

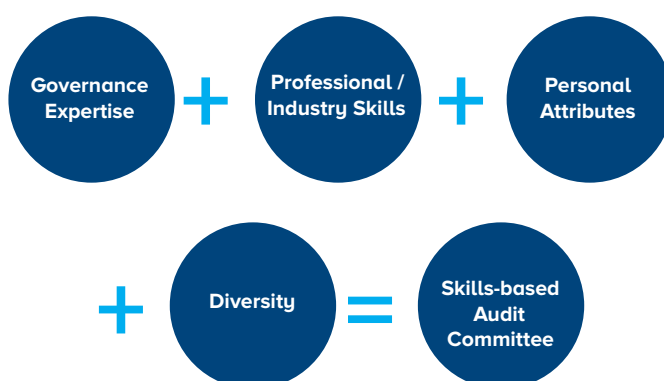
Factsheet: Establishing a skills-based audit committee

Skills and Knowledge

The skills required by audit committees in the twenty-first century have expanded considerably from audit committees in the second half of the last century to meet the ever-expanding suite of audit committee responsibilities. Prior to the 2000's audit committees were predominantly made up of accountants, which was appropriate when audit committees had a substantially financial focus.

A governing body that values the work of the audit committee will ensure remuneration is pitched at a level commensurate with the workload, experience and personal risk exposure of audit committee members. If an organisation sets the audit committee remuneration too low it cannot expect to find people with the right skills, personal attributes, and experience to best protect the interests of the governing body.

There is not a “one size fits all” solution for creating a skills-based audit committee. When selecting audit committee members, the governing body in conjunction with the CEO must consider their suitability to the specific needs of the organisation while taking reasonable steps to ensure that members collectively develop, possess and maintain the appropriate skills and knowledge. Key considerations in establishing a skills-based audit committee are illustrated below.



Construct

Each audit committee member is not expected to hold all governance and professional and industry skills, rather these skills should be held collectively by the audit committee. All audit committee members are expected to possess the full set of personal attributes and behavioural qualities in order to operate effectively.

In terms of diversity, some age diversity should be sought to bring different generational perspectives to the audit committee's deliberations; relatively equal gender representation will reflect gender diversity in the community; a local community link (where relevant) will help to respond effectively to local needs; and, ideally, cultural diversity will reflect the cultural diversity in the local community. Finally, a diversity of audit committee members who have an understanding or experience of different employment models and arrangements will add greater depth to the audit committee's deliberations (e.g. an audit committee member with a financial services background will challenge the traditional thinking in the health sector).

Continuity of knowledge and experience on the audit committee is fundamental to its operation. Most audit committees have a cap on the length of time any member can remain on the audit committee to reduce the risk of the committee becoming stale and potentially losing its objectivity (e.g. this is mandated as 8 years in some jurisdictions, with the term of the chair being 5 years as chair and 8 years in total).

Audit committee membership renewal dates should be staggered so significant knowledge is not lost in a short space of time. It is good practice to stagger the dates, so no more than one member leaves the audit committee because of rotation in any year.

Analysis of Skills and Knowledge

Those charged with the responsibility for selecting audit committee members should develop and apply a suitable skills analysis matrix. This involves five key steps:

1. Establish the current strengths of the audit committee members and the position once audit committee members complete their terms of appointment. This can be done by mapping the top three areas of expertise for each audit committee member (scoring these 3), mapping the remaining skills as either 2 (moderate-high skill level), 1 (some or little skills) and 0 (no skills/experience).
2. Review the audit committee charter and the organisation's strategic agenda to sketch the ideal audit committee appointee.
3. Develop an audit committee skills analysis matrix by factoring in the outcomes of steps 1 and 2. An example is contained below. Descriptions should be developed for each skill area.

4. Determine the unique skills and experience any new audit committee members are expected to bring to the table, then craft a suitable advertisement to optimise interest of appropriate candidates.
5. Undertake a merit- and skills-based selection process using the audit committee skills analysis matrix as the basis for differentiating between candidates.

The governing body could determine the minimum skills needed on the audit committee (e.g. accountant, lawyer, business leader) then identify other governance and industry skills that are desirable; the skills-gap analysis will substantially influence these needs. Weightings can be applied to achieve a balanced audit committee composition that meets the needs and expectations of the governing body and the audit committee chair.

Once the audit committee skills analysis matrix has been developed, it simply needs to be reviewed and refreshed whenever future audit committee vacancies are to be filled.

Specific Attributes for Audit Committee Chair

When selecting the audit committee chair, there will be other attributes that will need to be considered. These include:

- › Leadership qualities and the ability to promote effective working relationships in complex organisations.
- › An ability to communicate complex and sensitive assessments in a tactful manner to CAEs, CEOs, senior management, and the governing body.
- › A well-founded understanding of the principles of good organisational governance and accountability, including financial reporting, internal audit operations (including selection and review of CAEs) and risk management standards and principles.

The term of the audit committee chair (i.e. typically a five-year cap) is usually less than the maximum term of an audit committee member (i.e. typically an eight-year cap) which means the chair can spend several more years as an independent member. However, the governing body needs to carefully consider the future dynamics, and whether the new audit committee chair prefers a fresh start given that the personality (and ego) of some past chairs can result in a strained working relationship.

Acknowledgement

In preparing this factsheet IIA-Australia gratefully acknowledges the opportunity to use content from the manuscript for a book by Bruce R Turner AM *'Powering Audit Committee Outcomes: The Essential Guide'* to be published in late-2020 by the Internal Audit Foundation.

