

Effective audit committee leadership

Over the past two years, audit committees have grappled with the implications of a global pandemic while issues such as cyber risk and environmental, social, and governance (ESG) have increasingly required attention. A shift to virtual work has allowed some flexibility in meeting formats and other practices, but audit chairs still balance oversight of an expanding scope of responsibilities against limited time for meetings.

On 31 March and 1 April 2022, the European Audit Committee Leadership Network (EACLN) met in person in Paris to discuss leadership of audit committees.

For a list of participants, see Appendix 1, on page 10.

Executive summary

EACLN members exchanged views about how they tackle expanding responsibilities and shared good practices for running effective audit committee meetings:¹

- **Balancing the audit committee's growing remit** (page 2)

As the scope of audit committee responsibilities has expanded, managing the length and frequency of committee meetings has become a challenge. Some members have moved certain issues to separate risk or sustainability committees. Others have added time to regular audit committee meetings. Many reported scheduling separate sessions on nonroutine items.

- **Creating flexibility in meeting agendas** (page 3)

Members work with management to put together an annual calendar, with flexibility to address items arising during the year, and then tailor each individual meeting agenda. Ongoing conversations with management, the board chair, the head of internal audit, and the external auditor keep audit chairs informed of developments in the company and offer ideas for topics that should be discussed in future committee meetings.

- **Keeping materials and presentations brief and relevant** (page 4)

Audit chairs work with management to ensure that meeting materials are focused and easy to navigate. They meet with executives before each committee meeting to provide feedback on prereading and to talk strategically about issues that are not in the prereading or on the agenda.

- **Using private sessions** (page 6)

Members use private sessions, which are usually held at the end of a meeting, to calibrate the meeting, get feedback, and identify issues for future sessions. More than half of EACLN audit chairs said that they also hold private sessions at the beginning of each committee

meeting to signal to committee members what they want to focus on, give feedback from their conversations with management, make members aware of issues they will not have time to discuss, and understand what members want to concentrate on.

- **Bringing in the external auditor’s perspective** (page 6)

Members reported that they meet regularly with the external auditor, which allows them to gain a better understanding of issues, escalate issues as needed, and ensure alignment with the auditor. One audit chair described his engagement with the external auditor as “*a continuous and transparent dialogue.*”

- **Educating audit committee members** (page 8)

Audit chairs differed in how they address committee members’ education. Some said that they work with management, external auditors, experts, and others to organize deep dives on emerging topics, new regulations, or specific developments for the company. One member organizes practical education sessions that include site visits. Other members believe it is not the committee chair’s job to provide education, either because they have experienced directors on their committees or because committee members participate in full board education sessions

For a list of reflection questions, see Appendix 2, on page 11. For an overview of the basic characteristics of EACLN audit committees, see Appendix 3, on page 12.

Balancing the audit committee’s growing remit

With expanding audit committee agendas, managing the length and frequency of meetings can be challenging. Members said that many meetings over the past two years occurred virtually. The frequency of regular audit committee meetings varied from four to 15 times a year, the latter for a company undergoing a major transformation. Most committees met between five and six times a year, while four chairs reported meeting more than seven times annually. Some held separate, shorter meetings to review quarterly earnings calls.

The average number of hours audit committees spent in meetings over the year was 45, but that amount varied greatly among committees, from as few as 15 to as many as 93 hours. Some members noted that the length of committee meetings had increased in recent years because of an emerging issue or topic like ESG. One observed that although the time spent in committee meetings has not changed materially, “*areas that have been peripheral have become more of a focus. Cyber and ESG are centerpieces of audit agendas now. Compliance and controls continue to grow. Agenda topics keep piling up.*” This audit chair has worked to balance the committee’s growing responsibilities by ensuring ongoing communication with management, which has allowed him to deal with issues “*on the go.*”

Other audit chairs schedule separate deep dives on specific topics such as internal controls, capital expenditures, major transactions, enterprise resource management implementation, or specific issues relevant to the company that require extra attention.

A few members said that they delegate topics to other committees. One reported that her company established a separate risk committee, which has saved the audit committee time; an



overlap between members of both committees ensures that work is not duplicated and that nothing important is missed. Similarly, when oversight of cybersecurity and a major SAP implementation at this member's company became overly time consuming, they were delegated to other committees. At some companies, coordination between the committees is managed by holding joint committee meetings or occasional sessions with other committees as part of regular audit meetings.

Tackling ESG reporting oversight

Depending on a board's committee structure, audit committees have different responsibilities related to ESG oversight. In some cases, EACLN members have added time to regular audit committee meetings for ESG. However, finding more time in an already crowded audit committee agenda is a challenge. Some members believe that ESG will take extra effort—perhaps an additional meeting per year—until processes are in place and reporting is embedded in established routines.

An audit chair said, "With new regulation, we'll have to increase time and work to create a routine." However, another member did not see the change as material: "There are emerging themes, in particular around ESG, but the process is still a process. ESG will require some additional work, but that isn't a 20% increment—it's maybe a 5% increment or less. It's not something that is squeezing other topics. For the board and the sustainability committee there will be huge amounts of incremental time, but not for the audit committee."

Creating flexibility in meeting agendas

Members described a two-stage process in setting audit committee agendas. First, they work with corporate secretaries, CFOs, legal, and other management to put together an annual calendar. Then, they spend time on each meeting agenda, ensuring that enough time is allotted for each topic and that nothing is missed.

When planning the annual calendar, audit chairs reserve time for required topics as well as for other topics of interest, emerging issues, member education, and joint committee meetings. The process of setting the annual agenda differs among members. In many cases, the corporate secretary proposes the annual agenda; one member noted that because the secretary is also responsible for the annual agendas of other committees, it is easier for him to find homes for topics that have *"a scattered place, like ESG and cybersecurity."* Another member asks, roughly every 12 months, *"Do we have it right? Is the agenda covering the right things? Should there be any changes?"*

At other companies, the audit chair leads the agenda-setting process. One audit chair said that she prepares the annual agenda and works with the head of internal audit, who is *"the guardian of the agenda."* This audit chair reviews the previous year's agenda, the risk map, and the accounts and thinks about things that are coming up in the company.

Some members include their audit committee colleagues in the agenda-setting process. One chair noted that while standard times are allotted for items on the agenda, he and committee members review the agenda annually and make adjustments, including revising the time for extraordinary events or topics that would benefit from additional attention. Another chair gets feedback on the draft annual agenda from committee members, internal auditors, and the CFO. *“At the beginning, I was driving the process. It is now much more of a discussion,”* she said.

Even after the annual agenda is published, items are often added or moved. One member described *“a dynamic agenda.”* Another noted that she looks for *“what’s going on within the company and how they are dealing with issues that are not yet on the agenda—and then I find a way to put them on the agenda in a preliminary way.”* A third said, *“At the beginning of the year we have an agenda, but I always try to leave some room to pick up topics that may come up.”*

Some audit chairs speak with the CFO and/or deputy CFO a few weeks prior to each meeting to review the agenda for the upcoming meeting, both to prioritize topics and to check if anything has come up or is missing from the agenda. One member meets with the CFO, head of internal audit, and external auditor to get *“a feel for what has been rated red and for what reasons.”* These discussions can lead to deep dives getting added to the agenda. Another member said that about a week after each committee meeting, she sits down with the board secretary to look at the agenda for the next meeting, incorporating suggestions from the CFO, head of compliance, head of internal audit, and external auditor into the agenda. One member meets with the supervisory board chair *“to understand what is going on, to discuss the agenda, and see if there is anything that she wants to add to the agenda.”*

The agenda-setting process is not always formal. One audit chair spoke of ongoing conversations rather than discrete sessions to set each meeting agenda. Another agreed, describing how she gathers ideas through ongoing dialogues with other board members. These *“unplanned conversations”* that take place at board events are helpful in coming up with both annual and individual meeting topics.

Keeping materials and presentations brief and relevant

Members work with management to make meeting materials more focused. Some meet with management before each committee meeting to coach them on their presentations and help them prepare for members’ questions.

Meeting materials

Audit committee members expect to receive meeting materials in a timely manner and succinct format. Most said they receive the materials about a week before the committee meeting. One member was pleasantly surprised when management sent her the annual report four weeks ahead of the committee meeting. This, she noted, was a new practice and while it did not include the other meeting materials, it allowed her to send feedback on the report and for management to have time to think about it and make changes.

For a few members, the length of reading materials continues to be a challenge. One noted that while management is getting better at using executive summaries, it *“still dumps too much dense data on us, and this remains a continuous point of tension.”* Referring to a key issues and judgments summary, the member said, *“I’ve asked for that to be a written narrative rather than PowerPoint slides and that it be constricted. It’s still quite a detailed report—it might be five, six pages—but it’s a narrative, which is much better than PowerPoints.”*

Meeting with and coaching management

Most members speak with management before each meeting. Some spend time reviewing presentations, coaching management on content, and preparing them for committee questions. Audit chairs typically meet with the CFO, head of internal audit, and external auditor, as well as with all presenters on strategic topics. As one member noted, there is a *“continuum of preparation to make sure that expectations are aligned, people are well prepared, and to make sure there are no surprises.”*

Providing feedback on prereading materials

One member tries to meet with management before prereading materials are distributed. He uses that time to request additional content, as needed, or to request changes in the format of the materials. This allows management to revise the materials before they are shared with the rest of the committee. Another audit chair meets with management before prereading materials are published, *“to orient management toward what I think would be the most effective way to present the issues that are likely to come on the table for discussion.”*

A member said that she reviews meeting materials with the CFO and the internal and external auditors and flags which pages should be highlighted in their presentations. *“I might say, ‘This page is important but not necessarily these others.’ I coach them on what issues to address,”* she said, noting that she tells management to assume that committee members have read all materials.

One audit chair reflected on his experience as an executive and how he coached his team to be succinct with materials and reports to the board: *“It’s much harder to distil the information into strategic insights and what’s important for the board than it is to do a data dump and declare, ‘I’m being transparent.’ It’s a skill that has to be developed.”*

Strategic discussions and identifying gaps in the materials

One member speaks with management before meetings, *“to discuss openly what has been going on.”* Another meets with management before she receives any materials as a way of not being constrained by what management sends. She sees these as strategic conversations: *“It’s helpful that I don’t react to what they send me but that I think about the company.”* She added that the prereading materials typically contain about 90% of what should be there—but 10% might be missing.

Another warned that since management is *“busy running the company,”* these discussions could be seen as unwarranted board interference. On the board of a rapidly growing company, he said, the directors had to learn how to act as the board of a large global company.

One audit chair meets with management once a month to *“exchange views on what we’ve experienced and to learn from each other.”* He emphasized that in all his interactions with management he tries to foster *“a culture of openness”* and *“to communicate that mistakes are not the end of the world.”* He added, *“Culture is very important and has to be lifted by the chairman of the board and the audit committee. If anything can come to the table, then you’ll have less surprises.”*

Using private sessions

Most members hold private sessions at each regular committee meeting. Many invite the head of internal audit and the external auditor; some meet privately with the CFO, the head of compliance, or other executives, depending on the matter at hand.

These sessions are usually held at the end of an audit committee meeting and can include a rotation of management, the external auditor, internal audit, CFO, and others. A few members use these sessions to meet with just the audit committee to debrief on the meeting and share feedback or key takeaways on matters such as how things have been presented to the committee. One chair asks for additional information or questions that might have been missed during the meeting. Another noted that private sessions enable her *“to sort out issues right away.”*

Some audit chairs hold private sessions at the beginning of each meeting to, among other things, take committee members through the order of the day, share the chair’s thoughts, and ask members for their views on the prereading. One member, the only financial expert on her committee, uses the premeeting sessions to point to financial issues that she has picked up in the reading materials or in conversations with management and other directors. Another uses the closed sessions to inform members of other issues that the committee will not have time to discuss. One audit chair uses the premeeting time to surface points that members want discussed, while the session at the end is *“a time to sit and reflect.”*

A member emphasized that private sessions at the beginning and the end of a meeting serve two different purposes, and *“you want to figure out what purpose you want to achieve, and use and apply accordingly.”*

Bringing in the external auditor’s perspective

Members talked about the significant role that external auditors play in audit committee meetings. Beyond their regular reporting, external auditors are asked to provide perspectives and expertise on topics of interest to the committee.

Audit chairs often meet with the external auditor prior to committee sessions. One finds these meetings helpful as they enable *“good alignment”* and a better prioritization of topics. Another said that the external auditor helps her *“identify issues which may have escaped me.”* She meets privately with the auditor and, at the committee meeting, offers leading questions so that the auditor can constructively share with the committee what they told the chair in private. Another audit chair noted that premeeting interactions with the auditor help her understand what needs to be covered or escalated. At one member’s company, the lead engagement



partner offers to have a one-on-one conversation with each committee member ahead of every meeting.

But these exchanges do not only take place before committee meetings. One audit chair described his engagement with the external auditor as *“a continuous and transparent dialogue.”* It is essential, he stressed, that these interactions take place not only in committee meetings but also in between meetings and throughout the year. Another member, who meets with the external auditor twice a month, noted that the auditor is very active and engaged in the committee’s meetings. This member has a discussion with the external auditor both before and after committee meetings to get their perspectives on issues to be reviewed and to *“hear their reflections or whether the issues were covered well enough.”* He said, *“I don’t wait for the ‘Now, we’ll turn to the external auditor’s report.’ I say to them, ‘Engage in the discussions item by item’—less by asking questions and more by giving us their viewpoints.”*

An audit chair said that she *“triangulates”* by meeting with the external auditor before her meeting with the CFO to gather intelligence that will enable her to challenge management. She also pointed to an instance when the CFO had a difficult conversation with the external auditors on a specific issue; the audit chair organized a committee meeting to prepare for the issue, discuss views, and come to an agreement.

An external auditor’s perspective

At the meeting, Marie-Laure Delarue, EY global vice chair of assurance, stressed that it is vital for audit chairs to invest in their relationship with the external auditor and nurture *“a culture of openness.”* She said that regular and open interactions with the auditor can allow for greater insights beyond audit reports and presentations.

Ms. Delarue said the auditor can help run a robust process to assist in preparing the audit plan, which is essential because *“spending a lot of time with management to really challenge and reflect on the audit plan gives an opportunity to discuss outside of the big problems and issues.”* She encouraged members to ask their external auditor to build a risk radar for them and include emerging risks in it. *“You will have a much better conversation with your auditor, and they will share a lot more than they will share in your meetings,”* she noted.

Audit chairs should also request quality reviews for any results from internal and external reports and especially for those that are *“challenging.”* Ms. Delarue stressed that meeting with the extended audit team and with *“the rising stars on the team”* can allow for a better understanding of the culture of the audit firm: *“For you and for them, it is important to get to know you and to learn about your expectations.”*

Educating audit committee members

Audit chairs differed in how they address member education. Some work with management, external auditors, experts, and others to organize deep dives on emerging topics, new regulations, challenging risk or accounting-related issues, or specific developments for the company.

One audit chair spends substantial time thinking about member education but has found it harder to cover educational topics in a virtual environment. His committee looks at the agenda and identifies topics where they might need education or additional context. The chair then schedules 30-minute deep dives or invites experts to a regular committee meeting.

Another member has meals with other committee members to ask for their feedback, which helps surface topics where members may need further education. Another organizes practical education sessions that include site visits. He said that none of the other directors on his committee are financial experts but that *“it is important for all to understand what the business is, as well as the rationale of management and what the consequences are for the accounts, which we are responsible for overseeing.”* This member believes that *“it is a responsibility of the audit committee chair to think about his colleagues and their education.”*

One audit committee chair organizes an annual session on whistleblowing, including a holistic view of the tips received and breakdowns in controls or culture. The most recent deep dive included speaking with the investigations team and going through a case study; the full board was invited.

Another member said that he does not organize education sessions because his committee consists of very experienced directors and because the board chair thinks about director education more broadly. Others also noted that their boards organize education sessions on strategic topics more generally. One audit chair said that while education opportunities are available via the board and audit committee, *“I expect that every committee member is committed to self-education about all new topics.”*

Conclusion

As emerging risks and reporting obligations mount, so do expectations for audit committees. Different committee remits result in a variety of practices for preparing for and leading audit committee meetings. While there is no one-size-fits-all practice for meeting format, length, and frequency, agenda creation, committee member education, or the use of private sessions, keeping agendas flexible and preparing for meetings by spending time with management and the external auditor before each meeting are important for effective and efficient audit committee leadership.

About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is 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 advisors 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, management, and advisors who become systematically engaged in this dialogue, the more value will be created for all.

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Appendix 1: Participants

The following EACLN members participated in all or part of the meeting:

- Horst Baier, Bayer
- Liz Doherty, Novartis and Philips
- Eric Elzvik, Ericsson
- Ana de Pro Gonzalo, STMicroelectronics
- Byron Grote, Akzo Nobel, Anglo American, and Tesco
- Catherine Guillouard, Airbus
- Margarete Haase, ING
- Marion Helmes, Heineken
- Liz Hewitt, National Grid
- Arne Karlsson, Maersk
- Dagmar Kollmann, Deutsche Telekom
- Benoît Maes, Bouygues
- Marie-José Nadeau, ENGIE
- Helman le Pas de Sécheval, Alumnus
- Nathalie Rachou, Veolia
- Mariella Röhm-Kottmann, Zalando
- Guylaine Saucier, Wendel
- Erhard Schipporeit, RWE
- François Thomazeau, Bolloré
- Maria van der Hoeven, Total

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

- Marie-Laure Delarue, EY Global Vice Chair, Assurance
- Jean-Yves Jégourel, EY Country Managing Partner, Germany

Appendix 2: Reflection questions for audit committees

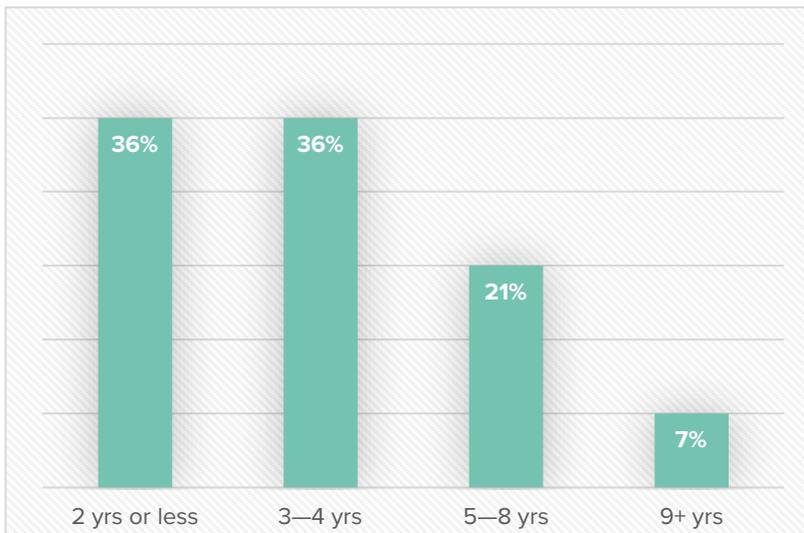
- ? How many hours do you and committee members spend on audit committee work? Have the hours increased over time? Why?
- ? Has the virtual format for meetings been helpful in saving time and in allowing the committee to be more flexible, or has it made meetings more challenging?
- ? Who else from the board and management attends audit committee meetings? What practices have been successful, and which have created challenges in managing time and discussions during meetings?
- ? Who is involved in setting the agenda for your audit committee? Is the process led by the audit chair or management?
- ? Do you schedule regular deep dives? What are some of the topics discussed in them?
- ? How long are your audit committee's executive sessions? Has the time you meet in private increased? What purpose do executive sessions serve?
- ? What are some good practices to help management prepare for audit committee meetings? What are some of the most common shortcomings in presentations?
- ? How do you work with management to keep prereading material focused and concise and to decide what should go in read-only materials?
- ? Are your external auditor and audit partner playing the desired role in your audit committee meetings and in preparation for meetings? What particularly valuable contributions has your external auditor made at, or in preparation for, audit committee meetings? What role should the external auditor play in opining on matters beyond the audit of financial statements?
- ? Do you believe that, as an audit committee chair, you have the obligation to ensure that committee members are educated on key and emerging topics?
- ? Do you, yourself, organize education for audit committee members?
- ? What are some of the topics of focus in audit committee education? Are the sessions a regular item on the agenda or scheduled on an as-needed basis?

Appendix 3: Characteristics of members' committees

The EACLN is a group of audit committee chairs drawn from Europe's leading companies who are committed to improving the performance of audit committees and enhancing trust in financial markets. The network consists of 50 audit chairs of complex, global enterprises that are headquartered in Europe and have over €8 billion revenue or of companies listed in *Fortune* magazine's World's Most Admired Companies.

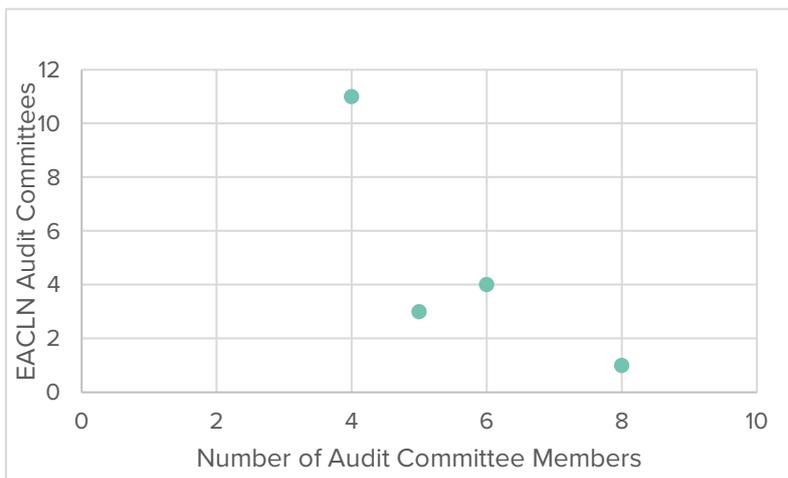
In premeeting conversations, members provided quantitative and qualitative information about their audit committees, which is summarized below. Because many sit on more than one audit committee, for the purpose of this survey, we asked them to provide data for the board of the larger company on which they serve. Not every audit chair responded to each question.

Audit chair tenure



EACLN members are both new and experienced audit chairs. Their reported tenure ranged from nine months to 10 years, with most having spent four or fewer years in their current role. Several noted that while new to their current boards, they have led other audit committees in the past.

Committee size



Most of the audit committees have four directors. Some chairs see this size as most manageable, but a few prefer five; one said that this ensures a variety of different viewpoints, and another expressed preference for an odd number of members. One member who has six directors on her committee said that this should be the maximum.



Endnotes

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.