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Effective conversions

Audit Committee Questions
Audit Committee Institute

Getting the 'right conversation' around the audit committee table is an essential component of audit committee effectiveness

| Risk-based approach | Materiality | Scoping and audit coverage | Reliance on internal controls | Audit methodology and tools |

The audit committee should meet as often as its role and responsibilities require.

Having effective meetings and conversations enables the audit committee to make timely and influential decisions. Having sufficient time available at each meeting is critical. The committee must be able to cover all agenda items, hold as full a discussion as is required, and enable all parties to ask questions or provide input. There should also be sufficient time for audit committee members to discuss issues, without others being present (private session), at each meeting.

Getting the 'right conversation' around the audit committee table is an essential component of audit committee effectiveness. Our experience indicate that many audit committees could significantly improve their oversight capabilities and therefore their effectiveness through greater consideration of the style and content of the conversations they have. There are some important overarching considerations when preparing for audit committee meetings:

- Arranging the space available in the audit committee calendar for all the subject matter that should be covered involves mapping out the agenda.

- Making time available for both 'hard' and 'soft' subjects, for decision and reflection, for introspection and evaluation. It is important that the routine business of the audit committee does not crowd out the critical issues, and that the overall agenda is not so tight that it cannot adjust to include 'special business' or matters raised by individual audit committee members.

- Framing every conversation. Whether challenge, debate or 'for information', every audit committee 'conversation' needs clarity of purpose so that all audit committee members have the appropriate information available before the conversation takes place. Conversations need clear purpose and outcome (whether a decision or an agreed position or simply being better informed), and follow-up.

Some characterics of an effective audit committee chair …

Potential indicators of ineffective conversation	The chair's response	The members' response
Are dominant personalities or groups in the audit committee meetings controlling the debate?		
- Dissenting voices marginalized? - Difficult issues not sufficiently discussed? - Debate becomes personalised, not issue focused? - Special insights not used? - Individuals reticent to speak up? - Third parties stereotyped as out of touch? - Management team is defensive or aggressive?	- Build trust and respect with all members. Speak with them ahead of meetings and make sure they are sufficiently briefed to contribute effectively - Give weight to the views raised - Demonstrate by own behaviour that questioning of assumptions is appropriate - Engineer a counter case in the debate - Encourage and give 'air cover' to new committee members	- Speak up but don't hog airtime - Ensure that you are fully briefed - Add value by adding fresh insight - Build relationships with other members and 'rehearse' difficult questions or concerns before the audit committee meeting
Is the audit committee being 'managed' by the executive team?		
- Executives don't provide the committee with different viewpoints – all proposals appear to be a fait accompli? - Insufficient focus on the big picture? - Probing challenge not welcomed by the executive team? - Insufficient emphasis on risk? - Papers not tailored to board needs?	- Use the company secretary actively in preparation of papers - Pre agree with relevant executives how particular issues should be presented to the committee - Personally demonstrate behaviour required by querying judgements and assumptions - Insist on meeting relevant executives ahead of papers coming to committee	- Respect the executive need for 'instant decisions', but 'push back' in the discussion - Get to know the business and people below the top executive team – the 'marzipan' layer - Be active conduits to the external world
Is the audit committee lacking diversity of thought (groupthink)?		
- Constant drive to get through the agenda and 'move on' to next topic? - Scenarios rarely used? - Lack of any external input or challenge? - Different options not presented or evaluated? - 'Out of the box' thinking discouraged?	- Use a facilitative style to manage the debate - Use third party briefings etc. to increase insight, drive debate and facilitate opposing views - Review the committee membership - Review the style and effectiveness of the audit committee conversation	- Use 'intelligent naivety' to ask the 'non-obvious questions' - Keep asking questions in different ways until satisfied - Suspend prevailing assumptions - Change the angle of debate
Is the audit committee is overly focused on process?		
- Overemphasis on 'ticking the boxes' at the expense of 'proper' debate? - Inappropriate allocation of time to critical issues? - Sense of pressure to get through the agenda? - Failure to stand back and look at the big picture? - Unwillingness to challenge 'the way we do things here'?	- Involve multiple inputs when setting the agenda - Differentiate agenda items by importance - Listen hard for signals of discomfort - Don't be afraid to park items for further review where necessary - Be prepared to call additional meetings	- Raise concern either in meeting or offline with the chair - Offer to lead the discussion on a specific upcoming issue - Specifically this issue during the annual evaluation process
Low commitment, engagement or capability of some audit committee members?		
- Attendance in person but not in spirit? - Lack of preparation? - Consistent lack of contribution? - Focus narrowly on 'own world view'? - Too much 'shooting from the hip'?	- Get to know each member by spending time with them outside formal committee meetings - Demand brains are switched on and mobiles switched off - Change the committee's constitution if appropriate	- Raise any issues promptly with the audit committee chair - 'Move on' if not able to contribute

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