

SUPPORTING INTERNAL SUPPORTERS OF THE BOARD

*Prof. Colin Coulson-Thomas



Directors, Boards and CEOs are expected to have a holistic perspective that embraces a total organisation and its network of relationships, and to be concerned with ensuring that corporate processes are effective and corporate activities are in accordance with corporate priorities and policies. While their responsibilities are onerous, they themselves have limited time for identifying areas of deficiency and opportunities for improvement. Many of those upon whom they depend for implementation instinctively defend what they have done and are protective of the activities for which they have personal responsibility. They often have a vested interest in putting the best gloss upon their achievements and playing down or concealing areas of relative weakness.

Corporate governance codes endeavour to address the reality of human conduct and the games that people play. Hence requirements for the independent audit of financial accounts by an external firm of qualified accountants appointed by shareholders, and whose staff are expected to be objective and independent when assessing procedures, practices and materiality. They are also expected to question and seek supporting evidence when commenting upon the veracity of financial statements. An effective board, and particularly through its audit committee, should take steps to ensure external auditor independence, for example by questioning whether non-audit work might compromise it, or periodically suggesting that an audit be put out to competitive tender.

Corporate governance codes tend to devote less attention to other groups, such as internal auditors, and chief compliance, finance, legal and risk officers who may also have a corporate wide remit and whose work, contribution and value can be compromised if they are not sufficiently objective and independent. Like whistle blowers, their activities can sometimes be unpopular with insecure colleagues who feel threatened by them, and they may benefit from a degree of protection. When appropriately qualified and properly resourced, these communities can be the eyes and ears of the board. If they are alert, perceptive and sensitive in how they work and they add value with their recommendations for improvement, they can also earn the respect and trust of secure colleagues.

Clarity of Purpose

Boards can benefit from specialist support, particularly in an area such as objective assurance. Key steps in ensuring the acceptance of internal auditors and other groups with corporate wide responsibilities in support of a board are for the board in turn to support them by ensuring their remit, mission and purpose is understood by their management colleagues, they are given the authority they require to be effective, their independence and objectivity is safeguarded, and there is clarity concerning the agreed scope of their activities and responsibilities. Their mission should be to support the board in its oversight and monitoring activities by providing independent assessment and assurance and recommendations to help an organisation achieve the objectives set by the board.

Supporting internal groups should also take steps to quality assure and review their own activities. These could include the use of feedback from management colleagues and stakeholder groups within the organisation and an annual review by a relevant committee of the board such as an audit, risk or compliance committee. Professionals should also observe required standards set by their professional bodies and take account of the best practice guides they issue. This article benefits from guidance issued by the Chartered Institute of Internal Auditors. Further and ad hoc help may be required to supplement an internal team in a specialist area such as cyber security or if particular equipment is required, for example to monitor pollution.

Providing Authority

The roles, duties and rights of certain supporters, for example to ask for information, could be set out in a code or charter. Once this and a programme of work have been approved by a board, or appropriate committee, this can provide authority to act and strengthen their hand when dealing with executive colleagues. Clarity should also extend to functional reporting relationships to the board or a committee of the board, administrative reporting to an appropriate senior executive or executive director, and the arrangements that should apply in the event of certain units or colleagues not cooperating with or obstructing an investigation. Escalation routes to a committee or board chairman may be required as concerns could relate to top management or a chief executive officer. The heads of certain functions should have a direct right of access to the independent or non-executive members of a committee or board without management colleagues being present.

It strengthens an investigator's authority if an appropriate committee or the board approves a work programme or plan, significant enquiries and follow-ups in the event of serious concerns, failures of compliance and ignored recommendations. In dynamic and uncertain situations some flexibility may be required as situations and circumstances change and matters are uncovered during the course of investigations. Work programmes should be risk and opportunity led. Investigators should be encouraged to be open in reporting issues and also flagging up when more or different resources might be required. They should also have a sense of proportion and what is material in each context.

Unrestricted access to records, places and people will normally be required by certain supporters of the board to enable them to form evidence-based opinions, assess risks and ensure compliance, but with this comes responsibility to observe confidentially considerations and a duty to safeguard any evidence examined. The very process of independent investigation can sometimes be distracting if not unsettling and related powers should only be used to the extent of enabling an opinion to be formed and appropriate conclusions drawn and recommendations made.

Ensuring Independence and Objectivity

Officers and the committees or board to which these supporters report should be alert to factors, pressures and situations that might limit their independence and objectivity and result in bias or blind spots. An appropriate committee or the board itself should check at least annually that someone acting and investigating in an assurance, compliance or investigatory role is still objective and acting with independence. Those concerned could be required to confirm that this is the case.

Independence can be a state of mind. It is important that supporters of the board in assessment, assurance and investigatory roles are aware of and disclose any factors that either inhibit or constrain their independence and objectivity, or might appear to others to be doing so. They should avoid undue influence. Suspicion of bias arising from ignoring or overlooking danger signals, inadequate or insufficient work, closeness to certain factions, or suggestion of a lack of understanding, can undermine trust and confidence in both findings and recommendations.

Individuals in positions of trust should strive to be objective, balanced and professional in forming their own judgements. They should also be encouraged to declare matters that might influence their thinking and their views. These could include a prior involvement with certain people or an activity under investigation. People should not be asked to assure their own responsibilities, projects they have implemented or areas they have personally developed. In the case of smaller organisations, there may be insufficient activity to justify full time and dedicated assurance roles. If this is the case, safeguards may be needed to preserve the integrity of assurance activities

Avoiding Conflicts of Interest

Although supporting the work of the board and implementing a programme of work that might have been approved by the board or a committee of the board, people in certain roles such as internal audit, risk and compliance often report into executives who will have their own concerns and priorities. When a role is less than full time this may lead to requests to undertake other assignments or help colleagues with certain projects or tasks. Care needs to be taken to ensure that such engagement does not result in conflicts of interest that might arise if, for example, someone were required to review and provide an opinion on a process that he or she designed. Many people are less critical of areas that they themselves played a part in creating. They should not be expected to be entirely objective when assessing their own work.

Suggesting improvements in processes and activities that are designed and operated by others is highly desirable and might be a key element of an individual's remit, but one person should not do another's work. By being helpful some specialist professionals find that other people within the organisation come to regard them as an internal consultancy resource. When colleagues are under pressure and/or are short staffed they may receive requests to help out on tasks that others might consider urgent. Involvement in such additional and unexpected activities could result in delays to an approved programme of work and the risk that matters considered at board level to be important are not given the attention they deserve.

Certain roles require their incumbents to build relationships of trust that encourage others to be open about deficiencies and concerns, while maintaining sufficient distance to avoid friendships and loyalties that could blunt objectivity and might result in bias or favouritism. After a time

and when opinions have been formed, might some people become less questioning to the extent of "going native"? Should certain internal support roles be rotated every so many years or after so many reviews? This might already happen with external auditors, when an audit is periodically put out to tender. Should and can a similar practice apply to internal auditors where employees are involved?

Ensuring Relevance

Individual internal audit, compliance, environmental, governance, finance, legal, risk and other professionals with a corporate wide remit and assurance role will often focus upon particular areas. Sometimes these can overlap, When resources are tight one needs to avoid unnecessary duplication, while at the same time ensuring that certain areas do not escape independent scrutiny. This could be achieved by mapping processes and factors that either deliver or could frustrate the achievement of key objectives of the board and company and ensuring they are covered.

Committees and boards receiving requests to approve work programmes could and should require that the key corporate objectives to which they relate be added to proposals for investigations. This can help to ensure their relevance and assist prioritisation and the identification of gaps. The individuals concerned may report to different senior executives, but their focus should be upon ensuring that activities and conduct are effective and efficient, in accordance and consistent with corporate rules, policies, procedures, objectives and priorities, and relevant codes, laws, regulations, standards and license conditions.

In some companies, integration is helped by a common reporting link to a director of corporate or management services. Meetings at which findings and concerns can be shared might also be helpful in identifying areas of deficiency or root causes that impact upon a number of different areas. Discussions sometimes highlight individuals, information and reports that are less reliable than others, areas that are less productive and assets and people that need to be better protected.

Informal Networks

Corporate governance codes tend to focus upon formal board and committee structures. They often overlook other and less formal networks that can make a significant contribution to effective governance. Those who are engaged in assurance activities on behalf of the board and advising and supporting the board are often professionals with their own codes of practice and standards. They are expected to exercise independent judgement and form their own and evidence-based assessments. They can benefit greatly from sharing concerns and lessons with colleagues.

When audit, compliance, risk, legal, financial, environmental and other professionals with a corporate wide remit network and meet, synergy can occur. Bringing bits of evidence from different perspectives together might enable deficiencies and their root causes to be identified. It might alert the team to areas of actual or potential vulnerability or matters that have been concealed by others. One should be alert to the possibility that the compliance community might become so obsessed with conformity, obedience and the observance of standards as to become an inhibitor of diversity and innovation. Steps should be taken to prevent this from happening.

Members of the assurance, compliance and investigatory community often experience similar challenges and would benefit from comparable, complementary and compatible qualities. They need to be firm and focused, while at the same time open to new possibilities and able to

undertake their work without making other people feel threatened and without triggering defensive reactions. Someone in such a role should be included in panels to interview proposed members of the network or community. Candidates should be asked to explain how they would cope with certain situations such as a lack of cooperation or resistance to the adoption of their recommendations.

Accountability and Reporting Considerations

Assurance and compliance professionals should account for their performance in relation to their agreed programmes of work. Those receiving their reports should look for evidence of vigilance in relation to abuse and fraud, and flexibility where appropriate rather than the slavish implementation of a plan in a fluid and uncertain context. They should also be on the lookout for important or "red rated" recommendations that have not been implemented, inadequate or dismissive management responses and "no go" areas. Some executives excel at ring fencing areas and avoiding scrutiny. One needs to be sceptical without becoming cynical, open to ideas and possibilities and aware of external trends and developments that might represent areas of opportunity.

Support activities need to be properly resourced. Many of them have the potential to become self-funding and they should contribute to the achievement of corporate objectives. Thoughtful and imaginative

suggestions for improvement or transformation from a fresh pair of eyes can deliver considerable value. A focus upon beneficial innovation can encourage management colleagues to view investigations in a positive light and those who undertake them as helpful. Ideally, colleagues should encourage investigators to think about how a disruptive technology, a new business model or better support might enable an affordable improvement in areas for which they are responsible.

When issues are debated by politicians from different parties, it is often quickly apparent that selected statistics are being used to present one's own side in a favourable light and damage the reputation of an opponent. When listening to explanations, justifications and views for and against certain proposals directors sometimes wonder which arguments and portrayals, if any, most reflect or correspond with reality. The picture they receive may have passed through the distorting lens of subjectivity and particular perspectives and interests. Supporters who are objective, informed and resistant to influence can help them to bring events, situations and views into sharper focus. ■

** Prof. Colin Coulson-Thomas holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries*

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