CFO Insights
What audit committees want from CFOs

Since 2010, Deloitte's CFO Program has delivered more than 700 CFO Transition Lab sessions—one-day workshops that help finance chiefs onboard into their new role. In preparation for these sessions, we have interviewed hundreds of audit committee chairs and members across 20 countries. This edition of *CFO Insights* synthesizes key lessons learned from those interviews in terms of what audit committees generally want from their CFOs.

1. "No surprises"

One of the most common phrases we hear from audit chairs is, "I want no surprises." While surprises are generally inevitable in the course of business, audit chairs and committees want the CFO to manage the avoidable issues and inform them in a timely way when the unexpected occurs.

To set the context for direct, timely communications and joint problem-solving, CFOs should consider building working and personal relationships early in their dealings with the audit committee. They especially have to establish regular communications and interactions with the audit chair. These interactions should occur outside of preparing for audit committee meetings and may mean scheduling dinners or breakfasts four or more times a year with the chair or other key committee members. While board members and finance chiefs are busy, audit committee chairs often tell us that they are available to the CFO as a sounding board and that the CFO should feel comfortable reaching out beyond formal committee meetings. Establishing a good relationship with audit chairs early on can enhance mutual confidence in tackling difficult issues when they arise.

2. Strong partnering with the CEO and other leaders

Audit committees and the overall board want to see a CFO who effectively partners with the CEO and other key business leaders. The partnership with the CEO is the most important of these relationships. Although some CEOs and boards prefer their CFO to focus on the traditional roles of operator and steward, many look for support from the finance chief as a strategist and catalyst (see the "The Four Faces of the CFO"). As a strategist, a CFO can align financial strategy to business strategy for growth, but may also choose to shape growth through finance (for example, finding innovative ways to finance M&A or other investment activity or pricing strategies to grow revenues). Similarly, CFOs can drive change in organizations through levers, such as efficiency initiatives and new ways of measuring and rewarding performance. Effective partnering and influence skills with the CEO and other C-suite leaders are critical imperatives for CFOs. In fact, audit chairs and board members often observe CFO-CEO and CFO-peer relationships to gauge how well the leadership team works together to achieve company goals.

3. Confidence in finance organization talent

As the workhorse for creating accurate and timely financial reports, the broader finance organization is of interest to audit committees. They want to know that the organization is stable and supports and complements the skills of the CFO. In addition, they want assurances that key-person risks are being managed and that the organization is developing finance talent, including potential successors to the finance chief.

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Occasionally, audit committee members may visit with key finance leaders in advance of a scheduled meeting to gauge the state of the finance organization. At other times, they may have the opportunity to observe select finance staff at audit committee meetings.

A good practice for CFOs is to give the audit committee visibility into their key staff and how they intend to develop the finance organization. Candid discussions on talent and the CFO's plans to develop or change staff well ahead of time can forestall misunderstandings with committee members. At other times, having select staff attend or present on issues in their domain at the audit committee meeting also provides visibility to the committee and developmental opportunities for the staff.

4. Command of key accounting, finance, and business issues

These days, CFOs are often appointed with finance or operating business backgrounds versus accounting backgrounds. Yet, to truly own their CFO role, these appointees need to master the key technical accounting, financial reporting, tax compliance and planning, control environment, finance, or treasury issues pertinent to their companies.

As an incoming CFO with a non-accounting background, a good practice is to schedule a series of deep dives with expert staff or outside resources, such as the company's auditors, to come up to speed on critical financial reporting, control, or technical accounting issues, as well as tax and control issues, such as the Foreign Corrupt Practices Act. This establishes both a structure and timeline toward mastering key issues. Moreover, by sharing the timelines and lessons learned from deep dives with the audit chair or committee, the CFO can continue to gain their confidence and manage expectations. And given the complexity and volume of the material involved, audit committees then can be realistic about the timelines by which an individual can come up to speed.

For a CFO coming in with an accounting background, he or she may first need to focus on understanding the critical business issues and business model for the company. This is especially the case when the CFO joins a diversified company where he or she lacks familiarity with the business model of select units in the portfolio. Again, deep dives on unfamiliar business models can help the new finance chief gain the requisite command over pertinent issues.

5. Insightful forecasting and earnings guidance

Audit committees frequently express the need for the CFO to take ownership of improving forecasting and budgeting in the company to deliver more effective guidance on future cash flows and avoid earnings misses. But beyond the forecasts and guidance, what many audit committees really want is an insightful CFO—one who can clearly articulate the underlying assumptions and drivers that guide estimates of future performance. In other words, they want someone who can tell "the story behind the numbers" that make up the forecasts and guidance.

6. Effective risk management

A key CFO role is to manage risk. While a board's risk committee may oversee enterprise-level risk management, many audit committees also expect the CFO to take a leading role in managing enterprise and operational risk beyond traditional financial, accounting, and regulatory compliance risks.

The CFO will likely be expected to set the tone at the top on ethics and integrity, oversee the control environment, and ensure the right people are deployed across the organization to support compliance. In addition, the audit committee will want to ensure that reporting lines are clear across the organization and that the organization structure encourages the right behaviors and timely flow of risk information. This is especially the case in large multinational organizations, where finance resources may be in a direct reporting line to local business leaders versus the global CFO. In these cases, the audit committee may want to make sure the right incentives and structures (carrots and sticks) are in place to mitigate risks.
The CFO and finance organization may also work to hedge against or mitigate operational risks, such as those related to cyber security and business continuity. In short, the CFO will have to show the value of risk management to the audit committee.

Leading areas of boardroom focus

Strategy, risk oversight, and board composition emerged as the leading areas of board focus for 2015, according to a survey of more than 250 public companies by the Society of Corporate Secretaries and Governance Professionals, in collaboration with the Deloitte LLP Center for Corporate Governance. The 2014 Board Practices Report: Perspectives from the Boardroom covers a range of board structural and functional issues, including board composition and evaluation processes, cyber security, data analytics, and compliance.

The report found that 85% of respondents chose strategy as their board's top focus area, while 44% chose risk oversight as the leading issue. More than half (52%) said their boards discuss strategy at every board meeting. "U.S. companies, and the board and management teams that lead them, need to navigate a myriad of issues and topics, including difficult economic and political environments, international unrest, and an uptick in start-ups and disruptive technologies, which challenge their competitiveness and opportunities for growth," says Deborah DeHaas, vice chairman, chief inclusion officer, and national managing partner for the Center for Corporate Governance, Deloitte LLP.

"These two topics, strategy and risk oversight, go hand-in-hand as boards remain vigilant and focused on monitoring strategy and related metrics and alternatives, while also overseeing and mitigating risks to the strategy and the business itself," notes Maureen Bujno, a director with Deloitte LLP's Center for Corporate Governance. Rounding out the top five areas of focus for the year ahead were board composition, at 36%, CEO succession planning, noted by 24% of respondents, and cyber security, at 16%.

The survey, which is in its ninth edition, covers 16 board governance areas, including established board practices and new trends. Included were several questions related specifically to audit committees, and similar to the last report in 2012, the study found that almost all audit committees meet with the CFO. In fact, 97% of large cap company respondents reported that their audit committees met with the CFO, as did 100% of mid-cap company respondents. In addition, 41% of large cap companies said their audit committee meeting agendas included a discussion on succession of finance talent (34% of mid-cap companies).

7. Clear and concise stakeholder communications

This edition of *CFO Insights* began with the importance of establishing timely communications with the audit committee to effectively forestall surprises and other unexpected issues from escalating. Beyond a regular sequence of communications, audit committee members tell us they want CFOs to be effective communicators—with the committee and board, the investor community, and other external and critical stakeholders.

While board packages can be voluminous paper or electronic documents, audit committees generally expect clear and concise communications from the CFO that give the story behind the numbers and trends and offer new levels of insights. In addition, communications with analysts and investors should demonstrate the CFO's mastery over the business, financial, and accounting issues pertinent to the company. Specifically, the CFO has to provide insight into key drivers of future performance and convey how he or she will work to deliver results to the market.

Having strong investor relations and communications support can go a long way in addressing these needs. In our CFO Transition Lab sessions, we often find that CFOs initially lack a communications strategy across key stakeholders, and underestimate the level of effort required to undertake effective communications with them. Attending to a communications strategy early can help build confidence with the board as well as other critical stakeholders.

Audit committees play a critical corporate governance and oversight role. Their members can also bring a wealth of experience helpful to CFOs. Attending early to the above desires can create a context for both parties to effectively work together.

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