

Adding value: Perspectives on the audit committee's dynamic role

Audit committee chairs were amazed by the success their companies and boards displayed as an unprecedented crisis upended well-established processes. As offices reopen and boards resume in-person meetings, audit committees must choose which legacy practices to resume and which new approaches to maintain. They also face a changing landscape that is causing them to rearrange their agendas and even question what mix of experience and skills is most necessary for the future success of the committee.

From May 13 to June 25, 2021, Tapestry Networks convened six virtual meetings with the audit committee chairs of approximately 100 large US public companies to exchange views on how audit committees can maximize the value that they deliver to their companies and boards. *For a full list of meetings and participants, please see the appendix on page 10.*

This *ViewPoints* synthesizes discussions about three key topics that emerged in the meetings:¹

- **Adapting board and audit committee processes**
- **Reshaping audit committee agendas**
- **Enhancing committee composition**

Adapting board and audit committee processes

For boards, the move to virtual work upended a set of practices or norms that have been developed over decades. As conditions allow for the return to in-person interactions, audit committees are assessing which techniques developed during the pandemic to make permanent. Notwithstanding the success of virtual meetings, audit committee chairs are excited to resume many of their prepandemic activities.

Virtual meetings are efficient and generally effective

Audit chairs—despite acknowledging “Zoom fatigue”—espoused the benefits of virtual board and committee meetings. One audit chair said, “*The most remarkable thing about this year was how unremarkable it was from an audit committee standpoint.*” While all audit chairs said that their boards plan to resume in-person meetings in some capacity, most are currently having conversations about how to best take advantage of virtual platforms in the future. One said, “*We are anxious to be in the same room again, but I am not sure there is appetite for meeting five times a year in person ever again. We plan to maintain five meetings, but a few will be virtual because they have been efficient and they save on the wear and tear of travel.*”

Indeed, one of the benefits of virtual meetings is efficiency. One audit chair said, *“Management and committee members have more discipline because they are used to the cadence of Zoom. Presentations are crisper and there has been greater sensitivity to time, so we are finding meetings ending earlier but still with robust discussions.”* In some cases, audit committees decided to chop their meetings up into smaller slices. One audit chair said, *“We used to have 3.5-hour-long audit committee meetings, but we chose to split the meetings up virtually so we weren’t staring at the screen for so long. We are going to keep this practice moving forward for our regularly scheduled meetings; it is a good change because it is not as tiresome, and it helps keep people focused.”*

Several said that their committee members’ comfort with video meetings allowed them to make meetings that were historically done telephonically more valuable too. One said, *“Our meeting to review the 10-Q used to be by phone, but we have moved it to Microsoft Teams. It has been very effective. When chairing that meeting, members can be very quiet and you wonder if they are present and participating. It’s different when you are forced to show up on camera—it helps ensure you do have a robust dialogue.”*

Video meetings also allow committees to engage directly with a broader population within company management. One audit chair said, *“We were able to bring in finance staff from around the world without having to bring them into headquarters. It allowed for a more inclusive and impactful meeting. Instead of the CFO reporting on what the CFO of our South American business told him, we heard it directly. Our intention is to continue to do this.”* Another agreed, adding, *“The ability to hear from our international team members that we may have otherwise left out is really helping us to understand if we have the right talent in place in the organization.”*

The benefits of technology extend beyond using an audiovisual platform for the meetings themselves. Several audit chairs shared that their management teams are using video and audio capabilities to enhance the quality of the premeeting materials. In some cases, this allows presentations that once took time in the meetings to be shared ahead of time. One audit chair said, *“We use a platform which allows management to prerecord a voice-over of their slides. It takes more time to prep, but it makes the meetings themselves much better because you get straight to the discussion.”*

Technology is not a replacement for in-person meetings

Audit committee chairs are eager to be back in person with their board colleagues. Some felt that the success of virtual meetings was predicated on the relationship capital and culture that boards have built over years of in-person meetings. One said, *“I’m proud that we were able to cover a lot of complex ground virtually. But now, having returned to two meetings in person, I realize how much more effective it is to be in the same room.”* Many pointed to elements of culture and trust that were difficult to replicate in the virtual world. One said, *“We had an in-person meeting in April, and the real value to committee members was the catch-up during our get-together over dinner.”*

The efficiency of virtual meetings has some audit chairs worried that committee meetings can devolve into check-the-box exercises. One said, *“I’ve found that our meetings are shorter and just focused on the have-to-do, not the nice-to-do. The deep dives have fallen by the wayside and the dialogue is not as robust. I’m anxious to get back in person.”* Another said, *“Virtual meetings are very clinical. Tick, tick, tick. We have to do more ad hoc follow-up since not everything comes up in the meeting.”*

Others noted that difficult conversations are even more difficult on video. It can be easier to stay on mute than make a controversial point or ask a question that may make you look uninformed. One audit chair said, *“A big part of board service is getting to know people. Sometimes a comment is made that you are not sure you understand, and you may not be comfortable asking in the full-group setting, so you have a quick sidebar with your neighbor for clarification. That aspect is not possible virtually.”*

Ultimately, audit chairs said that decisions about what remains virtual and what returns in person are still in the early stages and will require iteration. Most expect a combination of the two. One said, *“We had a serious evaluation of which topics worked well over Zoom and which required more strategic discussion. We plan to continue to cover more routine and administrative items in virtual, off-cycle meetings and save the strategic conversations for in person. It takes more hours, but it is more productive.”*

Reshaping audit committee agendas

Audit committee chairs discussed the pressure they face to take on new or incremental responsibility for important topics. As companies disclose more and more information about their environmental, social, and governance (ESG) performance, audit committees can play a role in ensuring accuracy. In addition, audit chairs reported spending more time on core activities, including risk and cybersecurity, finance and internal audit talent, and major transactions.

Committees are collaborating to bolster ESG oversight

This proxy season marked a turning point on ESG issues. Companies and boards faced unprecedented pressure to enhance their practices in this area, and ESG proposals received record shareholder support.² Most audit chairs noted that their boards are still sorting out how to allocate ESG oversight. Acknowledging the broad scope of ESG, many boards are splitting oversight among several committees. One audit chair said, *“It doesn’t make sense to consider ESG as one topic. It takes three words to describe it and four committees at the board to look at it.”*

In many cases, audit chairs said that their boards are carving out a role for the audit committee to assess the quality of the reporting and the system of controls used to ensure its accuracy. One said, *“While ESG responsibility resides in the nominating and governance committee, the audit committee’s contribution is to validate the numbers. We look closely at the design and testing of the controls. Before the company releases data, it is important to do more to get comfort around*

completeness and accuracy.” Others made similar points and noted that the audit committee’s role aligns closely with whatever role the internal and external auditors play in the process. One said, *“We have asked our internal audit team to start reviewing the ESG metrics, so there is a natural role for the audit committee to provide oversight there.”*

Some audit chairs were more resistant to their committees taking on ESG issues. One said, *“I always wonder where new responsibilities will sit—will it all get shoehorned into the already packed audit committee agenda? I am pushing for this to land in nom-gov [the nominating and governance committee]. I would think hard before accepting the responsibility in audit.”* Another cautioned that taking on what might seem like a minor role could turn into something much larger: *“Our committee’s responsibility is to assess the metrics, but it is no small task. There are all kinds of metrics—from diversity to carbon footprint and so on—and no one is used to reviewing these, and the people responsible are not used to controls and rigor around the numbers.”*

Audit chairs expressed concerns about companies making lofty ESG commitments that are not backed up by achievable plans. One noted the challenge for a board or audit committee in pushing back: *“We are making some very large, long-term commitments regarding things like greenhouse gas emissions. What is the role of the board in understanding if these goals are achievable and the financial impact of them?”* Another said, *“I’m concerned because the CEO won’t be there when some of these goals come due.”* An EY leader added, *“The statements your companies put out will be tracked; investors and regulators are trying to hold companies accountable. We are seeing boards try to evaluate what that means to them.”*

As boards delegate new responsibilities to different committees, audit chairs noted the importance of delineating them in committee charters. One said, *“All of our charters got revamped to clearly reflect ESG responsibilities.”* An EY leader encouraged audit chairs to pay attention to this issue: *“We have been seeing an uptick in questions from audit chairs about this in recent months. If we take this on, what should we say in our charter?”*

Other important topics are receiving new or increased audit committee attention

While ESG issues have garnered so much recent attention, audit chairs stressed that there are many other high-priority topics for their audit committees. The pandemic pushed audit committees to focus on strategic issues without losing sight of their core responsibility of overseeing the financial reporting process.

In the past year, audit chairs report spending more time on the following topics:

- **Risk oversight.** A global pandemic that few companies anticipated—and even those who anticipated it underestimated its scope—has caused audit committees to rethink their approach to risk oversight. As one audit chair put it, *“I think the lesson we have all learned here is if you didn’t have a burning platform for embracing ERM [enterprise risk management],*

you do now.” One way in which audit committees are enhancing their oversight is by scheduling stand-alone deep dives on specific, high-risk topics either for the committee or the full board. Since these sessions are designed to be more educational, some directors suggested that they are well suited to a virtual format. Network members debated how to operationalize their boards’ risk oversight; several discussed revisiting whether their current approach of delegating the topic to the audit committee was adequate. One said, *“Our board created a subcommittee on ERM comprised of the chairs of each committee. That committee then decides which committee is responsible for what in terms of risk oversight.”*

- **Cybersecurity and data privacy.** While cybersecurity has been a priority for many years, recent events have raised the stakes for audit committees. One audit chair said, *“The shift to virtual has our committee hyperfocused on all cyber issues. We probably spend half of our time that isn’t just quarterly reporting on IT [information technology] controls, cyber, and privacy.”* In recent months, a series of ransomware attacks has only increased the importance for a board to grasp the company’s approach to cyber risk. An audit chair said, *“The bar on cyber keeps getting raised. The more you do, the more you find to do.”* In addition, especially for network members whose companies hold consumer data, the evolving privacy landscape has added another dimension to cybersecurity oversight. One audit chair suggested a strategy to deal with these topics: *“It’s a complex problem where people know it’s a serious danger but don’t know what to do. So ‘chunkify’ it: break it down and focus on the underlying tasks or risks, like patching, phishing, and training.”*
- **Finance function talent.** Audit chairs strive to be trusted advisers to and sounding boards for their CFOs on people issues. The success finance professionals have achieved while working remotely is testing companies’ abilities to attract and retain top talent. Employees expect more of their employers and have more opportunities to seek those things elsewhere as geographic location becomes less relevant for some roles. One said, *“We are experiencing a shortage in finance talent. It’s hard to build trust and loyalty to teams virtually. When people are working from home every day, a new job is the only change they can get.”* Another noted the challenge to retain talent: *“There are new rules of the game: people realize they can be very productive at home and have more family time and not sit in a car for hours each day. So we are trying to come up with new rules and debate if they will attract talent or chase talent into the arms of another company with a better ‘show-up-to-work’ policy.”*
- **Internal audit oversight.** The remote environment strained internal audit teams, who are typically accustomed to face-to-face engagement. In addition, as functions adopt new technologies, some audit chairs wonder whether they have the right internal audit leadership to take advantage of these capabilities. One audit chair said, *“We are searching for a new chief audit executive, and we really want someone with global leadership experience and a technology focus to fill this role.”* In some cases, audit chairs said, their companies have reassessed the capabilities of their function and determined that more should be outsourced. One audit chair, whose company decided to outsource a substantial portion of internal audit,

said, *“We completed the transition a month ago, so it’s early days; but the returns for the audit committee and internal feedback from teams has all been strong.”* An audit chair stressed the value-adding capabilities of internal audit, especially as companies emerge from the pandemic with new strategic priorities: *“Best-in-class internal audit groups can be accretive to organizations by partnering with them in operations. We are working to further this agenda, and it has produced great returns.”*

- **Transactions and integration.** While there was a brief slowdown in major transactions at the outset of the pandemic, the deal environment quickly picked up. With that came the challenge of acquiring and integrating companies virtually. For the most part, audit chairs reported that their teams were able to handle complex transactions without missing a beat. One said, *“Trying to do major transactions during a pandemic without everyone together resulted in endless meetings and so forth, but it actually was not as hard as you may think. I found it faster and easier using a virtual system.”* However, another cautioned, *“We struggled with getting comfortable with all the due diligence required when you don’t have the ability to look someone in the eye.”*

Many audit chairs are struggling with how to fit new or enhanced responsibilities into an already packed audit committee agenda. One said, *“I’m having a hard time keeping meetings to a reasonable length. Some have suggested we skip routine items on the agenda, but I am not comfortable with that. I don’t know how to address the ever-expanding scope that the audit committee is being held accountable for.”* Some directors suggested that doing more of the work between the regularly scheduled committee meetings—especially now that directors are more comfortable meeting virtually—may be a necessary component going forward.

Enhancing committee composition

The scope and mandate of the audit committee continues to evolve and expand. So does the pressure from outside stakeholders to add more diverse perspectives to the board and audit committee. Audit chairs noted that as the pandemic begins to subside, it is a good time to reflect on audit committee composition and examine how best to refresh the committee, strengthen its membership, and ensure that it is adding as much value as possible.

A mix of skills, backgrounds, and expertise

Boards are taking a much broader view about who should serve on the audit committee. One audit chair with financial expertise said, *“I can’t think of anything higher risk than a whole audit committee filled with people like me.”* Network members shared what they look for when adding new audit committee members:

- **IT/cybersecurity expertise.** In the past, audit chairs were concerned that potential directors with IT or cybersecurity experience would not add enough to the board. That is no longer the case because there are many qualified candidates with both a technology background and deep business experience. As one director put it, *“Being a generally good executive is not*

enough anymore—you need to be a good executive and have another specific skill on top of that. We are adding very targeted experts.” Several audit chairs reported recently adding chief information officers (CIOs) or chief information security officers to their boards. One said, *“We recently added a CIO to the audit committee, and it’s been hugely helpful to have help on cyber and other tech-related topics.”* Another stressed that one expert, while advantageous, is not a replacement for the work the rest of the directors must do: *“I’m a big fan of adding a cyber expert to the audit committee; we have one who brings tremendous value and expresses opinions on not only cyber. I also think it is important for the rest of us to do more to understand this critical risk.”*

- **Complementary financial skills.** There are benefits to having more than one person with financial expertise on the audit committee. This often works best when the two have slightly different backgrounds—for example, when one committee member is a retired audit partner and another is a sitting finance executive. One audit chair said, *“I am the only financial expert on our committee, and one investor actually brought up adding more financial expertise to the audit committee. With the investor pressure, we were able to convince a former CEO on our board to join the audit committee to ensure we had a successor to me as the chair.”*
- **Diversity.** Stakeholders are pushing companies to diversify their boards. Research shows that businesses with more diverse boards and workforces tend to financially outperform their peers.³ Large-cap companies elected a record number of new African American directors for board seats in the past year.⁴ As companies revisit their records and responsibility on diversity, equity, and inclusion, the push for diversity has spurred competition for board candidates. One audit chair said that finding a qualified, diverse candidate is not difficult, so long as a board is willing to take a broader view: *“When you are looking to add diversity, sometimes it is hard if you are looking for someone with specific industry expertise or experience as a CFO. If you look more broadly for a financial expert, there are many candidates. We have had great success diversifying our board.”*

Training and development initiatives

The inability to meet in person forced boards to come up with creative ways to onboard new members. The lessons from this experience will influence how directors think about board training and development even as restrictions are eliminated. One audit chair said, *“I joined a new board during the pandemic and I thought the onboarding worked well. It was spread out over three weeks instead of crammed into several days at the headquarters, and I actually was able to meet even more people because of the flexible nature of the virtual environment.”* Others agreed that the initial stage of onboarding is well suited to a series of virtual meetings, but they worried about the long-term consequences. One anticipated having to play catch-up on building personal relationships: *“I joined a new board and have yet to meet any director face to face. It’s been fine, but I’m anxious to be in person and build up the trust and rapport that you just can’t recreate over the internet.”*

Several audit chairs described the audit committee as an ideal training ground for new board members. One said, *“We have a requirement that new directors spend one year on the audit committee when they join the board because we feel it’s the best way to come up to speed on the company.”* Another agreed with this practice and noted the added benefit that it helps to keep the audit committee composition refreshed. A third shared a different practice: *“When someone joins the board, we don’t assign a committee right away. For the first year, we allow new directors to attend all committee meetings so they can observe but don’t feel compelled to participate. It helps give a sense for fit and overall interest.”*

A balanced approach to tackling audit committee responsibilities

As new members bring different skills, audit committee chairs are considering new approaches to their committees’ work. Some favor finding ways to delegate portions of the work—especially the work done in between meetings—to members with specialized expertise. One said, *“I have a cybersecurity expert on my audit committee and have delegated the cyber portion of the work to her. She does all the updates with the IT group and feels empowered in that area.”* Another added, *“I am finding a lot of work has to be done offline. I pull in the CIO on our committee to handle deep dives on cyber outside of our regular meetings.”* While this practice is most predominant when a director has specialized knowledge in IT or cybersecurity, it need not be limited to those cases. Audit chairs discussed using a similar approach when committee members have expertise in internal audit, risk, or compliance.

Some audit chairs were uncomfortable with the concept of cordoning off portions of the committee’s agenda and delegating them to committee members. One said, *“As chair, I have found it is my role to do the work to organize the most effective conversation for the committee. I don’t have to ask all the questions—it’s more issue management and monitoring. I would argue the best way to drive full participation is for the chair to assess what needs to come to the committee, rather than dividing and conquering.”* Another agreed: *“Everything should be routed through the chair to avoid silos that make for inefficiencies.”*

Conclusion

While the pandemic appears to be subsiding, boards and audit committees face a unique moment in which to assess the lessons from having operated successfully through extraordinary circumstances. The future will not look like the prepandemic past, nor will it look like the experience of the pandemic. Audit committees have a once-in-a-generation opportunity to reshape the way in which they convene, the issues that rise to the top of a crowded agenda, and their own perspectives and membership. Through all of this, audit committee chairs see it as imperative to add even more value to their companies and boards than ever before.

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Appendix: meeting participants

West Audit Committee Network-North—May 13, 2021

The following network members participated in the meeting:

- Judy Bruner, Applied Materials and Seagate Technology
- Raman Chitkara, Xilinx
- Matt Fust, Ultragenyx Pharmaceutical
- Ken Goldman, GoPro
- Mark Hawkins, SecureWorks
- Bala Iyer, Power Integrations
- Peter Klein, F5 Networks
- Jack Lazar, Resideo Technologies
- Mary Pat McCarthy, Palo Alto Networks
- Janice Sears, Invitation Homes
- Nina Tran, Aimco
- Christine Tsingos, Envista Holdings
- Malia Wasson, Columbia Sportswear

EY was represented by the following:

- Robyn Bew, Director, Markets and West Region Leader, Center for Board Matters
- Scott Hefner, Senior Global Client Service Partner
- Frank Mahoney, Vice Chair and US-West Region Managing Partner

Central Audit Committee Network—May 24, 2021

The following network members participated in the meeting:

- Kapila Anand, Elanco Animal Health
- Bruce Besanko, Diebold Nixdorf
- John Bryant, Macy's
- Pat Condon, Entergy
- Rick Fox, Univar
- Mike Hanley, BorgWarner
- Linda Harty, Wabtec
- Cara Heiden, Casey's General Stores
- Sandy Helton, Principal Financial Group
- Neil Novich, Hillenbrand
- Richard Wallman, Extended Stay America and SmileDirectClub
- Ray Young, International Paper

EY was represented by the following:

- Julie Boland, Vice Chair and Central Region Managing Partner
- Rich Bonahoom, Global Client Service Partner
- Cigdem Oktem, Central Region Leader, Center for Board Matters
- Steve Sheckell, Assurance Managing Partner, Central Region

West Audit Committee Network-South—May 24, 2021

The following network members participated in the meeting:

- Prat Bhatt, Seagate Technology
- Eric Brandt, NortonLifeLock
- Joe Bronson, Maxim Integrated Products (*WACN-North member*)
- Traci Dolan, Steel Dynamics
- Richard Goodman, Adient
- Leslie Heisz, Edwards Lifesciences
- Leon Janks, PriceSmart
- Diana Laing, Spirit Realty
- Ed Lamb, Real Industry
- Tim Leyden, Itron
- Steve Page, AeroVironment
- Kristy Pipes, PS Business Parks and Public Storage
- Dick Poladian, Occidental Petroleum
- Les Sussman, East West Bancorp
- Wendy Webb, Wynn Resorts

EY was represented by the following:

- Robyn Bew, Director, Markets and West Region Leader, Center for Board Matters
- Scott Hefner, Senior Global Client Service Partner
- Pat Niemann, Greater Los Angeles Office Managing Partner
- Mike Verbeck, West Region Assurance Managing Partner

East Audit Committee Network—May 25, 2021

The following network members participated in the meeting:

- Virginia Addicott, CDW
- John Alchin, Ralph Lauren
- Bert Alfonso, Eastman Chemical Company
- Ann Torre Bates, United Natural Foods
- Bob Bedingfield, GeoPark and SAIC
- Carl Berquist, Beacon Roofing Supply
- Steve Elliott, PPL Corporation
- Marie Gallagher, Geltfelter
- Lou Grabowsky, Griffon Corp
- Mary Guilfoile, Interpublic Group
- Jan Hauser, Vonage
- Barbara Loughran, Jacobs Engineering
- Maria Morris, S&P Global
- Bill Plummer, Global Payments and Waste Management
- JoAnn Reed, American Tower
- Greg Weaver, Verizon
- Sandra Wijnberg, Cognizant
- Tim Yates, CommScope

EY was represented by the following:

- Dante D'Egidio, Assurance Managing Partner
- Molly Tucker McCue, Partner, Assurance
- Bud McDonald, Managing Partner, Connecticut Office
- Dawn Quinn, Director, East Region Strategic Operations

Southwest Audit Committee Network—May 27, 2021

The following network members participated in the meeting:

- Vanessa Chang, Transocean
- Marcela Donadio, Marathon Oil
- Barbara Duganier, MRC Global
- Paulett Eberhart, LPL Financial Holdings
- Bruce Hanks, Lumen
- Mercedes Johnson, Synopsys
- Don Kendall, Talos Energy
- Cathy Lego, Guidewire Software
- Guillermo Marmol, Foot Locker
- Ellen Masterson, Insperity
- Billie Williamson, Cushman & Wakefield

EY was represented by the following:

- Robyn Bew, Director, Markets and West Region Leader, Center for Board Matters
- Scott Hefner, Senior Global Client Service Partner
- Mike Verbeck, West Region Assurance Managing Partner

Southeast Audit Committee Network—June 25, 2021

The following network members participated in the meeting:

- Maureen Breakiron-Evans, Cognizant
- Carolyn Byrd, Regions Financial
- Ed Coleman, Ameren
- John Davidson, TE Connectivity
- Jim Hunt, Brown & Brown
- Scott Kuechle, Kaman Corporation
- Karole Lloyd, Aflac
- Rick Navarre, Covia Holdings (*Central member*)
- Bill Smith, Southern Company

EY was represented by the following:

- Julie Boland, Vice Chair and Central Region Managing Partner
- Cigdem Oktem, Central Region Leader, Center for Board Matters
- Glenn Mitchell, Atlanta Office Managing Partner
- Dave Sewell, US-Central Audit Leader
- Bryan Yokley, Assurance Partner

Endnotes

¹ *ViewPoints* reflects the use of a modified version of the Chatham House Rule whereby names of participants 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 these virtual meetings.

² Lindsay Frost, [“Record-Breaking Year’ for ESG Shareholder Proposals,”](#) *Agenda*, May 28, 2021.

³ Neanda Salvaterra, [“Recruitment of Black Directors Rises Almost 200% at S&P 500 Companies,”](#) *Agenda*, May 28, 2021.

⁴ Salvaterra, [“Recruitment of Black Directors Rises Almost 200% at S&P 500 Companies.”](#)