

New audit committee member/director onboarding

KPMG Audit Committee Institute

For any new director – particularly when joining the audit committee – a learning curve comes with the territory. Just how steep that learning curve is and how quickly a new director is able to contribute meaningfully to the work of the board and its committees, can hinge directly on the quality of the onboarding process.

Understanding the business, its strategy, risks, operations, and management team, including the impact on the business of the turbulence and disruptions of recent years – COVID, the Ukraine conflict, supply chain strains, global economic volatility, and regulatory and stakeholder demands for action on climate and a range of environmental, social, and governance (ESG) issues – is a major undertaking for new directors. Developing that understanding of the business, as well as the responsibilities and culture of the board and its committees takes time. But a structured onboarding process – including essential information and briefing materials, quality discussions with key people, and a “road map” for getting up to speed – can greatly accelerate a new director’s integration and contribution to the board’s work.

For new audit committee members, onboarding presents an added layer of complexity, given the intricacy and scope of the financial reporting/accounting issues, legal/regulatory compliance risks, and the range of non-financial reporting risks on the audit committee’s plate.

We offer the following framework for new audit committee members – and the management and audit professionals supporting them – to consider as they develop an onboarding process, including:

- Suggested reading for the new audit committee member, such as corporate documents and other briefing materials
- An initial orientation session
- Follow-up one-on-one meetings with key people in the organisation to develop a deeper understanding of the business, its key governance processes, and its leaders

Formal orientation programs for new directors are fairly common, but these programs – without more – may be inadequate to get new directors up to speed and able to contribute to the work of the board early on.

Moreover, the onboarding needs for new directors will vary from director to director, depending on a number of factors, including the director’s background and experience, and the role the director is expected to play on the board and board committees. As a result, a new director should be prepared to take responsibility for his or her onboarding plan – working with management and others to determine how best to get up to speed and build a strong foundation for informed oversight.

Suggested background reading materials

A new audit committee member will want to review a number of corporate documents and background materials early on, including:

Information about the company, with a financial reporting emphasis, including

- Financial statements for at least the previous two years
- Earnings releases and materials used for analysts’ calls for the past year or two
- Sustainability reports and public releases regarding the company’s ESG activities and initiatives
- Recent letters from the regulators (particularly the FRC) and the company’s responses
- The most recent “board book”
- Biographies of senior financial management (including internal audit)
- The company’s strategic plan and latest risk reports
- Recent contingent liability (litigation) reports
- Recent analyst reports on the company and the industry, as well as industry/competitor information prepared by management
- Company’s Code of Conduct (or similar document)

- Company’s hotline procedures, including process for monitoring complaints received and reporting to audit committee and/or full board

Information about the audit committee

- Audit committee charter
- Minutes and pre-read materials from audit committee meetings for the past year or two
- Materials about upcoming audit committee activities and meetings

Internal audit materials

- Internal audit charter
- Current-year audit plan

External audit materials

- Current year’s external auditor engagement letter
- Management letter (if applicable)
- Recent reports from the external auditor
- Summary of any non-audit services currently provided by auditor
- Written communications between the audit committee and external auditors for the past two years
- Summary of financial statements misstatements, including both corrected and uncorrected differences, for the past two years

Information about other board standing committees

- Committee charters and recent meeting agendas

Initial orientation session

While the length and formality of a formal orientation session will vary by company, it should provide new audit committee members with an overview of:

- The business – including its products and services, customers, and competitors
- The company’s near- and long-term strategy
- The key risks facing the company, including “mission critical” risks
- The overall financial status of the company
- Expectations for audit committee members and board members (generally), and an overview of board processes – including meeting schedules for boards and committees, and a copy of the board by-laws
- Risk oversight responsibilities of the audit committee and each standing committee, including how committee oversight activities are coordinated
- Climate and other ESG risk oversight responsibilities of the audit committee and other standing committees
- The company’s ethics/compliance program
- The culture of the organisation, including the tone at the top

- The company’s and, in particular, the finance team’s resilience – and strengths and weaknesses – in light of the major disruptions experienced in recent years

Who participates in the initial orientation session will vary, depending on how the company’s orientation process is structured, e.g., whether the initial orientation is viewed as the first step in a more lengthy process, or whether it is viewed as a more comprehensive orientation session. Depending on the approach, only a few executives might participate in the initial orientation session – e.g., the company secretary, chief financial officer (CFO), head of internal audit (HIA) – or a number of others might participate as well, including perhaps the chief executive officer (CEO), chief risk officer (CRO) or equivalent, controller, and chief compliance officer. The audit committee chair and/or the chair of the board may choose to attend as well.

Initial meeting with audit lead partner

A key component of any orientation program for a new audit committee member is a meeting with the audit lead partner, which should occur early in the orientation process. In addition to obtaining the audit partner’s views on a number of critical companywide issues – e.g., key risks facing the company, effectiveness of risk management processes, overall control environment, strains on the financial reporting system, calibre of the management team, tone and culture of the organisation – the new audit committee member will expect to have an in-depth discussion with the audit partner about a number of specific financial reporting and internal control issues, including:

- Most recent financial statement risk assessment, considering internal and external factors (economy, regulation, accounting standards, competition, etc.)
- Critical accounting policies, i.e., those most sensitive to management’s estimating process (reserves, loss contingencies, impairment testing, etc.)
- Prior-year internal control deficiencies and status of remediation efforts
- Overall quality of the company’s accounting policies and reporting
- Required communications for the most recent annual and subsequent interim periods
- External auditor’s relationship with management and internal audit
- External auditor’s relationship with the audit committee outside of regularly scheduled meetings (frequency of interaction, accessibility, depth of discussions)
- Quality of the finance organisation (including locations beyond the headquarters)
- Quality of internal audit department (skill sets, experience, support of the annual audit)
- Scope of external audit, including approach to multi- and foreign-location components, and use of affiliated or other auditing resources

- Management’s approach when preparing to adopt new accounting standards
- Use of audit reports on outsourced service providers
- Use of company’s internal and external experts, such as actuaries, valuation experts, and others
- Audit approach to consideration of fraud

Developing a deeper understanding of the company and the board

Regardless of whether it is part of a formal or structured orientation process, a new audit committee member will want to have one-on-one discussions with a number of key leaders of the business to gain a better understanding of the company – the culture, strategy, key risks, strengths, areas of concern, etc. – and to get to know the leaders outside of the formality of the boardroom.

Initially, it may be helpful to get the “lay of the land” by meeting separately with the company secretary and the HIA, each of whom can be valuable sources of information and insight. What are the hot-button issues facing the company? What issues have management and the board been spending the most time on? What governance processes work well, or not so well? What is the culture of the company and of the board?

The company secretary (or general counsel) can provide information about the board from a legal and process point of view, including the committee structure, the role of each committee, and how the committees coordinate and communicate about oversight activities. They can also provide an update on litigation or investigations that could have an impact on the company’s financial statements, disclosures, and legal/regulatory compliance.

With internal audit increasingly playing a larger role in many businesses, the HIA should also have important insights to offer regarding the effectiveness of the organisation’s risk management processes, system of internal control, and governance processes. In addition, a new audit committee member will expect to hear from the HIA regarding:

- Nature and scope of operational audits underway
- Management’s cooperation and responsiveness to deficiencies identified as part of audits
- Top operational concerns
- Level of assurance that the company has effective risk management practices in place
- Adequacy of resources for finance team and internal audit, including resources required in preparation for new climate disclosures that may be required by regulators
- Current stresses and strains on the financial reporting system
- How technology is impacting the finance organisation’s talent, efficiency, and value-add
- Process for communicating with the audit committee (frequency, format)

- In the weeks and months following the initial orientation session, a new audit committee member may also want to meet one-on-one with other leaders in the business – CEO, CFO, CRO (or equivalent), financial controller, ESG leader, chief information officer (CIO), audit committee chair, lead director – to get their views on a number of key companywide issues, including:

- The company’s strategic direction and key risks to the strategy
- Effectiveness of risk management processes including the overall control environment
- Status of preparation for new, mandatory climate and other ESG disclosures
- Tone and culture of the organisation, including ethics/ legal/regulatory compliance
- Strengths and weaknesses of the management team and the board

The business leaders also will have important insights to offer on issues that are specific to their areas of focus and responsibility. In the appendix, we identify possible issues to explore.

No “one size fits all”

A good onboarding process – which is key to getting a new audit committee member up to speed and in a position to contribute to the work of the committee – is not a “one size fits all” process, and may vary considerably, depending on the background, experience, and areas of interest of a new director.

While management obviously plays a key role in shaping the onboarding program, every new audit committee member needs to take charge of his or her own onboarding in order to make sure that it is properly tailored and focused.

Appendix: Other potential discussion topics

CFO, CAO, and Controller

- The company’s earnings trends
- Key financial reporting risks – the pressures and vulnerabilities in the financial reporting process
- Adequacy of control environment, including fraud controls
- Critical accounting estimates
- Level of transparency in the company’s financial disclosures
- Quality of climate and other ESG disclosures
- The role and responsibilities of other committees – including coordination with any cross-functional activities (ESG team/committee) focused on developing and maintaining ESG-related disclosure controls and procedures
- Strengths and weaknesses in compliance programs

CRO (or equivalent role)

- How the CRO gains a view of risk across the organisation and how key risks are aggregated
- Aspect(s) of risk management posing the greatest challenge to the company
- CRO's view of the company's risk awareness, "appetite," and "tolerance"
- How the CRO views the tone and culture of senior management
- How the company's risks compare to others in the industry
- Strengths and weaknesses in the board's risk oversight processes

CIO

- How the company manages data security, compliance, cyber risk, major IT investments, and other "defensive" IT risks
- How the company leverages IT "offensively" for strategic advantage
- Nature and frequency of CIO communications with board/audit committee
- Company's policies/practices for data governance, use of social media, and adoption of emerging technologies

Audit committee chair

- Expectations and role of the new audit committee member
- Current composition of the audit committee (skills, backgrounds, experience, and expertise)
- Most difficult/challenging issues
- Scope of the audit committee's responsibilities
- Strength of the audit committee's oversight processes
- Results of the committee's last two self-assessments

Chair

- How the board interacts with the CEO and other officers, and how important decisions are made
- Toughest issues facing the board/committees
- Board culture, including openness and candour of communications and debate among management and the board, and among directors
- How can the skills and background of the new audit committee member be best leveraged for the benefit of the board and the company?

CEO

- Any significant issues or concerns identified by others
- Issues on which the CEO expects to spend the most time on over the next few months

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

Learn more at www.kpmg.com/uk/blc.

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