

Gartner Research

Audit Committees Look to CAEs for Strategic Risk Guidance

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Data Insights

Audit Committees (AC) members want CAEs to be the organization's warning radar satellite on the latest emerging risks that threaten the business's strategic goals. And in this highly volatile geopolitical environment – with more interconnected risks and bigger business changes— audit committees expect CAEs to play a more advisory role. This includes providing strategic, risk-informed assurance to drive business resilience.

We surveyed AC members to help CAEs understand what's expected of them and how they're evaluated by their most important stakeholder. In this research, we discuss some of the key findings CAEs can leverage in their departments and in their communication with the board.

Audit Committees Want More Risk-Related Information

Organizations face challenges related to numerous risk areas, including supply chain disruptions, regulatory compliance and cybersecurity. AC members expect CAEs to expand the assurance framework to include advisory work tackling fast-moving risk and control challenges.

Many CAEs are aware of the weight of expectation resting on their shoulders. When asked about the committee's priorities, 52% cited "risk knowledge/coverage" and 50% selected "impact on the broader organization."

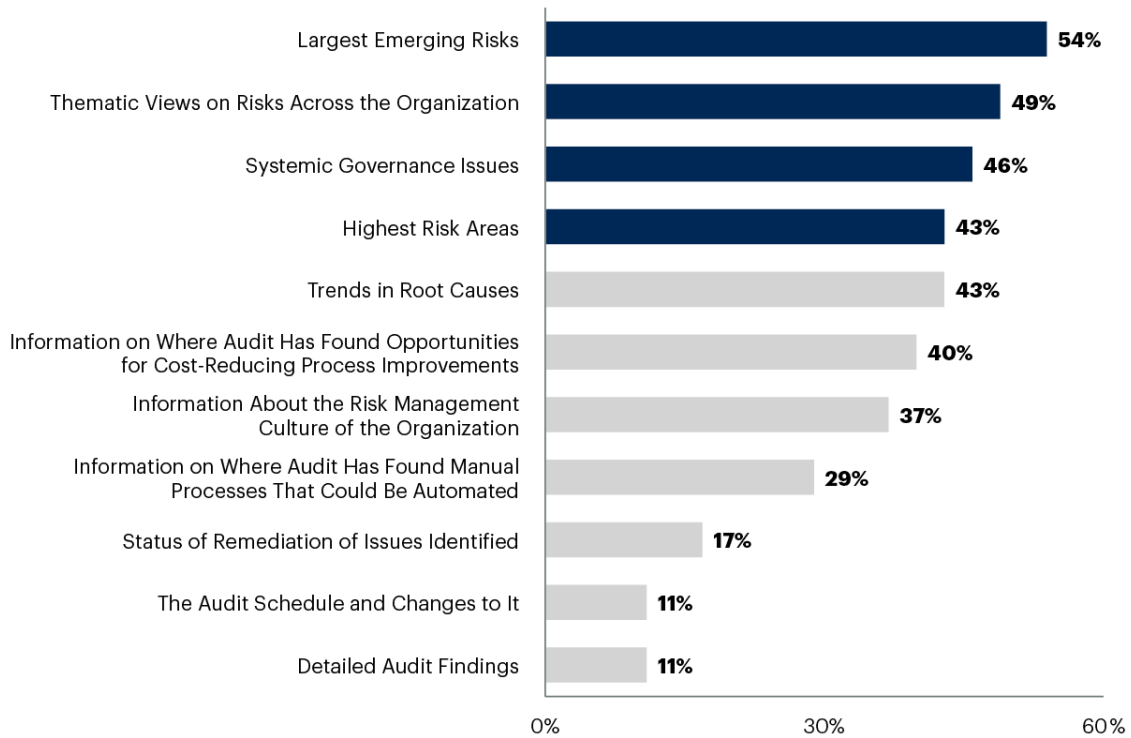
In terms of the kind of information AC members are looking for from audit – with regard to risk knowledge and organizational impact – we found that AC members want better updates on:

- Largest emerging risks (54%)
- Thematic views on risk across the organization (49%)
- Systemic governance issues (46%)
- Highest risk areas (43%)

Essentially, AC members want a more risk-informed, value-oriented perspective from audit. Most AC members have indicated that they have a clear understanding of audit’s strategy and objectives. This finding is also evidenced by the fact that AC members said they don’t necessarily want more detailed audit findings, information on status remediation of issues, or more reports on the audit schedule and changes to it.

Types of Information AC Members Want From Audit

Types of Information AC Members Want From Audit



n = 35

Q. Out of the following types of information provided to you by audit, please indicate which ones you would like to receive more or less of.

Source: 2022 Gartner Audit Committee Priorities and Demands Survey

T2B% of respondents selecting “More” or “Significantly more”

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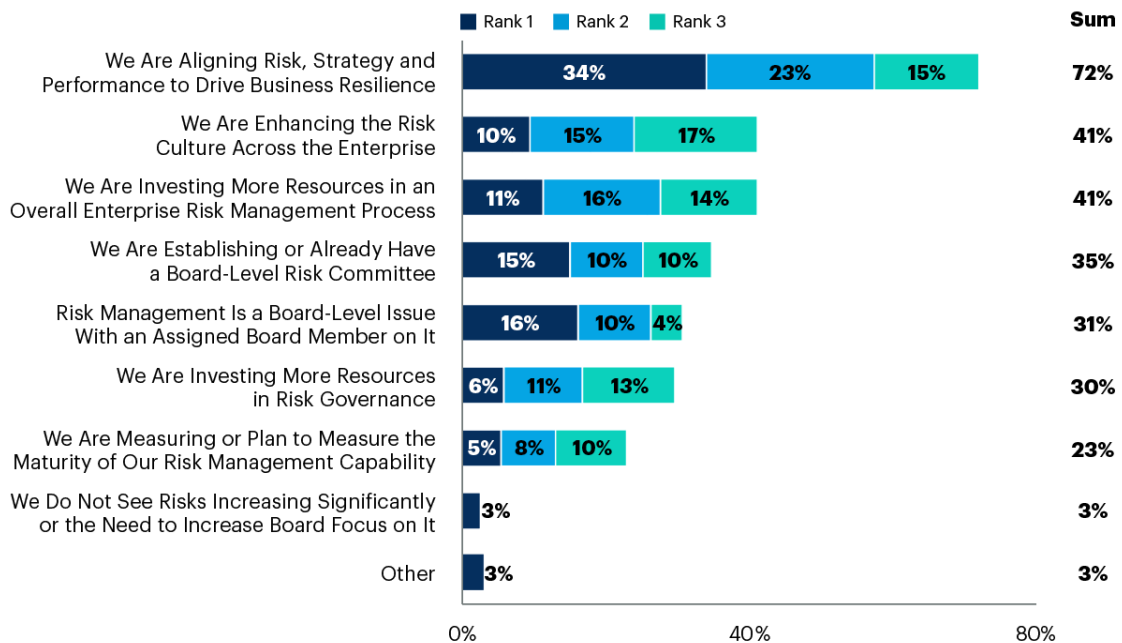
To meet AC members’ expectations, CAEs and audit departments must support the business by providing advisory services to help with governance, risk management, controls and adaptations to deal with emerging risks. CAEs also need to adapt their processes to meet the knowledge and coverage expectations of the audit committee.

Audit Has an Opportunity to Fill Risk Gaps

As the board’s risk appetite has increased in pursuit of corporate objectives, so has the assurance burden on audit and consequently CAEs’ responsibility to identify management’s potential risk-related blind spots. These are risks tied to organizational performance as well as those related to external geopolitical and social trends. The board’s most common approach for handling these risks is to align risk, strategy and performance to drive business resilience. The second most cited method is to enhance the risk culture throughout the enterprise.

Top Three Approaches for Handling Risks

Top Three Approaches for Handling Risks



n = 273

Base: Organizations’ performance have/expected some performance risks (Q2) and/or some external geopolitical and/or some social trends source of risk (Q3).

Source: 2022 Gartner View From the Board of Directors Survey

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The audit committee therefore needs information to help it make better risk-informed decisions to advance strategic initiatives. Yet, only 20% of AC members say they receive sufficient information on enterprise risks from ERM leaders alone. This finding gives CAEs an opportunity to fill the gap by providing high-quality, credible risk information that stakeholders can rely on. This also means audit leaders need to carefully listen and assess where audit resources can be best deployed to add value, particularly during periods of rapid change, both internally and externally.

AC Wants Audit to Educate New Members on Enterprise Risks

Eighty-nine percent of polled AC members said that top enterprise risks are the most important topics audit should educate new members on. As multiple functions become increasingly involved in enterprise- and project-level risks, 74% of AC members want a joint presentation by audit and other risk and assurance functions. Any duplicative work or conflicting guidance could lead to delayed risk mitigation, which could lead to material costs and losses for the organization – particularly given the speed of business in today’s economic landscape.

Most Important Information for New AC Members

Most Important Information for New AC Members



n = 35

Q. When new members to the audit committee start, what information should they receive from audit?

Source: 2022 Gartner Audit Committee Priorities and Demands Survey

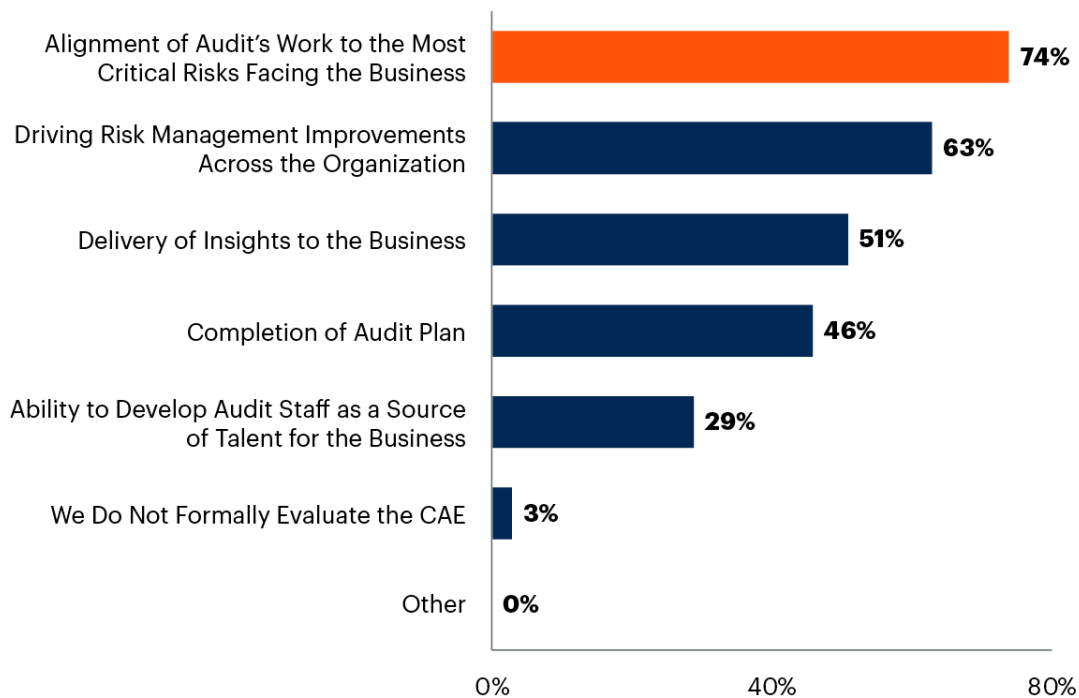
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ACs Evaluate CAEs on Alignment of Activities to Critical Business Risks

What AC members really want out of CAEs and other assurance leaders is a clear and unified view of the organization’s risk and control environment – especially in nontraditional risk areas. That’s how AC members are evaluating CAEs outside of standard audit practices. Seventy-four percent of AC members said the most important element in evaluating their CAE is the alignment of audit’s work to the most critical risks facing the business. The second most important criterion is how well audit drives risk management improvements throughout the organization. Less than half of AC members cited completion of the audit plan as the most important element in their evaluations of CAEs.

Most Important Elements in Evaluating CAEs

Most Important Elements in Evaluating CAEs



n = 35

Q. What are the most important elements in evaluating your CAE?

Source: 2022 Gartner Audit Committee Priorities and Demands Survey

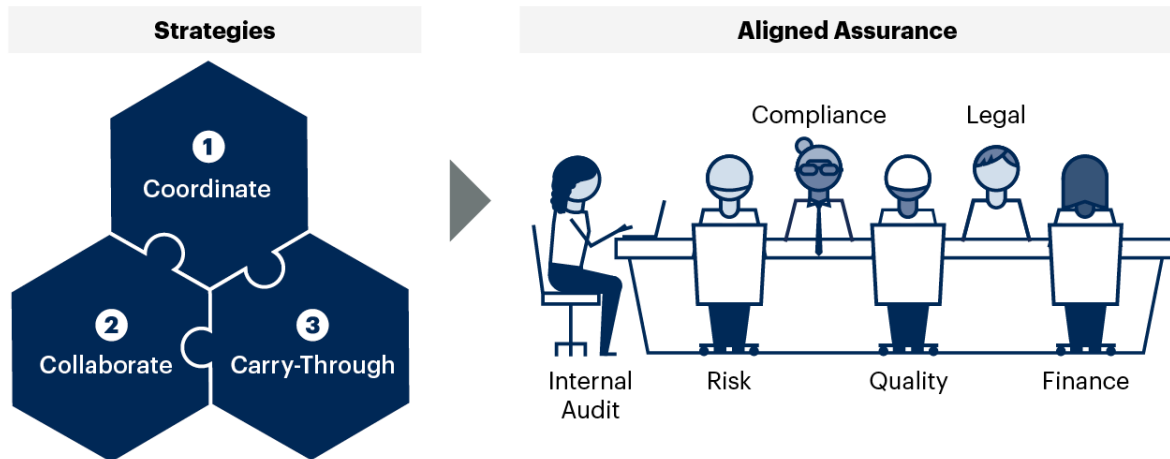
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Given that audit's performance evaluations are directly related to aligned assurance activities, here are some strategies CAEs can use to improve their aligned assurance.

- **Coordinate** – Meet with other functions to compare the set of risks that must be managed and assess their alignment to strategic business objectives.
- **Collaborate** – To avoid gaps in coverage and minimize drag on the business, work with other assurance functions to identify the information all stakeholders will need.
- **Carry-Through** – To mitigate duplication of effort and reduce rework, perform key components of project oversight jointly with other assurance functions.

Strategies for Implementing Aligned Assurance

Strategies for Implementing Aligned Assurance



Source: Gartner
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To see how this plays out on the ground, take cybersecurity as an example. ERM leaders might be concerned about the possible loss of revenue and data associated with a breach, while legal and compliance leaders care about regulatory liabilities; CAEs have to account for all these risk consequences in their audit plans. If CAEs and other assurance leaders offer contradictory assessments, then AC members will lose confidence in audit – and other assurance leaders – as a trusted advisor.

Additionally, a key part of CAEs' role is to challenge management's assumptions to make sure they are in line with the organization's risk tolerance. In today's fast-paced risk environment, with new and uncertain risk areas, the business is less likely to have a defined risk tolerance, so assurance functions may have different understandings of the appropriate risk tolerance and offer the business conflicting guidance. If the different assurance functions do not have an aligned perspective, they will waste AC members' time – and could even muddy their view of key risks – by presenting enterprise risks incoherently.

Also, CAEs must realize that since AC members serve on multiple board committees (and, often multiple boards) they have little time to synthesize information from many different sources, reflect on its implications and arrive at the right decision. AC members, like many of us, are susceptible to cognitive overload and may experience what neuroscientists describe as lower "working memory capacity" – a measure of our ability to focus attention when and where needed, and on more than one task at a time. Lack of consistency in information provided by audit and other assurance functions could further exacerbate the cognitive load of AC members, leaving them with a negative impression of CAEs ability to deliver value.

Several aligned assurance activities can help diminish the likelihood of this challenge:

- Develop risk and audit committees reports that contain a single view of key risks, drawing on input from multiple assurance teams.
- Agree upon a set of ranked key risks across assurance functions.
- Integrate onboarding of new nonexecutive directors and senior executives.
- Use a common rating schema for identified control failures/issues.
- Align the use of data analytics across the 3 Lines of Defense, according to regulatory standards.


As organizations pursue more projects in unfamiliar terrains, CAEs will need to be involved in an increasing number of nonroutine projects where the business lacks the experience or broad internal guidance to make the right decisions. To fulfill their mandate, CAEs need to effectively source emerging risk factors internally and externally. CAEs will then have to communicate these developments to executive leadership and AC members in a way that demonstrates understanding and prioritization of strategic and business objectives.

Furthermore, because many evolving risks are also new to the assurance functions, CAEs will need to play an advisory role to evaluate risks and their potential impacts as well as help define strategies for governance and mitigation. The data provided in this report helps CAEs understand what's expected of them from their most important stakeholder, the audit committee, and how they're being evaluated in terms of strategic assurance.

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