Audit Committee Presentations: Obligation or Opportunity?

San Antonio IIA
I Heart Audit Conference
February 2019
Speaker Intro

Dan Graves, CPA
Partner, Risk Advisory Services

More than 13 years of experience focused on risk management, internal audit, compliance and business process improvement, particularly for state government, higher education, and publically traded companies

James Mihills, CPA
Partner, Advisory Services

More than two decades of experience leading internal audits and compliance assessments for financial institutions from small community banks to nonbank lenders to large banks over the FDICIA $1 billion threshold
Today’s Agenda

► Knowing Your Audience
► Knowing Your Value
► Putting Your Best Foot Forward
► Getting to the Heart of the Matter
► Leaving Them Wanting More
Know Your Audience

Not only do Audit Committees vary from one organization to the next, they can evolve within an organization, especially as board members, company priorities or presentation preferences change over time.
WHO?

- Generally three to five members
- Ideally an **odd number** of members
- Staggered, **multi-year** terms
- One member **independent** of the organization
- One “**financial expert**” member
The audit committee’s purpose is to provide oversight of the organization’s financial practices and standards of conduct.

**WHY IS THAT SO IMPORTANT IN TODAY’S ENVIRONMENT?**

**Increased attention and scrutiny from:**
- Investors
- Government agencies
- Financial institutions

**Greater emphasis on:**
- Accountability
- Transparency
- Risk management
The Basics

HOW?

- Understand and provide **oversight** of accounting practices and the financial reporting process
- Oversee the **internal audit** function
- Selection and oversight of the **external auditor**
- Review the **financial statements**
- Risk management
- Compliance

One of an audit committee’s most important responsibilities is to oversee the organization’s internal audit function.
PERSONALIZE THE EXPERIENCE

AUDIT COMMITTEE MEMBERS ARE PEOPLE, TOO

FIRST MEETING WITH THE COMMITTEE?
- Meet with the chair before your first meeting
- Understand his/her impression of internal audit
- Does he/she view it as valuable?

REGULARLY PRESENT TO THE COMMITTEE?
- Be sure to check in with the chair and senior management
- Ask for feedback and coaching
- Continually refine/reassess your messaging
Branch Out

THERE IS LIFE OUTSIDE THE MEETING ROOM

- Request **regular meetings** with the committee chair

- Reach out to **business unit heads** before the committee meeting

- Take advantage of **social opportunities** to connect with board members

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.
Know Your Value

As one of the only groups within an organization to have direct access to the board — and in particular to the audit committee — Internal Audit departments have a unique position within an organization.
In the most basic sense, the need for internal audit has already been established. The key is to help the Audit Committee understand the added value of internal audit.

Objectivity. An honest, non-biased look at the organization – what works, and what does not.

Insight. Having a high degree of interaction with so many parts of the organization enables IA to have a level of insight and context.

Integrity. IA can set the ethical tone of an organization by influencing the “control consciousness.”
Beyond Compliance

DISPELLING THE WATCHDOG MYTH

Remember: People listen less when they feel defensive or scolded.

- Demonstrate through your tone and content that IA is **not** just a corporate **watchdog**

- **Balance** your message, even if you found several deficiencies
  - **Solutions, not blame**
  - **Opportunities, not problems**
IA has a unique opportunity to provide the audit committee with ongoing education about important hot topics and emerging risks.

**IA has the ability to help organizations:**

- Develop processes and controls to **prevent issues** before they occur.
- Effect **cultural change** for ongoing efficiency and a decreased potential for fraud and other risks.
- Evolve risk management into a **strategic enabler** rather than a barrier to success.
Put Your Best Foot Forward

You likely have only 4-6 opportunities each year to engage with the audit committee, and these brief interactions play a huge role in the committee’s view of the effectiveness of the Internal Audit function — and your professional credibility.
Ask Yourself: What Challenges Do The Audit Committee Face?

- Risk Oversight
  » Strong shareholder focus
- Cyber Risk
  » CIO and CISO participation
- Tone at the Top
  » Visibility across the organization
- Strategy
  » Increased pressure for revenue-related strategy
Get a Second Opinion

DOES IT MEAN WHAT YOU THINK IT MEANS?

Of course your presentation makes sense….to you. But you already know your message.

- Compare your materials to other materials commonly presented to leadership
  - Is the quality on par?
  - Is the tone appropriate?

- 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
  - Make sure you didn’t miss any key requirements
Form and Function
WHERE TO BEGIN?

▶ Understand Board Expectations
  » The Audit Committee Charter
  » The Internal Audit Department Charter
  » Committee members and their backgrounds, focusing on any changes since last meeting

▶ Review Prior Audit Committee Reports and Minutes
  » Specific arrangements that have been documented concerning report content expectations

▶ Other Key Factors to Consider
  » Board Communication Style
  » Frequency of Meetings
  » Allotted Agenda Time
Key Areas of Focus

► Department quality and performance
► Statistics on the audit staff (e.g. experience and certifications)
► Quality Assessment Reviews (QAR)
► KPIs from interaction with stakeholders

HOT TOPICS

» Financial audits
» Operational audits
» Risk management processes
» Governance processes
» Regulatory compliance
» SOX and internal control (risk-and-control functions)
» Fraud Investigations
» Legal
» Health and safety
The Executive Summary

- Concise overview
- One to two slides
- Key content:
  - Progress against plan
  - Description of high risk/past due findings
  - Plan changes
  - Other sensitive matters

FY 2018 SOX procedures are complete and final results have been accumulated and evaluated from all environments.
WHAT THE AUDIT COMMITTEE EXPECTS TO SEE

Detailed Reporting

Results: Commodity Hedging

The primary focus of the internal audit was to evaluate the process used to develop, execute, and monitor hedging strategies as well as processes used to properly account for transactions.

- Should be mostly visual
- Use dashboards when possible
- Concise and insightful
- Use verbal commentary to highlight noteworthy items
Internal Audit Reports, Risk Assessments and other written materials should be provided to the Audit Committee in advance. These are the basis for a briefing presentation.

**ADDITIONAL MATERIALS SHOULD COVER**

- Matters that might affect the fairness of financial reporting
- Breaches of the company’s ethics policies
- Details of any frauds discovered
- Significant delays in management responding to or acting on findings and recommendations
- Any impairments of independence or objectivity
Get to the Heart of the Matter

Do not use your limited time to simply review in detail what the Committee can read in the Internal Audit Reports and other materials. Be direct, and put materials into a context that provides a unique — and forward-looking — perspective.
Get with the Program
A TYPICAL AUDIT COMMITTEE AGENDA

✓ Call to order
✓ Review and approval of minutes from prior meeting
✓ Audit Committee briefing on financial reporting by CFO or CAO
✓ Audit Committee report by internal auditors
✓ Audit Committee report by external auditors
✓ Other matters (legal, hotline, compliance, etc.)
✓ Committee meeting in Executive Session
✓ Formal presentation of quarterly or annual reports
✓ Date and time of next meeting
✓ Adjournment

In the Executive Session, outside Board members can question internal and external audit without the presence of Senior Management.
Thinking Ahead
PREP FOR THE EXECUTIVE SESSION, JUST IN CASE

Be prepared to answer the question: “Is there anything we should know about?”

- Bring up sensitive in the general meetings - avoid initiating completely new issues
- Have impactful points prepared in advance
- Reiterate strategic initiatives
- Capture open points/questions you need to resolve after the meeting
Get with the Program

Plan to cover these topics quarterly:

✓ Executive summary of IA activities for the quarter
✓ Briefing on completed audits and critical findings
✓ Status/changes to annual plan
✓ Risk management changes and emerging trends
✓ Internal Audit staffing, impact of resource limitations, and costs vs. budget
✓ Results of special investigations

Consistency is key! Try to maintain the same format, look and feel from one presentation to the next. A familiar format puts the Committee at ease and allows them to focus on your content.
Plan to cover these topics annually:

✓ Report on the **year in review** to include themes or trends identified
✓ Update of the **risk assessment**
✓ Annual audit **plan**
✓ Report on the results of the **internal quality assurance and improvement** program
✓ Discuss the results of the **external regulatory visits**
✓ Review and approve **updates** to the IA department **charter**
✓ Confirmation of the **independence** of the internal audit activity
✓ Statement that all work continues to be performed in accordance with **IIA Standards**
✓ Details of **changes in personnel** in the internal audit department
✓ The **professional development courses** that were given or attended during the year
In today’s environment, with rising risk profiles, stakeholders are expecting more of internal audit.

Leaders want more business insights and a clearer focus on the risks that is less formal and scripted from Internal Audit.
Stay on Target
FOCUS ON THE MESSAGE

- Avoid jargon
- Make eye contact
- Read the room – not your notes
- Leave open space in case clarifications are needed

Conference call meeting?
Remember to reference page numbers, speak clearly and pause for questions.
Be Flexible
ALTER YOUR COURSE AS NEEDED

► 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
Remember: This is not the Internal Audit Report. The audience is not interested in reading text-heavy slides.

- The Audit Committee has a limited amount of time to dedicate to your data
- Do not overwhelm with volumes of information
- Use speaking points to facilitate conversation (do not just “present”)

Less is More
SUMMARIZE, SUMMARIZE, SUMMARIZE
More Can Also Be More

A GRAPHIC IS WORTH A THOUSAND WORDS

Number of Participants by Role

There were a total of 54 participants in the risk assessment. These participants filled different key roles.

- Risk Assessment Team: 10
- Board Members, Directors and Above: 14
- Managers and Below: 38
- All Staff: 52

142 Participants

6 Roles

- Levels included C-Level down to Supervisor
- Functional area and location considered for coverage
- High response rate (97%)
Context Matters
CONNECTIONS, NOT JUST DEFICIENCIES

- “Connect the dots”
- Draw out themes across projects, locations and time periods
- Demonstrate the connectivity between management, compliance, and internal audit
CAEs should take the feedback they receive from the audit committee on what they want to see and how they want to see it.

- Standardize that content
- Make use of graphs and other visual depictions
- Provide graphics and status/update dashboards in addition to narrative

Don’t forget to consider what color commentary you will add to your live presentation.
Leave Them Wanting More

By focusing on impactful messages and collaborative discussion, you increase the likelihood that the Audit Committee will positively anticipate your next session, and the incremental value it provides.
Long Attention Span

DON’T BE A ONE-HIT WONDER

Remember: **Internal Audit is not a static event.** The better you can convey this message, the more you can increase committee buy-in and demonstrate your value.

- Use trends to create a forward-thinking message.
- Link results and concepts to upcoming strategic initiatives.
- Discuss emerging risks that might be on the horizon.
Keep the Audit Committee looking forward.

Your presentation should not be just about what has already been done, but also about what still needs to be done.

The best question the Committee can ask is: “What comes next?”
In Conclusion...
In Conclusion

PUTTING ALL THE PIECES TOGETHER

► Tailor your message to your audience
► Take the time to prepare
► Discussion, not presentation
► Engaging, impactful content
► Demonstrate value through insight and context
► Focus on solutions and opportunities
► End on a forward-thinking note
Questions & Answers