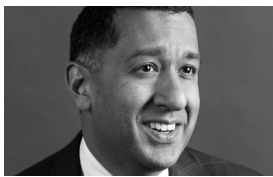


Working With the Audit Committee: How CFOs Can Win Over Their Toughest Audience

By Arun Dhingra



A strong relationship between a public company's chief financial officer and its audit committee is critical if the board is to provide appropriate risk management and compliance oversight. But that relationship is also an unparalleled opportunity for the CFO to refine his or her communications competencies and gain experience achieving a comfort level with executives at the highest levels of corporate leadership. In our work with both audit committee members and CFOs, we have observed that the CFOs with the best audit committee rapport keep the following five points in mind:

Run toward bad news. It is human nature to minimize trouble on the horizon. The audit committee, however, counts on the CFO to act as an early warning system—and the earlier, the better. Being proactive and transparent will build trust with the committee that will be essential if a real crisis should ever occur.

Be a business partner. While the CFO must be on the front lines of risk management, risk management should not define the CFO's interactions with the audit committee. As a business partner and strategic advisor, the CFO should speak to the audit committee chair at least once a month. Even when there does not seem to be much to report, a regular conversation on the state of the business is likely to uncover important nuances and action points that might have been overlooked.

Curate the information. Being transparent doesn't mean dropping unfiltered piles of documentation in the audit committee's lap. Indeed, precisely because the committee looks to the CFO for clarity, it is important for the CFO to determine exactly what information the committee needs to grasp the underlying strategic narrative, whether that story is good or bad. View the situation from their perspective to see where more background or a deeper dive adds value and where it would be extraneous.

Remember that you're on the same side. The audit committee will grill you, seemingly on everything. Their questioning and skepticism can give the exchanges a courtroom-like, adversarial tone. It's important to remember that the committee isn't out to defeat you—their goal is to thoroughly understand, to their own satisfaction, the state of the company, management's underlying assumptions and the risks those assumptions engender. They're also there as a check on regulation and compliance, both areas where additional pairs of eyes should be welcomed.

Build alliances for when you need them. As a close advisor to the CEO, there will be many times when he or she will heed your counsel. But now and again, you'll be unable to make your case on a matter you feel is

of particular importance. Having a solid relationship with the audit committee gives you another avenue to do so—as well as a source of additional insight into the other side of the argument.

Many chief financial officers understandably consider their interaction with the audit committee to be one of the most challenging parts of their job. But it's designed to be so. The CFO who embraces this fact will find the relationship highly rewarding while also making a considerable contribution to the organization's governance. It will also make the CFO a better mentor should he or she one day end up sitting in an audit committee chair's seat.

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