

Audit committee guide: Evolving from good to great

9 qualities that distinguish highly effective audit committees from the rest



A new imperative for audit committees

As public companies navigate new risks and regulations, the role of the audit committee continues to expand. Responsibilities, once limited to overseeing the external auditor and internal controls, have now multiplied beyond financial reporting matters. They can include cybersecurity, fraud risk, third-party risk, data privacy and security, ethics, and compliance – the list goes on.

The stakes are higher, too. In today's volatile business environment, audit committees must raise their game to mitigate risks and avoid costly financial reporting errors.

What makes an audit committee great?

Rising to the challenge, an effective audit committee can make a tremendous difference. A highly involved and engaged audit committee can improve audit quality, according to a 2022 study.¹ Other empirical studies found a clear link between audit committee financial expertise and a lower risk of internal control weaknesses.²

These findings set the stage for two fundamental questions:

- What are the qualities of a highly effective audit committee?
- How can an audit committee evolve from good to great?

This guidebook describes what an advanced, highly effective audit committee looks like. It explores the nine fundamental attributes of successful committees and the bold actions they take. Discover how to follow their lead.

¹ Jimmy F. Downes, Michelle A. Draeger, and Abbie E. Sadler, "Does Audit Committee Disclosure of Partner-Selection Involvement Signal Greater Audit Quality?" *Accounting Horizons*, March 1, 2022, accessed Jan. 4, 2023, <https://meridian.allenpress.com/accounting-horizons/article-abstract/36/1/49/467301/Does-Audit-Committee-Disclosure-of-Partner>

² Géraldine Broye and Pauline Johannes, "Determinants of Audit Committee Effectiveness: Reviewing a Decade of Empirical Research," *Accounting Auditing Control*, January 2021, accessed Jan. 4, 2023, https://www.researchgate.net/publication/348447279_Determinants_of_audit_committee_effectiveness_Reviewing_a_decade_of_empirical_research

Audit committee guide: Go from good to great

The most effective and well-run audit committees demonstrate these nine characteristics.

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Read on to understand each of these characteristics in detail, including what good audit committees and what great audit committees do in addition.



1. Grounded in effective leadership

Audit committee success begins with the chair, who sets the tone for the committee's communication, approach, and level of engagement. The chair should have an impressive set of leadership skills, combined with the commitment and multitasking skills needed to shoulder the many responsibilities of this role.

"Every great audit committee has a great chair," says J.P. Shelly, an audit partner at Crowe. "Your audit committee will go only as far as the chair will take you."

What good committee chairs do well:

- **Stay organized.** Chairs facilitate effective and well-organized meetings; they share quality pre-meeting materials and keep discussions focused on what's important.
- **Lead communication.** They act as the chief communicator and relationship builder with the committee's many stakeholders (including the CFO, chief risk officer, and lead audit engagement partner).
- **See the big picture.** Chairs maintain a holistic view of the company's strategic direction, internal controls, culture, risks, and challenges.

What great committee chairs do in addition:

- **Spot new risks.** Thanks to their experience and intuition, they can quickly recognize what issues are most important, particularly related to risk management. Chairs receive an overwhelming amount of information and updates, but the best ones can cut through the noise to identify what matters most.
- **Deepen relationships.** Effective chairs take time to develop strong relationships with the CFO – overseeing reporting responsibilities but also acting as mentors – as well as the audit engagement partner and the internal audit leader.
- **Push back when necessary.** Strong audit committee chairs recognize when their committee is overburdened and cannot take on new responsibilities that might be better suited to other board members or company management. An under-resourced audit committee risks a degradation in audit quality.



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J.P. Shelly
Partner, Audit

Every great audit committee has a great chair. Your audit committee will go only as far as the chair will take you.

2. Adept at stakeholder communication

Effective audit committee oversight demands frequent and skillful communication with key stakeholders. Strong communication can contribute significantly to audit quality.³

What good audit committees do well:

- **Facilitate constructive dialogues.** Skilled communicators on the board facilitate productive two-way conversations and maintain respectful, candid dialogues.
- **Engage different personalities.** Strong interpersonal skills allow committee members to interact well with everyone from analytical-minded CPAs to executives with grand entrepreneurial visions.
- **Connect informally.** Some of the most valuable communication and insights come from informal conversations between audit committee members and company management or external auditors (rather than discussions at scheduled meetings). Effective committee members carve out time to chat with stakeholders and learn what keeps them awake at night.

What great audit committees do in addition:

- **Ask tough, proactive questions.** Great committees feel comfortable asking tough questions and challenging executives – because they are skilled communicators who have already established positive relationships with these stakeholders. Members continually ask proactive questions – with a dose of healthy, professional skepticism – to uncover potential risks or reporting errors.
- **Tap their auditors' expertise.** Committee members understand how to maximize the value of their relationship with the lead audit engagement partner, in full compliance with auditor independence and integrity. During regular check-ins, they might ask questions to tap into the auditor's knowledge and experience with similar companies or industries, such as:
 - Do you have concerns about anything you saw in the financials this quarter?
 - Are there areas in which the audit committee should supplement our knowledge?
 - What issues or risks should be on our radar in the coming months?



³ "Audit Committee Practices Report: Common Threads Across Audit Committees," Center for Audit Quality (CAQ) and Deloitte, January 2022, accessed Jan. 4, 2023, <https://www.theqaq.org/2022-ac-practices-report/>

3. Focused and proactive on cybersecurity

Risk management oversight has grown into a primary responsibility of the audit committee, with cybersecurity emerging as a top challenge. The number of S&P 500 companies that disclosed that their audit committees were responsible for cybersecurity risk oversight increased by 35 percentage points between 2016 and 2021, and by 29 percentage points for S&P mid-cap companies.⁴

This increased focus likely is driven by a rise in security breaches – 85% of companies experienced one or more successful cyberattacks in 2022⁵ – and the ongoing switch to remote work, as well as increased regulation and cybersecurity reporting requirements from the Securities and Exchange Commission (SEC), Public Company Accounting Oversight Board (PCAOB), Federal Trade Commission (FTC), and others.

What good audit committees do well:

- **Allocate sufficient time.** Effective audit committees feature cybersecurity prominently on their meeting agendas and spend much more time addressing these risks than they might have in the past.
- **Master the fundamentals.** Committee members take time to learn their company's specific cybersecurity risks as well as relevant internal controls and current risk-management and cyber assessment processes. This knowledge allows them to speak confidently to investors and other stakeholders.
- **Invite experts to meetings.** Effective audit committee meetings feature regular cybersecurity and risk management presentations from subject-matter experts, such as the chief information security officer and the chief information officer.

What great audit committees do in addition:

- **Challenge executives.** Great committees push executives and senior management to adopt more stringent security measures and technologies, strengthen internal controls, and shore up anti-fraud programs. They ask questions proactively to stay ahead of risks. At the same time, they advocate strongly for the necessary budget and resources to address risk.
- **Seek a third-party perspective.** Effective committees understand the value of periodically bringing in consultants and specialists to gain an outsider's perspective on emerging risks and gaps in risk management processes.
- **Add board expertise.** High-functioning boards select a cybersecurity expert as one of the audit committee members because their expertise is so valuable.

⁴ "2021 Audit Committee Transparency Barometer," Center for Audit Quality, November 2021, accessed Jan. 4, 2023, <https://www.thecaq.org/2021-barometer/>

⁵ "2022 Cyberthreat Defense Report," CyberEdge Group, 2022, accessed Jan. 4, 2023, <https://cyber-edge.com/cdr/>

4. Cognizant of staff needs and well-being

“The most effective audit committees have become supremely focused on the well-being of employees,” says Shelly. “Especially the staff in key financial reporting roles who are critical to the success of the audit.”

What good audit committees do well:

- **Monitor staff capacity.** Engaged committees check to make sure teams are not overworked, stretched too thin, or unable to complete tasks due to turnover and vacant roles. All of these issues can introduce financial reporting risk and affect quality.
- **Advocate for teams.** Committee members who identify capacity issues or team inefficiencies can nudge management to accelerate hiring or bring on third-party consultants to address special issues like going concern or goodwill impairment.
- **Outsource internal audit.** More audit committees have begun outsourcing the internal audit function to a third party if they recognize that existing staff does not have the expertise or capacity to perform these duties effectively (often due to turnover).

What great audit committees do in addition:

- **Embrace the future of work.** Advanced committees recognize that their companies must embrace digital acceleration in finance and accounting – from artificial intelligence tools for external audits to process automations that free up employees to focus on meaningful work. These committees encourage management to expand remote and hybrid work and to create a corporate culture that attracts top talent.



5. Transparent with actions and communication

Voluntary disclosure (via proxy statements) of an audit committee's activities, procedures, and processes signals the committee's oversight prowess and dedication to audit quality, which in turn gives investors and regulators confidence.

What good audit committees do well:

- **Share robust disclosures.** Effective committees write up extensive proxy statements – beyond SEC-required minimums – that disclose various aspects of their oversight responsibilities. Common disclosures include criteria to evaluate an audit firm, how nonaudit services might affect independence, and how the committee addresses cybersecurity risks.
- **Disclose selection of the audit partner.** Committees that disclose their involvement in the selection of the lead audit partner (chosen every five years) achieve higher levels of audit quality, according to a 2022 study.⁶ Committees that are deeply involved in the partner selection process (as opposed to management alone) can help make certain that the process is rigorous. Selecting the most qualified lead partner can strengthen audit and reporting quality.

What great audit committees do in addition:

- **Address expanded topics.** In the spirit of greater transparency, advanced audit committees go the extra mile to provide disclosures on an expanded range of topics, from environmental, social, and governance (ESG) issues to enterprise risk management. In addition, great audit committees disclose information about external auditor compensation, fee negotiations, and changes in fees. The Center for Audit Quality (CAQ) highlights disclosure of these topics⁷ as the greatest opportunity for increased transparency among audit committees.



⁶ Downes, Draeger, and Sadler, 2022.

⁷ "2021 Audit Committee Transparency Barometer."

6. Attuned to industry and company challenges

“Audit committees need to have a strong understanding of how a continually changing economic environment impacts their particular company,” says Andrea Castle, an audit partner at Crowe. They also should familiarize themselves with the unique challenges and trends within their specific industry.

What good audit committees do well:

- **Recruit industry experts.** “Effective audit committees include board members who have previously worked in the same industry,” explains Castle. “These professionals appreciate the risks because they’ve lived them.” For example, their past industry experience can help audit committees navigate the risks and reporting implications of supply chain issues, compliance and regulatory reporting, and long-term organizational strategy.”
- **Educate themselves.** When it comes to the companies they support, engaged board members don’t overlook learning the basics: core business model, customer profiles, business strategy, internal controls, and industry-specific challenges and risks.

What great audit committees do in addition:

- **Talk to staff.** Once they learn the fundamental attributes and challenges of a company, committee members enrich their understanding through one-on-one conversations with management and staff. This effort earns them insights that might never surface in a board meeting, such as staff perspectives on emerging risks or opportunities. In turn, committee members can share with staff their own lessons learned or best practices from their industry experiences.

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Andrea Castle
Partner, Audit

Audit committees need to have a strong understanding of how a continually changing economic environment impacts their particular company.



7. Up to speed on reporting and compliance

Successful committees earmark time each quarter to keep up with the latest announcements on government regulations, accounting standard updates, and other critical issues that affect financial reporting.

What good audit committees do well:

- Develop a process to stay current. Effective committees have developed a formal process to keep up with ever-changing guidelines, reporting requirements, and accounting standards from the SEC, the PCAOB, the CAQ, and the Financial Accounting Standards Board (FASB). They regularly check industry news sources to review and share updates with colleagues.

What great audit committees do in addition:

- **Anticipate and prepare for what's next.** Proactive committees gather intel to anticipate coming regulatory changes or new reporting requirements, such as those related to ESG. They help company management prepare in advance and avoid being blindsided.

2 traits of underperforming audit committees

1. Compliance-focused only

“Weaker audit committees tend to treat their role as a compliance function only,” says Shelly. They’re narrowly focused on checking boxes and meeting established requirements rather than taking time to gain a holistic view of the company’s strategic direction and risks or discovering opportunities for improvement in collaboration with management and external auditors.

2. Reactive rather than proactive

Committees that fail to proactively ask questions – to management and to external auditors – often find themselves blindsided by problems like fraud, reporting errors, or restatements. “By not asking good questions continually, they don’t know what they don’t know,” says Shelly.

8. Composed of diverse professionals

A diverse audit committee is a more effective one. People from different backgrounds and roles in the organization add value collectively, by sharing new perspectives and diverse approaches to risks and challenges.

What good audit committees do well:

- **Diversify expertise.** Successful committees typically have at least one member with a finance or accounting background, preferably in the chair position. Beyond finance, an effective board might consist of experienced professionals in these specialties:
 - Operations
 - Enterprise risk
 - Compliance
 - Technology/IT
 - Human capital
 - Cybersecurity
 - ESG

What great audit committees do in addition:

- **Prioritize diversity, equity, and inclusion (DE&I).** “Many committees are making a push to establish more female representation and minority representation, often as part of their ESG agenda,” says Castle. For these committees, a focus on DE&I goes far beyond any disclosure requirement, such as Nasdaq’s [Board Diversity Rule](#). They seek to demonstrate company values, and they recognize that greater diversity leads to more diverse perspectives and, ultimately, better results.

Audit committee basics and best practices

Refresh your understanding of the fundamental roles and responsibilities of the audit committee with the Crowe guide “Corporate Governance for Public Companies: The Audit Committee.” [View the guide](#) (PDF)



9. Effective at self-assessment and improvement

Audit committees already might record benchmarks and key performance indicators for topics like audit quality or completion of the audit plan. But what about the performance of the committee itself? Conscientious audit committees evaluate their own effectiveness and strive for continuous improvement.

What good audit committees do well:

- **Develop a custom evaluation.** Committees might create a checklist or questionnaire to score their performance across categories such as board composition and expertise, leadership, communication, oversight of the external auditor, procedures and organization, and overall execution of responsibilities. When committees complete an evaluation annually, they can benchmark their performance to identify progress and problem areas.

What great audit committees do in addition:

- **Hire a third party.** Busy audit committees that prioritize growth and improvement might not have the resources to create and execute their own self-assessments. Instead, they can turn to a consultant to either develop a custom evaluation or perform the assessment and provide feedback and recommendations.



How Crowe can help your audit committee

The job of the audit committee is more challenging than it used to be, with more risks to manage and responsibilities to juggle. But the most advanced and high-functioning committees have established a template for success.

Part of that template is working closely and collaboratively with an experienced and responsive external auditor. Crowe specialists have reported to countless public company audit committees as they strive to oversee high-quality financial reporting that strengthens stakeholder confidence.

Contact us

Learn more about [Crowe public company audit services](#).
Or contact one of our professionals directly to discuss your needs.



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