



Four key challenges for global audit committees

Audit Committee Institute

The increasing volatility and complexity of the global business and risk environment – conflict in the Middle East, slowing growth in China and emerging markets, volatility in commodity prices and currencies, interest rate uncertainty, and more – raise an important question for every global audit committee. How is this global volatility and uncertainty affecting the committee's agenda?

Based on what we are hearing from audit committee members of global companies, we have the following observations:

What is staying the same on global audit committee agendas?

Job number one for every audit committee is financial reporting integrity, so the committee's core responsibility remains the oversight of financial reporting and internal controls over financial reporting, as well as providing oversight over the quality of both the internal and external audit process. This is a big undertaking for every audit committee but is particularly challenging for audit committees of complex global organisations.

What is changing?

The globally connected world in which companies operate – with its multifaceted legal and compliance environments, integrated supply chains, cyber security risks, and unprecedented volatility – requires that audit committees know more about that world, and that they can help ensure their companies are built to operate in this business environment. This is an increasingly difficult challenge, which the audit committee shares with the full board. We see global audit committees reassessing whether they have enough time and the right experience. They are thinking about which board committees are best suited to oversee which risks (and reallocating oversight responsibilities as appropriate), leveraging non-traditional resources to gain a deeper understanding of certain risks, and engaging in more global travel to see things first-hand and connect with the people on the ground.

What are the key challenges facing audit committees today? We highlight four below:

Culture: Critical to the success of every global company is establishing a non-negotiable set of global values around compliance, safety and how the organisation treats people. Key to meeting this cultural challenge are tone at the top (throughout the group), control and accountability built into the organisational structure, upfront communication, and appropriate incentives and rewards.

Talent in the finance function: Quality financial reporting starts with the CFO, but requires a strong team on the ground in the markets the company operates, supported by traditional corporate roles such as financial controller, chief accountant and treasury functions. Success here requires the right people and their ability to work together.

Maintaining a sound global control environment: With supply chains extending across continents and operating across different cultures and legal frameworks, companies face ever-greater challenges in addressing the increased risks that these extended operations present e.g., financial reporting and internal controls, the increased risk of fraud and corruption, quality control issues, and corporate responsibility issues such as human rights, fair labour standards and sustainable environmental practices.

Legal and regulatory compliance: A critical role for a global audit committee is to help ensure that its company's ethics and compliance programmes keep up with globalisation, technology, and evolving business models.

The risk of fraud and corruption tends to increase when companies move quickly to capitalise on opportunities in new markets, leverage new technologies and data, and engage with more operations across longer supply chains. Factor in the UK Bribery Act and the Foreign Corrupt Practices Act and the Securities and Exchange Commission's whistleblower programme in the United States, and the sheer volume and scope of new regulations and it is clear why compliance is a top challenge.

Twitter, YouTube and Facebook have effectively put every company in a fishbowl, so the company's culture and values, commitment to integrity and legal compliance, and brand reputation are on display around the world all the time.

Given these challenges, the depth and breadth of the global audit committee's engagement is more important than ever. Spending time outside the boardroom, visiting company locations around the world, talking to people in their own offices and work places, and developing a first-hand point of view of the organisation's culture, talent, controls and more are no longer a 'nice to have'; they are an essential part of the role.



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