PRACTITIONER SUMMARY

What are the Necessary Abilities that Audit Committee Chairs
Need in Order to Fulfill their Role?

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SUMMARY: In this article, we summarize the findings of our recent publication (Khemakhem and Fontaine, 2019) which highlights the necessary abilities that audit committee chairs need to fulfill their role. By interviewing 27 participants, mostly audit committee members, auditors and CFOs, we found that in addition to financial acumen, the audit committee chairs need leadership abilities, including strong communication skills. Our findings provide insight into the audit committee chair’s role and abilities in order to succeed as a chair. Our study can help practitioners and policy-makers understand the role of chairs and help boards select chairs with the best abilities.

Keywords: audit committee chair’s role; audit committee chair’s abilities; financial expertise; leadership; communication skills.

Second, despite the fact that Canadian regulations² detail the composition and the role of the audit committee, they make no distinction between the role of the chair and the role of other committee members. The audit firm oversight body in Canada does, however, recognize the importance of the chair’s distinctive role. The Canadian Public Accountability Board³ (CPAB) interviewed audit committee chairs and audit partners to better understand effective communication between the two parties and the effect on audit quality. The results of CPAB’s investigation revealed the importance of communication between the chair and the auditor, describing the relationship as having “unfettered access to each other to communicate important matters in a timely manner” (CPAB, 2019, p. 2).

³ CPAB is similar to the Public Company Accounting Oversight Board (PCAOB) in the United States. CPAB oversees the audits of publicly listed companies in Canada.
Finally, given the fact that the audit committee chair is responsible for managing complex relationships and communications with external auditors and management, Carcello, Hermanson, and Ye (2011) encourage future field research to distinguish the audit committee chair from the other audit committee members. Consequently, our objective is to investigate the audit committee chair’s role and the necessary abilities to fulfill this role.

**METHOD**

To achieve our objective, we interviewed 27 participants including 16 audit committee members (15 of whom were chairs), five auditors, five CFOs, and one board of directors’ consultant.

By interviewing these different stakeholders, we obtained a more complete perspective regarding the chair’s role and abilities. All the interviews were audiotaped and later transcribed by a person other than the interviewers. The interviewers then coded each transcript and any discrepancies were discussed until there was an agreement.

**THE ROLE OF THE AUDIT COMMITTEE CHAIR**

Our participants used several analogies describing the role of an audit committee chair as an “orchestra conductor,” “captain of a ship,” or “team captain.”

All participants agreed that the role of the chair is different than the role of the other audit committee members. The chair is the main contact of the external auditor and is also the principal contact for the management. The following excerpt highlights how important the chair is as a communication outlet for an auditor:
[The chair] is like the connection with proper communication between the board, the audit committee members, internal audit, management, external audit. [The chair] is like in the middle of the users of the financial statements . . . the role is important because when we have issues, we communicate with [the chair], we don’t communicate with other audit committee members and when we deal with [the chair], then the other members are aware of the issues through [the chair] or at the audit committee meeting. So [the chair] has to have the confidence to digest all the information, process it, and take the first step of what should be the direction.

In addition to the relationship with the auditor, chairs have an important role in respect to their relationship with management. What emerged from our interviews was the importance of the chair’s trust in management. In fact, trust was considered a necessary prerequisite before a chair could perform an effective oversight role of management. The following is an excerpt from a chair who expresses this point:

I have total trust in management, never in my thinking do I question the credibility of management . . . I should run if I question the management, I shouldn’t be sitting on the board . . . I always start with the principle that I am on the board [of a company] where the management is good management and is of good faith and they’re allowed to make mistakes. To have a sort of skepticism in oversight is healthy, but never to question the honesty of management. The people who are there are very competent. If I question that, I have another problem of oversight and it is the risk in terms of replacing management. I should settle that there, or run. Get out of there.

The chair can then become skeptical once trust is established. This is consistent with the idea that trust needs to first be established between two parties before there can be any monitoring (Szompka, 1999).

We also discovered from our interviews that audit committee chairs were involved in informal conversations and meetings with different people at different times, centering around the audit committee meetings - before, during, and after the meetings (Figure 1).
Before the meetings, the chair communicates with management, and with internal and external auditors to gather the required information and elaborate the agenda for the audit committee meeting.

During the meeting, the chair needs to facilitate the communication between the audit committee members by encouraging them to ask questions and by listening to their ideas.

The audit committee meetings are also fully managed by the chair, who also represents the committee at the board level, as explained by a CFO:

[The chair] ’s really chairing the meeting, organizing the topics, organizing the time, managing the meeting and also giving the floor to the others there. . . It’s the chair who will make the recommendation to the board to accept, or not, all the documents. So it’s the manager of the meeting, [the chair] decides the agenda . . . decides the time, decides the topics, then keeps everybody in order, if it is required.

After the audit committee meeting, the audit committee chair needs to explain important information to the board members, some of which might not have in-depth financial acumen. The following is an excerpt from an audit committee chair:

I will bring out the important elements. At the board level, I feel I have a large responsibility because it is complicated. The individuals on the board do not all understand all the nuances. I report to the board elements that I would want to know if I was not on the audit committee.

These different interactions help to illustrate why and how the audit committee chair’s role is different than the regular audit committee members.
After having a better understanding of the audit committee chair’s role, we then investigated the abilities to fulfill this role.

All of our participants (27 out of 27) expressed the importance of financial technical abilities for the chair. However, as we further explored the abilities, all of our participants (27 out of 27) mentioned the importance of leadership. This finding is consistent with Spangler and Briotta (1990) who find that the audit committee chair’s leadership style can have an impact on audit committee effectiveness.
When we asked for further clarification, 19 out of 27 of our participants expressed the importance of communication skills, including listening, teamwork, empathy, courage, asking questions, and consensus building. An auditor explains the importance of communication skills of the chair:

Communication is critical. The chair needs to bring everybody to a common goal. The chair needs to communicate the expectations, communicate the results and this communication is critical because the chair, auditor, and management form a three-legged stool that will crumble easily if there is not adequate communication between the three parties. So, a chair needs to be able to communicate the expectations of the audit committee to the auditors, in regards to management. The chair needs to communicate clearly what the expectations, the needs and the role of all, so communication skills are very, very, very important. (Auditor)

Our interviews suggest that the audit committee members definitely require technical financial expertise as a base skill. However, the complex role of the chair, inside and outside of audit committee meetings, requires leadership and communication skills.

CONCLUSION AND IMPLICATIONS FOR PRACTICE

The main finding of our study it that the chair needs skills that go beyond financial expertise. Due to the chair’s role in managing various relationships, the chair needs well-developed leadership abilities, such as communication skills.

Communication skills are important for different reasons. First, the chair interacts with different stakeholders such as internal and external auditors, management and other audit committee members. Second, the chair is also the leader of the audit committee, responsible for the other members’ contribution to the meetings. And, finally, the chair is the audit committee’s spokesperson, who is normally the audit committee member that presents information to the board.
Oversight bodies and regulators can benefit from our study by better understanding the audit committee chair’s role and abilities beyond financial expertise, such as leadership skills. These leadership skills include communication skills such as listening, teamwork, empathy, courage, asking questions, and consensus building.

Furthermore, our findings can give insight to companies and boards of directors into identifying the practitioner with the right skill set to fulfill the audit committee chair’s role. Having the chair with the right abilities can contribute to enhancing audit committee performance and audit quality.
REFERENCES


