the problem of information overload and described ways to reduce the volume of materials that management presents in advance of committee meetings. In order to get to the key issues, one member instituted a major change: *“I asked that materials be 10 pages, not 200. I also asked that the top concerns be summarized up front.”* Another member said, *“We tried to drive down the size of materials. We’ve worked hard to get management to produce a summary slide with three to five key takeaways as an outline for each topic.”* This member described a one-page summary in which three fundamental questions provide the framework for any topic discussed. The committee asks that management ask the following when presenting any topic: Why is the committee seeing this issue? What are the key conclusions from the data? What are the key takeaways? These questions help management to raise the critical elements of a topic quickly and allow for a more substantive discussion.
- **Move supplementary material to a separate appendix.** To reduce prereading while maintaining an adequate level of detail, several members described using appendices more strategically: *“We are reducing reading by having management put more into an appendix. We now focus on the main issues, but we also offer the opportunity to address any issues in the appendices during the meeting.”* Another member reported using appendices posted separately: *“[They are] not part of the official meeting materials. Appendices had become dumping grounds.”* And some members found that the best approach was to do away with appendices altogether: *“Our rule now is that there are no appendices included in the materials. As a result, we have been able to reduce audit committee meeting times significantly,”* said one member.

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How often and for how long do audit committees meet?

Members expressed interest in how frequently their peers held committee meetings and how long the meetings lasted. They responded to an impromptu survey as follows:

- **How often do audit committees meet?** Members reported, on average, holding four in-person meetings per year, in addition to four telephonic meetings, which typically coincide with the quarterly and year-end financial statements. Only one member's committee meets monthly, and others reported as many as six in-person meetings.
- **How long do meetings last?** Members reported that committee meetings typically lasted for two to two and a half hours, though some said that meetings could go as long as three hours, depending on the issues on the agenda.
- **Does the CEO attend the meeting?** Members shared varying experiences with CEO attendance at audit committee meetings. Several reported that the CEO always attends the full meeting, while others said the CEO only attends a portion of some meetings but is *"available if the committee requests his or her attendance."* One member noted that the CEO is present only on the telephonic meetings to discuss the quarterly earnings release.

Executive sessions can help keep committee meetings on track

Members raised questions about how to use the limited time in audit committee meetings most effectively. In one member's case, the CEO's interest added to time pressures: *"The CEO has a desire to attend all of the board's committee meetings, so they have to be run sequentially. This compresses our time for meetings, so on average I get two hours for an audit committee meeting, which presents a real challenge."* To handle the pressure, some members suggested limiting conversation to topics about which members have questions and forgoing presentations on topics that are adequately covered in writing. One said, *"The dilemma is that some meetings go on forever. I'm trying to skip that by saying, what do we actually need to cover in person?"* Executive sessions provide an opportunity for committee members to be candid with one another and to ask individual members of management tough questions.

Preceding and following committee meetings with executive sessions

One member noted the value of holding a directors-only executive session before the start of each meeting. In some cases, the CEO participates in these sessions; in others, the session includes just the audit committee members. Although management may not be in favor of this idea at first, audit chairs said that these sessions help to highlight key issues and establish priorities for the rest of the meeting, ultimately saving management time. *"This conversation helps me understand what's on the mind of the committee,"* said one member.

Another member said that this opening executive session could be useful for revealing some internal dynamics – for example, if the CEO and CFO do not agree about an issue. A pre-meeting executive session can also help prevent a situation in which a committee member could derail the meeting agenda: *"In*

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executive session, I'll also make sure to ask what is most important or if something has come up before the meeting. This can help clear the air if something is on a committee member's mind. It helps prevent one person with a question hijacking the meeting." Members added that in cases where the CEO attends the session, it allows the committee to hear his or her perspectives on the key issues at the outset, and often frees the CEO up from having to attend the entire committee meeting.

Holding separate sessions with key members of management

Several members noted using an executive session as an opportunity to hold individual dialogues with members of management, including the CEO, CFO, and the head of internal audit, in addition to the external audit partner. Less frequently, some members bring the general counsel into an executive session. One member emphasized the benefit of the individual interaction with the committee: *"I've found that the CFO often needs an open mic, and this unstructured time allows the committee to hear them out and to find out what they're really worried about."*

Managing the discussion during executive session

Several members cautioned that executive sessions should not supplant regular meetings of the committee. One said, *"You need to make sure that people are not holding back in the committee meeting in order to talk about an issue in the executive session. That can be a waste of time. Executive sessions should really be [for] those sensitive topics where you need that closed conversation."* Another member said, *"You have to maintain a healthy balance. I have seen the executive session turn into the committee meeting, and then the committee needs to restate what has already been said."*

Engaging other committee members helps to balance the workload

Audit committee chairs recognized that there are both opportunities and challenges to spreading a committee's workload more evenly among its members, especially as committees are composed of directors with a broader range of skills. They discussed ways to take advantage of the full expertise of the committee, primarily by enhancing cooperation rather than by full-scale delegation.

Utilize member's expertise in responding to new challenges

Audit committees need a wide range of expertise to deal with the expanded responsibilities they now must handle. Members said diversity of experience helps in overseeing issues as they arise – for example cybersecurity risk.

Members identified knowledge areas that are needed to handle a committee's work, including finance, operations, the company's industry, and information technology (IT). Having multiple financial experts distributes the core workload of the committee and provides assurance against the loss of the only expert on the committee. People with general management experience – handling profit and loss, running a business – can provide valuable insight on the issues that drive a company's financial performance. A member suggested having a former line executive on the committee: *"A recent or former CEO provides an operating and strategic perspective. You want people who think and approach problems differently."* Another

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member said, *“In addition to financial experts, I want an industry expert, someone who’s been in the business who can connect finances with the business issues in a robust way.”*

Identify strategies for sharing the committee’s work among members

Most members said that they look for ways in which their fellow committee members can participate alongside them rather than for opportunities to fully delegate responsibilities. One said, *“Our committee is so small that it’s hard to parse out roles; it’s better to work together.”* Members described several approaches to sharing work among the committee members and offered examples of ways to collaborate and distribute the committee’s work.

- **Assign specific responsibilities based on expertise.** If a member of the committee has a specific area of expertise, he or she may take on greater responsibilities in that area. *“If we’re dealing with a particular topic, I ask a member with expertise in that area to do a deep dive with me,”* said one member. For example, an IT expert might be tasked with reviewing materials and asking questions about cybersecurity, while a retired audit firm partner might play a greater role interacting with the external auditor. One member described how to tap into the expertise of individual members: *“I’ll have them join me in conversations where I want fresh eyes and ears. It also helps get them engaged.”* Another member described delegating as a method of helping committee member get to know specific parts of the business: *“It’s tactical, but I have a finance expert on the committee who can work with the financing arm of the business. It helps to connect that committee member with management to help them focus when presenting to the full committee.”*
- **Have other members join preparatory meetings and manage postmeeting follow-ups.** Members acknowledged that much of their work as audit chairs occurs outside of committee meetings, reviewing materials with management and doing dry runs of presentations. Members said that it can be beneficial to have other members of the committee participate alongside the chair so that more issues can be resolved in advance. One member said, *“If there’s a follow-up after the meeting, I’ll engage members by asking one of them to follow up with management. I’m not delegating my authority, but I am bringing them in on specific topics and issues.”*
- **Share meeting leadership responsibilities.** Members talked about having a colleague chair an audit committee meeting when they have a schedule conflict, or even when they are present. Some suggested this was an effective way to enhance overall engagement.
- **Encourage proactive interaction with management.** Members said that meeting regularly with the CFO, the external auditor, the chief audit executive, and others outside of committee meetings helps the audit chair and other committee members stay abreast of issues and reduces the length of committee meetings. One member encouraged other committee members to meet one-on-one with management: *“When I took the role, I wanted complete transparency between the committee and management, saying that I want committee members to know everything that I know. This dialogue has created better discussion in our meetings.”* Another member noted how these conversation made committee meetings more efficient: *“Because of this openness, the financial experts on the committee have their questions answered before the meeting.”*

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- **Increase engagement to prepare for audit chair rotation.** One member observed that mandatory audit chair rotation can also lead to increased engagement: *“We had five-year rotation for each of the committee chairs, and it made for a more engaged board and more membership engagement on each committee, because you knew eventually you’d have to be doing the job.”* Engaging individual committee members can also aid in appointing a successor to the role of audit chair, even without mandatory rotation. One member suggested having a potential successor shadow the chair through the entire audit cycle.

While recognizing how important it is to find useful ways to work alongside other committee members in order to share the burden of the workload, members said it can be hard to share certain responsibilities. One member said, *“As an audit chair, I wouldn’t want to be graded by my ability to delegate. Relinquishing tasks isn’t easy, especially when we’re ultimately responsible to the board for this work.”*

Regular reporting keeps the board informed on the audit committee’s work

Audit chairs also face the challenge of communicating the committee’s work to the rest of the board. In a pre-meeting conversation, one member asked, *“How can the audit chair keep the full board engaged?”* Regardless of the strategy employed, members emphasized the importance of ensuring that everyone on the board is familiar with issues of concern that come up in each committee. Such efforts, they said, help reduce the time spent in committee and board meetings educating other directors on what has occurred since the last meeting.

Members discussed techniques for reporting the committees work to the rest of the board without dedicating too much of the board meeting to describing what happened in committee meetings. One member focuses only on key items: *“Some audit chairs feel the need to report out everything. I find it better to report on the top five issues, skipping the routine items. The board is interested in the big issues; they do not need to know the routine details.”* Another member’s committee distributes a condensed version of the committee secretary’s notes to other board members the evening before the full board meets, thus minimizing, or even eliminating, the verbal report.

For some boards, the sequencing of committee meetings and overlapping committee membership obviates the need for more detailed reporting. Many boards, for example schedule committee meetings consecutively, so board members can attend meetings of committees other than those on which they serve. In one case, a member described a board where all board members typically attend audit committee meetings. Other members recommended attending another committee meeting only when there is a shared topic of interest. In some cases, directors cross-serve on committees to ensure proper coverage of key issues. For example, at companies with risk committees, the audit chair often serves as a member of the risk committee.

Conclusion

Today’s audit committees have increasing demands on their time, both in terms of their traditional mandates and emergent issues. They are responding in several ways. Meeting materials are streamlined and summarized, and meetings are kept on point, with management being coached on effective communication. Audit committees are also seeking strategic, operational, and industry-specific experience and implementing

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practices that ensure committee members stay engaged, and they are promoting effective dialogue with various stakeholders.

About this document

The European Audit Committee Leadership Network (EACLN) and Audit Committee Leadership Network (ACLN) are groups of audit committee chairs drawn from leading European and North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The networks are organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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Appendix 1: Meeting participants

Members participating in the summit sit on the boards of over 40 public companies:

- Ron Allen, Audit Committee Chair, Coca-Cola Company
- Pam Daley, Audit Committee Chair, BlackRock
- Dave Dillon, Audit Committee Chair, 3M and Union Pacific
- Carolyn Dittmeier, Audit Committee Chair, Generali
- Eric Elzvik, Audit Committee Chair, Ericsson
- Tim Flynn, Audit Committee Chair, Wal-Mart Stores
- Helman le Pas de Sécheval, Audit Committee Chair, Bouygues
- Mike Losh, Audit Committee Chair, Aon
- Blythe McGarvie, Audit Committee Chair, LKQ
- George Muñoz, Audit Committee Chair, Altria
- Chuck Noski, Audit Committee Chair, Microsoft Corporation
- Tom Schoewe, Audit Committee Chair, General Motors
- David Vitale, Audit Committee Chair, United Continental

EY was represented in all or part of the meeting by the following:

- Steve Howe, U.S. Chairman and Americas Managing Partner
- Frank Mahoney, Americas Vice Chair of Assurance Services

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Appendix 2: Discussion questions for audit committees

The following questions were provided to members in advance of the meeting:

- ? What regulatory, industry, company, or other issues are impacting your agenda?
- ? How are you reacting and preparing?
- ? What role does the charter play in setting the audit committee agenda?
- ? How are issues allocated among committees and the full board?
- ? What are the most important skills and experiences needed on the audit committee? Are those different from the skills and experiences you sought 10 years ago?
- ? How do you ensure that all committee members are adequately engaged?
- ? What techniques have you used to share responsibility among members of the committee?
- ? How do you report the committee's work to the rest of the board?