



Thinking

The Chair of the Audit Committee and Head of Internal Audit

A critical relationship but it needs work!

The relationship between the Chair of the Audit Committee (Audit Chair) and the Head of Internal Audit (HIA) is critical to each other's success. However, it is not an easy relationship to build and both parties need to be aware of the various pitfalls which can lead to the relationship working sub-optimally, to the detriment of both parties..

“ **The personal chemistry might not immediately be there and so both sides may ‘miss’ their value to each other.**

The following note is the result of a ‘round table’ dinner event, held between a Group of Leading Heads of Internal Audit and Chairs of the Audit Committee.

The WIN

The HIA has the executive day to day knowledge of the business that time precludes the Audit Chair from having. Meanwhile the Audit Chair brings both experience and distance, giving them a strategic and objective vantage point. Harmonising these different perspectives will make both very effective.

The Pitfalls

Forgetting that it is a ‘Hard-Line’ Report –

The nature of this ‘Hard Line’ report – an Audit Chair who is Non-Executive, and the HIA, who is independent of the executive – means this boss/subordinate relationship, without careful thought, won’t even resemble a dotted-line report.

The Relationship Challenge

The Audit Chair and HIA will typically be very different personalities, with different perspectives, experience and capability. The personal chemistry might not immediately be there and so both sides may ‘miss’ their value to each other.

Time Constraints

Everyone is busy and none more so than the Audit Chair, particularly those with an executive role at another plc. Hardline relationships are often forged in the day to day of ongoing business, but that is not a luxury afforded to this one. Most interactions will be at formal sessions – the Audit Committee or the run up to them. Bumping into each other in the corridor just does not happen in the same way as with other colleagues.

Hedley May is unique in the world of executive search. We specialise in senior functional roles for major corporates, financial institutions and professional services firms, operating globally from our offices in London and New York.

Find out more:

Verity Walker

Hedley May, London
+44 (0)20 7858 9434
verity@hedleymay.com

Nick Hedley

Hedley May, London
+44 (0)20 7858 9430
nick@hedleymay.com

Laura McPhail

Hedley May, New York
+1 646 666 9392
laura.mcphail@hedleymay.com

“ The Audit Chair needs to clearly acknowledge that the HIA’s role gives them the power of information, and encourage the HIA to be confident and assertive – to share even the half thought through ideas. It should be seen by both sides as a partnership.

The Audit Chair

Establish the parameters at the outset

Clear joint objectives, with realistic deadlines, need to be set, and, because interactions will be limited, agreeing how time will be set aside in the future to track progress towards these objectives.

Give permission

The Audit Chair needs to clearly acknowledge that the HIA’s role gives them the power of information, and encourage the HIA to be confident and assertive – to share even the half-thought through ideas. It should be seen by both sides as a partnership, where HIAs contribute information and ideas; while Audit Chairs steer strategy.

Set the tone at the first Audit Committee Meeting

HIAs needs to hear explicitly that they have the Audit Chair’s full support; that they’re very much on the same team. It is the CEO and CFO who are being held to account and not the HIA. A mutual tacit understanding that the Audit Chair and HIA have a shared interest in each other’s success, is a critical moment in the relationship.

The HIA

Become a great communicator

Poor communication is the most commonly cited frustration for Audit Chairs with their HIA. Communication needs “to be efficient and to the point”. The HIA needs to get the balance right between governance and a business focus - thinking not just of “what?” but also of “so what?” Yes, governance is important, but the HIA needs to be “in the business” and speak business language – to not let technical jargon overwhelm their communications or papers.

Trust can only be built if HIAs are frank and honest about the risks that they see. However, this should not translate into endless negativity. Audit Chairs, with their busy schedule, are looking for constructive, action-oriented observations – “how can we make things better together?” rather than simply a list of everything that’s wrong.

You know it is working well when....

The relationship is working well when both sides feel they can say what is on their mind; it will usually be the HIA holding back. When the HIA is prepared to highlight issues which are not fully thought out – “I am not completely sure about this, but I have a feeling...” or “here is something I am worried about, what would you do in my situation?” it is a sign that the relationship is built on mutual respect and trust.