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# 3 Ways to Improve Audit Committee Effectiveness

Nearly two-thirds of surveyed audit committee members see opportunities to improve effectiveness



Cybersecurity and enterprise risk management (ERM) were the top priorities identified for audit committees over the next 12 months in the [Audit Committee Practices Report: Common Threads Across Audit Committees](#), followed by finance and internal audit talent, compliance with laws and regulations, and finance transformation. The report, a joint effort by Deloitte's [Center for Board Effectiveness](#) and the Center for Audit Quality, is based on survey responses of 266 audit committee members, mostly from U.S. companies.

Audit committee practices and effectiveness were also addressed in this year's report. Eighty-nine percent of survey respondents say they feel there is adequate meeting time for addressing all items on the audit committee agenda. Yet most respondents (65%) also indicate there is at least one strategy that might improve the committee's effectiveness. Of those believing there are opportunities for improvement, three areas emerged:

- Increased discussion and/or engagement from members during meetings — highlighted by 29% of respondents.

- Improved quality of pre-read materials — highlighted by 28% of respondents.
- Improved quality of presentations during meetings — highlighted by 26% of respondents.

Consider ways audit committees can address each of these areas for improved outcomes:

### **Increased Discussion and/or Engagement from Members During Meetings**

- Audit committee members are accountable for reading all materials in advance so they come to meetings informed and prepared to participate in discussions.
- Committee members should stay informed on emerging risks, regulatory shifts, and industry events, understanding how they may have an impact on the organization. This level of engagement throughout the year is important as organizations navigate increasingly complex reporting requirements and rapidly evolving changes in the external environment on multiple fronts.
- Open dialogue and candid discussions are critical for audit committees to operate effectively. It is important for committee members, management, and auditors to feel comfortable posing questions and openly expressing their views.
- Audit committee members should focus on constructive challenge with questions to management and auditors such as: Where were the hard calls? What were the gray areas? What keeps you up at night?
- Committee members should follow up if they don't get satisfactory answers.

### **Improved Quality of Pre-read Materials**

- Pre-reads should be comprehensive, but not exhaustive, with respect to operational details.
- The audit committee chair should consider assigning a single point of contact to coordinate pre-read materials and address committee members' questions as they review pre-read materials.
- Meeting materials should be aligned to priority areas, with executive summaries for each section highlighting critical issues and discussion points, key metrics, and decisions needed.
- The materials should clearly identify the nature of the information being presented (for example, if informational or decision needed) and what actions

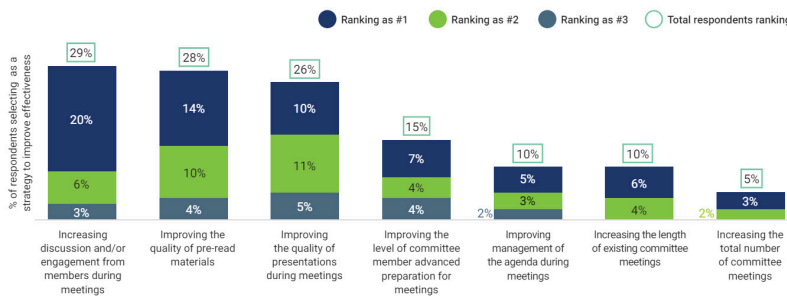
are expected of the committee.

- The materials should contain not only information on past performance, but also insight on future issues of importance.
- Publishing pre-read materials on a portal is a leading practice, and all materials should be provided to the committee with sufficient time to review prior to the meeting.

**Improved Quality of Presentations During Meetings**

- Limiting the number of slides or pages presented during meetings can help the committee focus on key messages and takeaways while also allowing adequate time for questions and discussion.
- To promote dialogue, presenters should assume that everyone has read the pre-read materials (that is, the discussion begins where pre-reads end) and should be discouraged from presenting and reviewing each slide during the meeting.
- Presenters should generally limit presentations to one-third of the allotted time, leaving two-thirds of the time for discussion and questions.
- Management and others presenting financial information should highlight key changes from the prior period, as well as balances involving judgment, to focus the discussion on areas that warrant the audit committee’s attention. They should also identify areas involving close calls or more subjectivity.

Ranking of top strategies to enhance audit committee effectiveness  
 (n = 154). Note: Excludes respondents stating their committee was already at full effectiveness.



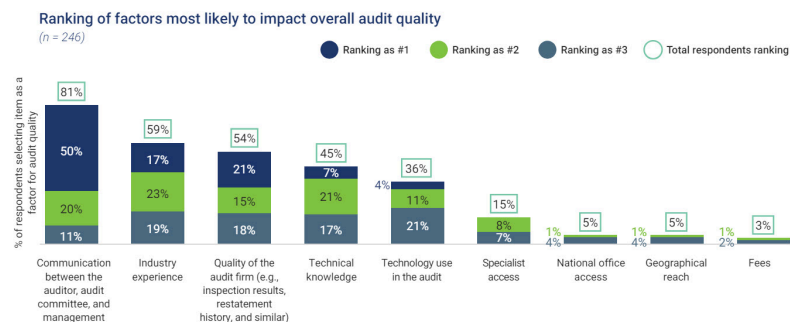
**Additional Observations**

**Environmental, social, and governance (ESG).** Only 14% of respondents this year said that ESG reporting was overseen by the audit committee, compared with 34% last year. Forty percent indicated that the nominating and governance committee had oversight of ESG reporting, while 30% said the board did. The bulk of respondents said the audit committee devoted adequate time (69%) to this topic over the past year.

Interestingly, a notable minority felt that ESG reporting was an area where the committee spent too little (17%) or too much (11%) time.

This year, only 22% of respondents included ESG reporting in their top-three priorities for the next 12 months, dropping it to sixth on the list, behind cybersecurity, ERM, finance and internal audit, compliance with laws and regulations, and finance transformation. Of note, last year's survey identified ESG disclosure and reporting as among the top-three audit committee priorities, with 39% indicating it as such—behind cybersecurity (63%) and ERM (45%). ESG reporting was the only item where any material proportion of respondents (11%) said the committee spent too much time (the next highest, at 3%, was compliance with laws and regulations). This drop may be attributed to several factors, but considering climate-related rulemaking, audit committees should keep an eye on this area.

**Audit quality.** Communications were front and center when it came to audit quality. Eighty-one percent of respondents cited communications as a top factor affecting audit quality, followed by industry experience (59%). When the audit committee fosters an environment of trust and transparency, complex issues are easier to discuss and potential disputes or matters of interpretation are resolved.



**Audit committee turnover and rotation.** Survey respondents do not expect to have high turnover on their audit committees this year. About 16% expect their audit committee chair to rotate. More (32%) anticipate rotating one or more members. These numbers decreased considerably from the prior year. While the nominating and governance committees may hold formal responsibility for board succession practices, the audit committee chair should provide input into the process, considering the skills and expertise needed on the audit committee to effectively carry out its responsibilities.

**Audit committee expertise.** Audit committees are well aware of the kind of expertise needed to execute their oversight responsibilities. When asked what additional expertise would enhance the audit committee's effectiveness in the next 12 months, almost one-quarter of respondents indicated they have the expertise they need. Of those suggesting they needed additional expertise, cybersecurity and technology ranked the highest (44% and 40%, respectively), with ERM (20%) and climate risk

(19%) rounding out the top four areas. As the audit committee’s role further expands, it is essential for boards to monitor the committee members’ skill sets so that they have appropriate expertise to effectively carry out their oversight responsibilities.

—by [Krista Parsons](#), managing director and Audit Committee Program leader, Center for Board Effectiveness, Deloitte & Touche LLP; and Vanessa Teitelbaum, senior director, Professional Practice, Center for Audit Quality

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