

# Why effective Communication with Internal Audit is invaluable for the Board of Directors

**Dr. Katharina Schramm** | University of St. Gallen  
katharina-schramm@gmx.de | +41 78 669 85 40

---

In May and June 2018, data from 113 Swiss-based internal auditors was collected to investigate on what good communication with the board of directors is, what promotes – or hinders – effective exchange and what would be the benefits for corporate governance on the whole. The survey consisted of a quantitative and a qualitative section.

As it turned out, effective communication is critical not only directly for the involved parties, in this case the board and internal audit, but it also has wider implications for the functioning of the governance, risk management and internal control systems per se that rely on the effective exchange of key information.

The underlying organizational setup making effective communication between the actors charged with governance so crucial is that the span of control becomes too wide at the top tiers – especially for the board members – to oversee and control the organization by themselves. Consequentially, the board must rely on internal audit, amongst others, as an actor to help discharge of its oversight-related responsibilities and to ensure the effectiveness of governance, risk management and internal control.

Conversely, with respect to the value of internal audit, one survey participant concluded that «if communication is not effective and accepted by the various parties, internal audit becomes less useful (for the board) and almost a waste of time», indicating the mutual dependency of the board but also of internal audit on effective exchange. More specifically, the survey participants associated certain – but respectively different – quality criteria with good communication from the board and from internal audit.

For effective communication from the board, most respondents stated that clarity of communication was the most important feature, whereas for effective communication from internal audit, objectivity was more paramount. As further features of effective communication between internal audit and the board the survey participants identified the following factors: 43% favored communication in small groups and 37.2% preferred individual face-to-face communication over more impersonal exchange via video conference (<5%), telephone conference (<5%) or email (<10%). 70% also liked pre-planned communication with the board while 8.49% preferred informal communication on an ad hoc basis (approx. 20% indicated no preference).

Meanwhile, mutual trust was identified as the most significant driver of effective communication from internal audit to the board, followed by the independence of the internal audit activity from senior management.

On the flip side, to be able to implement good communication, the following structural and interpersonal barriers should be avoided, minimized or in the very least become aware of:

#### **Structural barriers:**

- Communication only via email or telephone conference;
- Geographical distances;
- Insufficient resources;
- Unavailability of the board (schedule);
- Lack of independence of internal audit from senior management.

#### **Interpersonal barriers:**

- Lack of confidence in internal auditors' ability to communicate effectively with the board (perceived behavioral control over the communication process);
- Lack of support for internal audit from the board;
- No awareness for the value of internal audit and no optimal use of internal audit in the organization («one of many control functions»);
- Personal career ambitions of internal auditors seeking to connect with management for internal transfers;
- Hubris of internal auditors («best in class»).

The vast majority indicated that effective communication between internal audit and the board increased the effectiveness of corporate governance and the organization as such, stating for example:

- «Effective communication between internal audit and the board optimizes operations and simultaneously reduces risks»;
- «It leads to organizational improvement»;
- «The result is more added value to the firm»;
- «It enables the implementation of concrete actions on how we can make our organization better».

Overall, the qualitative survey results not only clarified the properties, drivers and consequences of good communication but at a closer glance also invite and encourage board members to communicate effectively in order to find out how to deploy internal audit in the most optimal manner and to use it more centrally as a support function for the discharge of its own responsibilities. Internal audit, due to its ideally direct reporting line to the board, enables the board to receive information unfiltered from management and is thus in a unique position to alleviate potentially remaining information asymmetries. Once mutual trust is established and communication (from the board) and objective (from internal audit) are clear, significant benefits for the board, for internal audit and for the organization were shown to manifest.