

## Enhancing audit committee effectiveness in a complex risk environment

Audit committee agendas have never been more crowded. A volatile macroeconomic environment, a spate of new reporting requirements, and rapidly evolving technologies all mean that audit chairs need even better ways to get their committees' work done. During the first quarter of 2023, Tapestry Networks convened two in-person and two virtual discussions with the audit chairs of more than 75 large US public companies to discuss how they are setting priorities and what good practices they are implementing in their committees.

This *ViewPoints* summarizes some of the practices that ACN members highlighted:<sup>1</sup>

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- **Strengthening board composition, onboarding, and education** (page 4)
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## Reassessing committee responsibilities

New and interconnected risks are further crowding an already packed audit committee agenda. Members highlighted their oversight priorities for 2023:

What priorities are ACN members tackling?	
 <b>ERM</b>	Enterprise risk management (ERM) plays a central role in defining risk priorities and creating mitigation strategies. A member said, <i>“In risk oversight, the current models and reporting don’t cut it. Risks are evolving, with new areas of risk developing daily. We need to look at ERM in a fresh way to ensure that we’ve allocated risks appropriately.”</i>
 <b>Geopolitics</b>	Geopolitical considerations are a top concern. One member reported, <i>“We have asked that management update their scenario analyses for China and Russia. They will present a decision matrix focusing on key decision points that could cause us to pivot in one direction or another.”</i>
 <b>Talent</b>	As the <i>“war for talent”</i> continues, audit chairs are focusing on recruiting and retaining talent and maintaining healthy succession plans in the internal audit and finance functions. Audit committees are spending more time reviewing human capital. A member noted, <i>“We hold a special private session at the end of the audit committee meeting at least annually to understand succession and development and where we have gaps.”</i>
 <b>Cyber</b>	Cybersecurity is <i>“a top focus, not because it’s new or different but because it’s significant and ever changing.”</i> With evolving cyber risks and pending regulation, audit chairs question whether resource allocation and oversight is sufficient and whether they are asking management the right questions.
 <b>Macroeconomics</b>	Audit chairs worry about the recessionary environment and high inflation. A member observed, <i>“It’s difficult to determine how sustained inflation will affect a company, its supply agreements, pricing, and more.”</i> After Silicon Valley Bank’s collapse, members worried about distribution of capital: <i>“How can we add diversity and resiliency to our banking posture?”</i>
 <b>Climate</b>	One member acknowledged the challenge of preparing for SEC regulations on climate-related disclosures: <i>“Our priorities are similar to last year’s with the exception of incoming regulation. You can’t prepare for it completely because you don’t know exactly what it will be. Everyone is using consultants to guide the process and prepare as much as possible for issues like climate.”</i>



Audit chairs are pushing back on using the audit committee as “the kitchen junk drawer” for new risks in several ways:

- **Revisiting committee charters and adding or updating duties.** A member spoke of “reassessing accountabilities across the organization and taking a fresh look at committees using charters to provide clear accountabilities for risk.” Several others said that their boards are reviewing charters annually to ensure uniformity and clarity. One explained, “We evaluate the agenda together with the charter and the deliverables on a quarterly basis. Given all the new things that are coming onto the audit committee’s plate, we want to be sure that our agenda isn’t consistently additive.”
- **Distributing interdisciplinary responsibilities across committees.** When new risks emerge, the audit committee is often the default landing zone. One audit chair urged, “Push back! Not every new risk needs to rest with the audit committee.” This chair suggested that environmental, social, and governance (ESG) issues, for example, could be dealt with more effectively by distributing them across committees. One member reported that “mapping ESG priorities to committee charters with the general counsel allowed for more equal distribution across committees. Now, we can pull out our matrix annually and consider whether any ESG involvement should be considered in a charter.” Another said, “We recently determined that ERM belonged with the full board and moved that out of the audit committee. Making time for that dialogue as a board to reevaluate responsibilities and not just accept the status quo is so important.”
- **Determining when new or reimagined committees are warranted.** Some issues may justify a new committee. One member described how their company addresses cybersecurity risk through “a formal technology committee that operates in close connection with the audit committee. I serve on both committees along with one other board member. The [chief information security officer] presents at the technology committee and attends audit committee meetings. This intentional overlap is helpful because it’s difficult to separate cybersecurity from technology, and it requires expertise.” Another said that their board “created a pure audit committee and another separate finance/risk committee. ERM is discussed in the finance/risk committee to a large degree. That distribution keeps the level of frenzy at the audit committee to a minimum.”

### Should the audit committee report be more detailed?

There was lively debate among members about voluntary disclosures in the proxy statement’s audit committee report. One observed, “There seems to be a gap in the perception of what audit committees do and what they are actually doing.” This member argued in favor of providing more context: “Additional disclosure gives investors and the public more confidence that we are providing a high level of audit quality.”



### Should the audit committee report be more detailed?

Others were less enthusiastic about volunteering additional information. One said, *“It’s a lot of additional work for management, and I’m not sure the return is worth it.”* Another challenged, *“If it doesn’t increase the stock price, why do it?”* Another took a middle ground, *“The proxy used to be a legalistic document without much attention. Now it’s shifting towards marketing the governance of the institution. There is an evolution of the audit committee report coming, just as there was a positive evolution of the proxy. Investors are beginning to equate a greater relationship between disclosure and quality.”* Members plan to reevaluate the proxy language annually. One said, *“Our general counsel surveyed all proxies and audit committee reports within our sector.”*

## Strengthening board composition, onboarding, and education

A board’s effectiveness starts with its composition. Members discussed ways to keep their committees current with new skills they may need:

- Ensure breadth and depth of expertise at both board and committee levels.** Members acknowledged that the SEC and other key stakeholders are sharpening their focus on board composition. Audit chairs continue to see the benefits of *“well-rounded athletes”* with strategic experience, a risk management mindset, and broad business expertise. One member mused, *“I like to have a nonaccountant on the audit committee. They ask some of the best questions.”* Many questioned the practicality of narrowly focused experts on the board, preferring instead to bring in third-party experts when needed: *“We can’t lose sight of the fact that for certain issues, like cyber, we need external expertise. If we have the experience in-house, it should be in management.”* But some who had subject matter experts on their boards took the opposite view: *“Someone with a cyber background is valuable with respect to those issues. They know the right questions to pose in that area.”*
- Help new committee members ease into their roles.** To help with the challenges of onboarding new committee members, especially those without financial expertise, one member suggested a longer runway for new members: *“We have a practice of limiting new board members to one committee for the first year. Then, if there is interest and capacity, the member can add to their plate in the second year.”* Mentors are also helpful in integrating new members. On one audit chair’s board, *“each new board member gets a mentor, and it’s effective because the new member doesn’t yet have the historical perspective the mentor can offer.”* In another company, the investor relations team gives a new director the presentation that would be typically given to investors, including a deep dive into the company’s business model.



- **Focus on continuing education.** With new issues continuing to multiply, directors want to be sure they get the education they need. One said, *“It’s ironic that we generally would expect CEOs and CFOs to self-develop, yet we are not holding ourselves, as board members, up to the same standard.”* Some worry, however, that if regulators require additional disclosures on board expertise, as has been proposed in areas such as cyber, the unintended consequence may be a check-the-box approach to additional training: *“Anyone can go online and take a one-hour course, but does it actually help with being effective?”* Robyn Bew, leader of EY’s US West Region Center for Board Matters, cited a recent study by the firm of 60 institutional investors that found with regard to education, respondents most highly favored director disclosure of board training and education to demonstrate expertise as compared with adding a board member with specific skills or expertise, which respondents ranked third.<sup>2</sup> Regarding regulator proposals, one participant said, *“I hope regulators will define proposed expertise requirements so that board members can understand whether and what continuing education is sufficient. We want to direct ourselves and colleagues to certification and education that’s meaningful and accepted in the marketplace.”*

## Enhancing meeting preparation

As audit committee agendas expand, members agreed that additional preparation ensures meetings run smoothly and effectively. They discussed the following helpful practices:

- **Discuss the agenda with committee members.** Many audit chairs check in with their committee members before meetings to address areas of concern and to avoid surprises. Some do this through premeeting calls. *“I reach out to audit committee members before the meeting to share expected key topics and solicit input on the agenda, so everyone goes in with the same background and has a chance to share their thinking,”* said one. Others reserve time in executive session before the meeting: *“We spend the first five minutes of the audit committee meeting with just committee members as a temperature check on agenda items and time allocation. It also gives the committee an opportunity to debrief on confidential matters.”*
- **Provide input and direction on management presentations.** Members acknowledged the importance of premeeting conversations with management. One said, *“It gives them a heads-up on questions to anticipate and committee concerns to alleviate.”* Another added, *“We review management presentations before the meeting and push presenters to focus on two or three key issues as opposed to the full deck. We need to get big items on the table quickly, and a big part of that is in preparation.”*
- **Get creative with meeting materials.** Boards often receive hundreds of pages of prereads for meetings, but at one company, management is replacing certain prereads with video: *“I can listen to the priorities and go to voiceovers throughout the video, which helps narrow issues and make questions more focused. It also gives management the chance to present on the full deck, which I think they appreciate.”*



- **Leverage the external auditor.** An EY partner described preparation for audit committee meetings: *“The audit chair knows I’m not just seeing the EY deck; I see the whole audit committee book of materials. The chair will ask me in executive session, ‘What are the three questions you had on the rest of the material?’ It’s not information I would normally offer up, but when asked, I offer my questions, and it’s useful additional information to inform the audit chair’s full picture.”* Another partner said, *“Ask questions of your external auditor with respect to people, processes, and technology. They can advise on what’s going well and what needs strengthening.”*

## Restructuring meetings for greater efficiency

Members discussed the following good practices for keeping meetings on time and on track:

- **Rein in long presentations and provide feedback.** Lengthy management presentations can cause meetings to run long. One member observed, *“You want to be collegial in the boardroom, but setting out ground rules with management that cutting off a presentation is OK because they’ve presented well allows the meeting to move on.”* Members agreed that coaching management is part of the board’s oversight duty: *“Management must adapt to the board’s preferred style of receiving information. It helps [management] better communicate what they want to get across, and it’s time management discipline.”* Some noted that directors might benefit from the same coaching: *“Board members need to be self-aware of the airtime they take, too.”*
- **Reevaluate the number and format of audit committee meetings.** Balancing compliance requirements with education on new issues is a constant challenge. One member asked, *“Does anyone have a silver bullet for managing the agenda and allowing effective meetings? It’s challenging to fit more in the same time frame each year.”* Members considered some ideas:
  - **Using virtual meetings.** *“Virtual meetings are great for routine matters, and we save deep dives for in-person meetings,”* one member said. Agreeing that routine matters can be handled virtually, another member reported, *“We have all quarterly earnings calls virtually.”*
  - **Adding meetings for deep dives.** One member shared a method for completing the agenda without increasing meeting run time: *“We add a fifth meeting to our schedule and move matters there that require special attention—cybersecurity, for example. It’s been working very well for us.”*
  - **Regrouping reviews of statutory filings.** One member recommended, *“Address the 10-Q and then the press release, but in separate meetings so you can focus on both adequately.”* Another member’s audit committee *“holds 10-Q/K reviews alongside earnings to ensure complete alignment between earnings and public filings.”*



- **Protect time for executive sessions.** Private sessions comprising just the audit committee or the audit committee and members of management or the external auditor are important for fostering trust, forming relationships, and surfacing sensitive or confidential issues. When time is tight, the temptation to cut these sessions short can be strong, but many members cautioned against this. One member, who begins and ends each audit committee meeting with an executive session of just the committee members, said, *“I will protect this at all costs.”* Another member said, *“It’s good practice to have an executive session every meeting so it’s not special, otherwise it makes management nervous when they happen.”*
- **Conduct meeting debriefs.** One member compared the meeting cycle to a Broadway production: *“Rehearsals are the precalls with the teams and reviewing decks. The chair coaches management to put on the best production when the meeting comes. After the meeting, we bring the entire cast together and review our performance.”* A postmortem following each meeting can ensure everyone is on the same page and that all action items are accounted for. A discussion on what went well during the meeting and what could be done better helps foster a culture of continuous improvement. One member recounted, *“We have a formal self-evaluation built into the end of our meeting to say, ‘How have these been running? What other topics should we discuss?’ It helps to have this be a formal and standard part of your greater process.”*

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## Appendix A: Questions for audit chairs to consider

- ? How does your audit committee set its priorities, and how often are priorities revisited?
- ? How does your audit committee prepare for meetings, and what steps are taken to ensure that all members are informed and engaged?
- ? How has preparation changed for audit committee meetings? Does the chair bear a disproportionate share of the preparation burden?
- ? How does your audit committee ensure that the agenda for each meeting is focused and relevant?
- ? How do you ensure that meeting discussions remain productive and focused on the key issues?
- ? How do you ensure that all necessary information is provided in advance of the meeting? How do you manage last-minute requests?
- ? How do you evaluate the effectiveness of audit committee meetings, and what steps do you take when improvements are needed?





## Appendix B: Meeting participants

### *Central and Southeast Audit Committee Network—January 30-31, 2023*

The following network members participated in the joint meeting in Miami, FL:

- Kapila Anand, Elanco Animal Health
- Anne Arvia, GATX Corp
- Kelly Barrett, The Aaron's Company
- Theo Bunting, NiSource
- Pat Condon, Entergy Corp
- Denise Dickins, Watsco
- Juan Figuereo, Deckers Outdoor Corp, Western Alliance Bancorp, and Diversey Holdings
- Art Garcia, ABM Industries
- Mike Hanley, BorgWarner
- Joe Householder, AMD
- Frank Jaehnert, Nordson Corp
- Cary McMillan, Hyatt Hotels Corp
- Wendy Needham, Genuine Parts
- Carol Yancey, BluxLinx

EY was represented by the following:

- Kevin Brower, US Central Region Audit Leader
- Cigdem Oktem, US Central Region Center for Board Matters Leader
- Norm Prestage, Senior Client Service Partner
- Dave Sewell, US Central Region Assurance Managing Partner
- Jud Snyder, Global Client Service Partner

Tapestry Networks was represented by the following:

- Kate Cady, Project and Event Manager Team Leader
- Erin Dwyer, Partner
- Brady Moore, Project and Event Manager
- Amy Sampson, Principal



## *East Audit Committee Network—February 21, 2023*

The following network members participated in the virtual meeting:

- Virginia Addicott, CDW Corp
- Bert Alfonso, Eastman Chemical
- Sallie Bailey, L3Harris Technologies
- Ann Torre Bates, UNFI
- Lou Grabowsky, Griffon Corp
- Mary Guilfoile, Interpublic Group of Companies
- Tom Hough, Equifax
- Jim Hunt, Brown & Brown
- Christie Kelly, Park Hotels & Resorts
- Barb Loughran, Jacobs Solutions
- Rich Macchia, FLEETCOR Technologies
- JoAnn Reed, American Tower Corp

EY was represented by the following:

- Dante D'Egidio, US East Region Assurance Managing Partner
- Jennifer Lee, Americas Center for Board Matters Managing Director
- Molly Tucker McCue, US East Region Audit Leader

Tapestry Networks was represented by the following:

- Kate Cady, Project and Event Manager Team Leader
- Erin Dwyer, Partner
- Allison Greene, Associate
- Amy Sampson, Principal



## *Southwest Audit Committee Network—March 2, 2023*

The following network members participated in the virtual meeting:

- Curt Anastasio, Par Pacific Holdings
- Prat Bhatt, Seagate Technology Holdings
- Susan Cain, Lithia Motors
- Lee Canaan, EQT Corp
- Marcela Donadio, Norfolk Southern Corp, NOV
- Barbara Duganier, MRC Global
- Rodney Eads, NOW
- Paulett Eberhart, LPL Financial Holdings
- Bruce Hanks, Lumen Technologies
- Leslie Heisz, Edwards Lifesciences Corp
- Ginnie Henkels, LCI Industries
- Mercedes Johnson, Millicom International Cellular, Synopsys
- Michelle Kerrick, The Beauty Health Company
- Cathy Lego, Guidewire Software
- Sara Lewis, Weyerhaeuser
- Gil Marmol, Foot Locker
- Mary Pat McCarthy, Micron Technology and Palo Alto Networks
- Don Robillard, Cheniere Energy, Helmerich & Payne
- Brenda Schroer, Antero Resources Corp
- Daren Shaw, Ensign Group
- Steve Sordello, Atlassian Corp
- Les Sussman, East West Bancorp
- Nina Tran, AIR
- Wendy Webb, Wynn Resorts

EY was represented by the following:

- Chris Anger, US West Region Audit Leader
- Robyn Bew, US West Region Center for Board Matters Leader
- Scott Hefner, Global Client Services Partner
- Sandra Oliver, US West Region Assurance Managing Partner

Tapestry Networks was represented by the following:

- Kate Cady, Project and Event Manager Team Leader
- Marsha Ershaghi Hames, Partner
- Allison Greene, Associate
- Amy Sampson, Principal



## *West Audit Committee Network, North and South Chapters—March 15-16, 2023*

The following network members participated in the joint meeting in Palo Alto, CA:

- Phyllis Campbell, ATSG
- Raman Chitkara, SiTime Corp
- Mitesh Dhruv, ZoomInfo Technologies
- Earl Fry, Hawaiian Holdings
- Ken Goldman, GoPro
- Carol Hayles, eBay, Webster Financial Corp
- Laurie Hodrick, Roku
- Bala Iyer, Power Integrations
- Jack Lazar, GlobalFoundries, Resideo Technologies
- Diana Laing, Spirit Realty Capital
- Jeanne McGovern, Huntsman Corp
- Michael Montelongo, Conduent
- Jim Morris, Edison International
- Kristy Pipes, AECOM, Public Storage
- Karen Rogge, Rambus
- Janice Sears, Invitation Homes

EY was represented by the following:

- Robyn Bew, US West Region Center for Board Matters Leader
- Scott Hefner, Global Client Services Partner
- Frank Mahoney, Vice Chair and US-West Region Managing Partner
- Steve Maier, Technology/Media/Telecom Assurance Leader, Partner

Tapestry Networks was represented by the following:

- Kate Cady, Project and Event Manager Team Leader
- Erin Dwyer, Partner
- Allison Greene, Associate
- Amy Sampson, Principal



## Endnotes

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<sup>1</sup> *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. Quotations in italics are drawn directly from members and guests in connection with the meeting but may be edited for clarity.

<sup>2</sup> Jamie C. Smith, *2023 Proxy Season Preview: What Investors Expect*, EY Center for Board Matters (Ernst & Young LLP, 2023), 8.