DEBRIEF
Getting the audit committee membership right
10 March 2015
The membership and role of audit committees

Kit Bingham and Mark Freebairn from executive search firm, Odgers Berndtson, kindly participated in the Centre for Audit Committee and Investor Dialogue dinner on 10 March 2015 to provide opening comments and help frame the discussion. Kit is Head of the firm’s Chair and Non-Executive Director Practice and Mark is Head of the Financial Management Practice.

Issues arising in the discussion included:

Financially-qualified professionals are strongly placed to participate in the boardroom both at the executive level, primarily in the role of finance director, and on the non-executive side, primarily as audit committee chairs (ACCs) with opportunities also for holding the positions of CEO, SID or chair.

There is a general preference for the ACC not just to have financial expertise but also to be financially-qualified, though there was some challenge from the investor community as to the need for the latter. Moreover, the ACC is nearly always the audit committee member with the necessary recent and relevant financial experience.

Boards take as given that professionally-qualified potential candidates will understand the numbers, the focus when recruiting is on their likely overall board contribution.

There is currently a general preference for current or recently retired CFOs to become ACCs, though the time commitment (especially allowing for unanticipated situations) means board chairs are increasingly less willing to see their current CFOs undertake the role. Furthermore, given that an increasingly important element of the ACC’s role is to act as the CFO’s mentor, this requires them to be available when needed which is often not possible for a serving CFO. That said, CFOs who had held a couple of ACC roles, and perhaps one as SID, were well placed to go ‘plural’ and become a board chair.

Investors were not fully convinced that it was best to have an executive director as ACC and thought there may be merits in someone who was a ‘plural’ NED holding the position of ACC from an independence viewpoint.
Some former partners in major accountancy firms are also ACCs but mandatory tendering and audit firm rotation could pose a challenge in the future as some consider it would be difficult if a new auditor were appointed from the ACC’s previous firm.

The point was raised that there was a tendency to focus primarily on recruiting those with existing board expertise and that, for example, former Heads of Internal Audit might make good ACCs.

In addition to those with financial expertise, it was widely recognised that a balanced audit committee also needed members with other relevant skill sets as it was normally also responsible, other than in financial service businesses, for reporting to the board on risk management. There was a clear need for the ‘common sense’ view on the committee and for challenge when, for example, IFRS yielded an answer out of line with what was considered to be the commercial substance of the situation.

In terms of other aspects of diversity in audit committee membership, gender diversity was important, so too was diversity as regards ethnicity and ensuring a balance of different personality types.

There was a strong candidate pool for most FTSE 350 ACC roles due to a number of partners in large firms retiring at a relatively young age from their full-time positions. The situation was, however, much more difficult in financial services as a result of the need for regulatory as well as accounting expertise, the greater time commitment and the increased regulatory risk.

Audit committees’ terms of reference were generally felt to be widening and care was needed to ensure they did not become ‘residual’ committees taking on additional ad hoc responsibilities without good reason. Appropriate new responsibilities, however, related to the ‘viability statement’ and to Integrated Reporting. An investor view was that a fairly fundamental expectations gap existed between what most outside the boardroom thought was the audit committee’s responsibility and what it looked at in practice.

Overall, serving on the audit committee was fulfilling as it covered a broad spectrum of the board’s agenda.
The Centre provides regular opportunities for discussion between Audit Committee chairs of FTSE 350 companies and leading institutional investors on topics of mutual interest. Should you require any further information on the Centre, or wish to participate in future meetings, please do not hesitate to contact:

**Stacy Street**

T: +44 (0)20 706 34867  
E: stacy.street@mazars.co.uk

The next meeting of the Centre for Audit Committee and Investor Dialogue will be held on 16 June 2015.