

Audit Committee *Brief*

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Finance talent: Building sustainable leadership

The competition for top-performing finance talent remains strong. Effectively identifying and onboarding senior finance professionals, monitoring their career development, and managing the pipeline of future leaders can help sustain an organization’s success. Executive succession and development are often the responsibility of the full board. However, the audit committee may consider becoming involved in overseeing the finance organization, keeping the quality and reliability of financial accounting and reporting and related controls at the forefront.

The committee can help monitor and strengthen finance talent initiatives through annual discussions about finance talent topics with the CEO, CFO, and other finance executives, as well as regular oversight of finance talent-related issues. This can include evaluating the strategic approach for finance talent, overseeing important hiring and onboarding activities, and being actively involved in succession planning efforts.

Evaluating the strategic approach for finance talent

Most companies have a talent strategy for the overall organization, but not all have applied those strategies to finance. The audit committee may want to understand and discuss with management the talent strategies, targets, and needs for the finance organization. If management has clearly articulated finance talent initiatives related to hiring, onboarding, retention, and succession, the audit committee can better understand potential gaps that can adversely affect financial accounting and reporting, and can offer support and guidance to the CFO and chief audit executive to resolve them.

To help assess the effectiveness of the talent strategy, the audit committee’s interaction with finance professionals may need to extend beyond the executive team. When committee members have access to professionals in a variety of levels and roles, they can better understand bench strength and more confidently evaluate

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succession and retention plans. One approach to increasing the visibility of finance talent is to periodically invite potential candidates for future leadership roles to present during audit committee meetings so that committee members can hear their views, understand their roles, and assess their abilities. In addition, if committee members are visiting company locations, they should consider meeting with local finance professionals who are not typically present at audit committee meetings.

Hiring and onboarding finance leaders

When hiring senior finance professionals, it is helpful for management to develop clear role and competency descriptions for each key position so that the audit committee, finance leaders, recruiters, and prospective employees are able to understand talent expectations and evaluate if there is a good match in the event of an opening. Once candidates are identified, audit committee members may wish to be involved in the interview process for top finance roles.

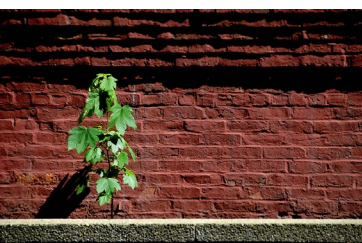
The audit committee may consider active engagement with new finance leaders such as the CFO, chief audit executive, and tax director early in their tenure as they become acclimated to their role and develop their leadership strategy and initiatives. In particular, the audit committee chair could meet with new executives to better establish an open line of communication and develop shared expectations. Committee members can be a valuable source of objective perspectives on the company, including its risks, emerging issues, and approach to governance.

Succession planning

The fundamental question to ask when evaluating succession for senior finance talent is, “If the CFO or another finance leader leaves today, do we have a plan to quickly identify and onboard an effective replacement?” The talent strategy can cover both more traditional, long-term pipeline monitoring and development and a plan of action if there is an unexpected event requiring quick action. These plans should take current professionals into account and also incorporate the possibility of needing to look outside the company for certain roles. Management should maintain a succession chart providing details about the background and skills of promising internal professionals and roles they could potentially fill.

The audit committee can consider including finance talent succession in an annual executive session. Management typically owns the process, with the CEO or CFO leading the discussion and presenting to the audit committee. Important roles for which succession issues can be considered include the CFO, chief tax officer, chief audit executive, and controller; other roles may be included in this discussion based on the organization’s needs. In addition, succession planning activities should take into account roles and opportunities for finance professionals based in non-headquarters and global locations.

The audit committee may wish to consider coordinating finance talent succession discussions and related activities with the full board and other committees, including the compensation and nominating/governance committees, so that the audit committee is included in significant finance-related succession issues.



Developing internal talent

One of the reasons cited when highly talented finance personnel leave an organization is a limited career path¹. The audit committee can inquire whether there is a viable career path for potential leaders, and whether that path has been clearly communicated to them. Having a career model that is closely tied to business needs can not only enhance retention, but also facilitate the development of professionals to support critical areas that are in danger of being understaffed. Particular attention should be paid to roles that are hard to replace, are likely to become increasingly important, or provide support that is critical to the overall organization's performance.

To further enhance retention efforts, audit committees can meet regularly with the CFO and other finance leaders to discuss talent issues and assess the performance and morale of finance professionals. Annual employee satisfaction surveys can help in surfacing issues

and in developing strategies to increase engagement. Audit committees should consider asking whether such surveys are being regularly conducted. Committee members can also consider participating in the performance and compensation discussions for key finance executives, including the CFO and chief audit executive, to confirm alignment with organizational priorities.

Consideration can also be given to the performance and needs of non-U.S. and non-headquarters finance leaders, including whether they have been given sufficient opportunities for visibility and developmental experiences. Engaging with these leaders is particularly important to provide transparency in the audit committee's oversight of the finance organization. Additionally, some of the company's rising talent may be based in these locations, so the committee may want to include discussions about these individuals in their succession discussions with the CFO.

¹ CFO Insights: "Defining and Delivering Your Talent Agenda", 2013.



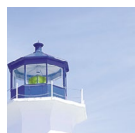
Questions audit committees can consider asking the CFO about finance talent

- What are the key elements of the talent strategy for the finance function?
- Do you have adequate personnel, both in numbers and quality, to fulfill your responsibilities with respect to the financial statements and internal control over financial reporting?
- How comfortable are you with the pipeline of finance talent?
- What is the succession plan for key finance positions?
- Are potential successors ready now, or do they need more experience or time for the positions they are slated for?
- What approaches are being taken to develop the next generation of finance leaders?
- Are there finance professionals in the pipeline of potential future leaders that the audit committee should meet?
- What plans are in place to respond to an unexpected event? Is someone ready to jump in immediately if there is a gap, and if not, what are the backup plans to hire temporary resources?
- How are global and non-headquarters professionals incorporated into succession plans?
- How are new finance leaders brought up to speed? Is there an onboarding program?
- What formal training programs are in place to keep finance professionals up to date with the latest developments and requirements?

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Conclusion

The finance function’s leaders and professionals can have a direct impact on a company’s risk profile, value creation, and return on investment for investors and other stakeholders. The audit committee can enhance the effectiveness of its oversight responsibilities by working with management to understand the strategy for sustainable finance talent, and in particular the succession plans for key leaders and roles of critical importance.

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