



Engaging with the audit committee: five ways for Chief Audit Executives to stand out

Tips for effective boardroom interaction, and how to put them into practice.

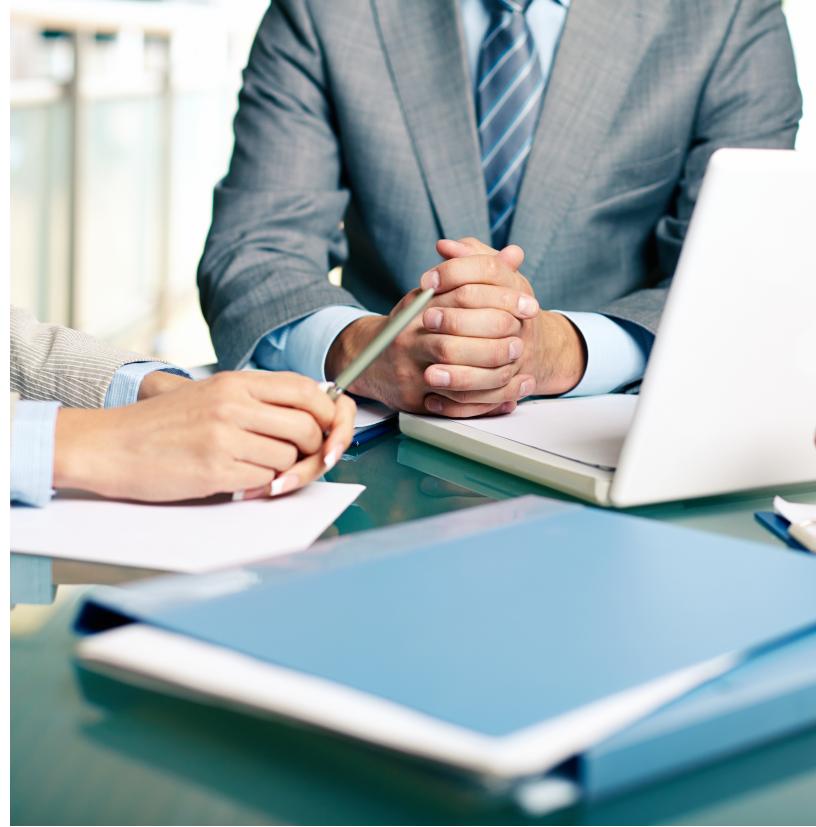
It's not every day that you get to interact with the audit committee. Preparation is key to making a good impression—and having an impact. Here's how to do it well.

How you interact with the audit committee is critical.

Why? You likely have only a handful of opportunities each year to engage with the audit committee, and these brief interactions play a huge role in the committee's view of your professional credibility. Your pre-read materials, presentation style, and overall executive presence impact the audit committee's view of you specifically and the company's internal audit (IA) function as a whole. Audit committee meetings are your opportunity to discuss issues core to the business and to demonstrate internal audit's value. So you need to prepare, and you need to have an impact.

Are you underselling the value of your company's internal audit function? The time for *enhancing your boardroom performance* is now.

Only **44%** of stakeholders responding to PwC's 2017 State of the Internal Audit Profession Study believe that internal audit contributes significant value to the organization, down from **54%** in 2016. This decrease is in part a result of the rising risk profile of organizations and stakeholders expecting more of internal audit. However, it may also be driven by perceptions of internal audit performance created during the few interactions with the audit committee every year. It is important that Chief Audit Executives maximize each interaction with the board.



Engaging with the audit committee is not the same as engaging with other members of senior management. Directors' expectations are different. Both in pre-read materials and boardroom discussions, directors say they want more business insights and a clearer focus on the risks. And they want to see less formal and scripted presentations.¹ In short, they want Chief Audit Executives (CAEs) to "up their boardroom game."

We have identified five ways for CAEs to make their audit committee interactions more effective and take their board interactions to the next level.

Some CAEs may have years of experience presenting to the audit committee. However, board members, company priorities, and presentation preferences change over time. Successful presenters maintain awareness of their environment and understand their ongoing capacity for improving their presentation skills. Based on our discussions with board members, our own experiences in the boardroom, and feedback from senior management, we share the differentiators that will turn you from good to great in the boardroom.

¹ PwC, 2016 Annual Corporate Directors Survey, October 2016.

Deeper Insight: Understand the audit committee's pain points.

While corporate governance is not the CAE's primary area of expertise, it can only benefit you to understand what's happening in this space. Knowing what challenges the audit committee faces will help you provide the right context for your message.



Risk oversight—The audit committee's risk oversight role is one of its most important responsibilities and one of particular shareholder focus. Given its broad reach, internal audit can provide a unique perspective on, and a frank assessment of, the company's risk profile and internal controls.



Tone at the top— Because audit committee members aren't onsite to experience the day-to-day corporate culture, internal audit is positioned to provide the needed insights via involvement across various levels of management and controls testing.

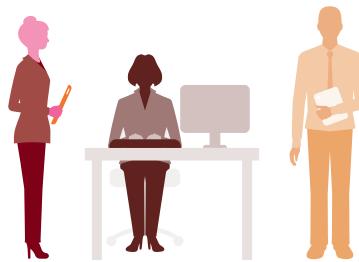


Cyber risk—High functioning internal audit groups partner with the Chief Information Officer (CIO) and/or Chief Information Security Officer (CISO). Internal audit should be able to understand and communicate in plain English its level of comfort with the impact of cybersecurity projects on broader company controls.



Strategy—It's becoming increasingly common for internal audit to review strategy implementation and execution. For example, internal audit can assess whether management has developed an effective framework for implementing a revenue-related strategy. The audit committee will be interested in internal audit's observations on the risk factors related to strategy and the effectiveness of critical enabling processes and controls.

Tip #1: Invest in your relationships.



Just because you only have scheduled interactions with the audit committee four or five times a year doesn't mean you can't have an ongoing relationship. Investing time each quarter to schedule a pre-meeting update with the audit committee chair, for example, could help you understand what is top of mind for the committee.

Before your first meeting with the audit committee, you should meet with the chair to understand his/her impression of internal audit and its value to the company. If you're already regularly presenting to the audit committee, periodically ask for coaching to reassess your effectiveness. Also, ask the audit

committee chair whether you should meet with other committee members for their feedback. Demonstrating your receptiveness to this type of coaching will help develop your relationship with the committee.

At the same time, don't forget to tend to your relationships with senior management. Demonstrating that your function is not solely as a corporate watchdog and that you are part of the executive team can alleviate any negativity. Sometimes, you may have to communicate sensitive or unpopular messages, and the strength of your relationships with the audit committee and management can go a long way in making those tough messages easier to deliver.



Take it to the next level:

★ Request regular (e.g., quarterly) meetings with the audit committee chair to preview your presentation and provide additional insight into internal audit's activities. Discuss what has worked and what hasn't, and the level of detail that is helpful to the committee. Understand where they want to focus their time.

- Reach out to business unit heads in advance of audit committee meetings to understand any concerns they may have with your materials. Also, get a feel for the nature of others' materials - be familiar with the entire meeting agenda, not just your piece.
- Take advantage of social opportunities to connect with board members (e.g., lunch or dinner with the committee prior to/after the meeting).



Tip #2: Be thoughtful when preparing pre-read materials.

Pre-read materials play an important role in setting the stage for your presentation and shaping the dialogue at audit committee meetings. While pre-read materials are separate from your presentation, they directly impact your overall effectiveness. If your pre-read materials aren't thoughtfully prepared and carefully reviewed, the audit committee could be focusing on the wrong areas or have a negative impression before you even have the opportunity to present.

CAEs are tasked with condensing lengthy reports, background information, and weeks of

fieldwork into a handful of pages. Because the audit committee reviews volumes of information, consider what length and format of the internal audit report is appropriate. CAEs should take the feedback they receive from the audit committee on what they want to see and how they want to see it, and standardize that content into a reporting package. CAEs should also make use of graphs and other visual depictions, where applicable. An executive summary that lays out the key points for the period and ties everything together for the committee should anchor your pre-read materials.



Take it to the next level:

- ★ Consider what color commentary you will add to your live presentation. Make sure you have value-add insights to bring your pre-read material to life and engage the committee.
- Use an executive summary to draw out the key points of your message and make good use of the committee's time. Use graphics and status/update dashboards in addition to narrative. (Refer to the *Deeper Insights* on page 6 for more ideas on pre-read content.)
- Understand any pre-read material style preferences (e.g., detailed descriptions vs. dashboards) and any preferences for the risk level of issues presented.

Deeper Insight: What does the audit committee want to see in internal audit's pre-read materials?

In short, more insights and less text. Using less text and more visual depictions is an effective way to provide meaningful information without being overwhelming. Ideally, the same format should be used from quarter to quarter for consistency.

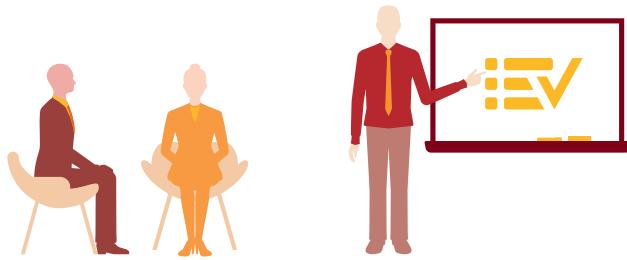
Executive summary – The executive summary should give the audit committee a concise overview of internal audit activities for the quarter and highlight critical issues for their attention. Ideally, the executive summary should not be more than one or two pages. The executive summary should include progress against plan, description of high risk/past due findings, changes to the plan, and any other sensitive matters for board attention.

Detailed reporting/dashboards – The detailed reporting should be mostly visual, with concise, insightful commentary. Highlight anything noteworthy in your verbal commentary without a detailed walkthrough of every slide. Materials could include:

- Reports issued in the period
- Issues organized by risk/theme/location/business unit

- Days to issue audit reports by year
- Audit reports issued by color (e.g., red/yellow/green for high/medium/low risk) by year
- Audit report findings by color by year
- Risk themes identified across multiple audits or through aggregated findings
- Closed and overdue findings by quarter for the year
- Linkage of internal audit's plan to enterprise-wide risks or major risk categories (e.g., financial, compliance, strategic)
- Level of focus on emerging risks or transformational initiatives
- SOX status (for public companies)—detail the number of deficiencies by risk ranking during each of the testing periods (e.g., interim, update, year-end)
- Auditee satisfaction survey results—if you use surveys to receive feedback from auditees on internal audit's performance

Tip #3: Know your audience.



Audit committees are a unique audience. The messages you convey to them need to balance the right level of detail, insight, and impact without being too granular. A key piece to effectively engaging the audit committee is understanding members' backgrounds.² The audit committee financial expert (ACFE) will understand internal audit's role. However, there may be committee members with less experience.

Audit committee members may serve on other boards through which they gained perspectives on topics you are addressing. It is likely that

committee members will have a point of view on these topics based on their other board experiences.

Knowing committee members' individual styles is also critical. Does one get impatient with too many details? Does one want all the details? Does one frequently dominate or derail discussions? Often, there may be conflicting preferences on the committee. Talking to the CFO and other members of senior management about their experiences and developing relationships with committee members can help you address these challenges.



Take it to the next level:

- ★ Know your audit committee. Are any members serving on an audit committee for the first time? Do they serve on other boards? Discussions should be tailored not only for the board's style, but also with directors' backgrounds in mind.
- Be thoughtful about your level of detail. Consider what warrants audit committee attention. Presenting low and sometimes even medium risk findings may not be a strategic use of time.
- Think through possible pushback scenarios or additional questions you may be asked. Be prepared to defend your point of view and be prepared to take a discussion offline in the event that a director wants more information.
- Get the CEO/CFO's perspective and coaching on audit committee dynamics—understand the politics and human side of your company.

² Spencer Stuart, 2016 *Spencer Stuart Board Index*, December 2016. Thirty-nine (39) percent of audit committee chairs had background as a former financial executive/CFO/treasurer/public account executive. Another 27% are retired chair/president/CEO/vice chairs.

Tip #4: Be strategic with your time.



You do not want to use your limited time with the audit committee to review in detail what they have already learned from your pre-read materials. Your presentation should put the pre-read materials into context and provide a unique forward-looking perspective. Your job is to “connect the dots” for the committee—draw out the themes across projects, locations and time periods that are meaningful. Don’t solely use your time to reiterate the number of deficiencies or remediated issues.

Communicating your main objectives up front, and anticipating the board’s reactions is a great place to start. You have an allotted amount of

time on the agenda and will need to accomplish your objectives. However, remain flexible should the committee want to go in a different direction. If the committee meeting agenda is running behind, your allotted time may shrink. Be prepared for this by knowing your key messages and how to communicate them in less time.

Always be prepared for executive sessions. The audit committee may lead the executive session by simply asking, “Is there anything we should know about?” Have impactful points prepared for such circumstances to make the best use of the time and to take advantage of the opportunity to add value.



Take it to the next level:

★ Connect the dots across projects, issues, and risks. Your presentation is an opportunity to demonstrate the connectivity between management, compliance, and internal audit. Communicate and collaborate on tough issues with those groups; script the message beforehand if necessary to avoid surprises.

- Have an agenda ready for executive session. What are the two to three things that you want the audit committee to know you are focused on?
- Keep track of any open points/questions that you need to resolve for the audit committee after the meeting.

Tip #5: Focus on your message.



Excessive use of jargon, reading straight from notes, and avoiding eye contact during your presentation will take away from your key messages. To get your messages across, communicate in plain English.

Using notes to guide your presentation or as a reminder of key points can be a helpful tool. However, if you start to read from notes and are not engaging your audience, you will quickly lose their interest. Similarly, avoiding eye contact could be seen as avoiding intimacy or lacking trustworthiness. Be mindful of how you present your message. Both the verbal and nonverbal cues can create a more effective interaction in the boardroom.

Telephonic meetings pose unique challenges in that you cannot read your audience if you can't see them. Reference page numbers while you speak,

pause to ask for questions more frequently, and speak with volume and clarity.

CAE: *Our interim SOX testing results include deficiencies in 3 IT dependent key controls one of them being a control related to SSAE18 reports.*

AC: *SSAE what?*



Take it to the next level:

- ★ Provide the audit committee with ongoing education about important hot topics within your functional area. This can be incorporated into your presentations or provided separately, depending on the subject.
- Identify someone outside of internal audit to read your pre-meeting materials and listen to your presentation. Ask them to highlight any concepts that are unfamiliar.
- Take brief pauses to read the room. Stop and clarify when needed.



Bringing it all together

Engaging with the audit committee is an opportunity to build your relationships and professional brand. You have the chance to share your ideas and concerns with an audience that is deeply invested in helping your group and the entire company succeed. Each audit committee is unique and its directors' collective experiences differ. Learning more about your audit committee and investing the time upfront in preparing your written and verbal presentations will be the difference in how effectively you enhance your professional brand.

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your usual PwC representative or a member of PwC's Governance Insights Center.

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