The Effective Board

INDEPENDENT BOARD REVIEW

October 2014

A Few Hot Topics

Ahead of the busy time of year for board reviews, we recently put our heads together to spot the "hot topics" that keep cropping up. Not all of them will apply to you – but some will be worth keeping in mind as you look at how effectively your board is covering the ground. Some of the points are pretty much perennials, but can still struggle to find their way on to board agendas. So here are a few things to consider – and some not so good tendencies to avoid..

Good practices to consider...	Things to avoid...
Giving enough time to **succession planning** – for both non-executives and executives. Plans are clear and communicated to the full Board, at least as far as sensitivities allow.	The Chairman keeping the cards so close to his or her chest that the rest of the Board is left wondering what's going on. Or – a common variation – a discreet Nomination Committee of the most influential NEDs that non-members see as some sort of inner cabal.
Executive succession works back through more than one "generation" of executives so that their development can be planned.	Assuming that the CEO has it under control, or that the normal course of events will be enough to develop potential executives to their full potential – and that contingency plans have been considered.
Contingency planning for when the proverbial bus comes along is understood and reviewed periodically as circumstances (and bus timetables) change.	Overlooking the potential for internal politics to make life difficult for stand-ins. And underestimating the time it would take to find an external replacement if that's what's needed.
Understanding how **project governance** is working: the projects covered, the review structure, the project management processes, risk mitigation, the independent involvement in assessment and monitoring, the escalation mechanisms, the assurance approach…	Labelling it a management process that shouldn't be considered by the Board. When a project is big or important enough for problems to have a significant impact on costs, reputation or the achievement of strategic goals, directors need to understand enough to have confidence that sound project governance is operating at all stages of evaluation and operation and that the right control and monitoring is in place.

Good practices to consider...	Things to avoid...
Taking a good look at **the IT Strategy** to make sure it supports the successful implementation of the business strategy. That means checking the IT infrastructure will be fit for purpose into the future – and properly resourced with a sound risk and control structure wrapped around it.	Considering the IT function as support – and so not really falling within the Board's remit. Or assuming that the IT infrastructure will fall into place and simply leaving it all to management to make that happen. IT is now a critical strategic driver and a major risk source – it cannot be an afterthought.
Keeping a clear view of the extent of **third party risk** – how far strategic performance is reliant on external providers, whether on major contracts or for operational delivery. And asking for an assessment of the major risks to performance and strategic success, how they are being managed and what sources of assurance are available.	Losing sight of the level of dependency on third parties. Managing the contracts and the risks is management territory so the Board should not stray there – but the material exposures and the major risks should be made visible and discussed. And the Board has a very legitimate interest in knowing that there is assurance over the management of the risks.
Defining a practical approach to getting a view of the **organisational culture** – particularly around ethics and controls. It's now well-recognised that the culture underpins risk management and the reputational risks are clearer than ever – even the Corporate Governance Code is now giving this a push.	Accepting (wrongly) that this is too slippery a subject and difficult for the Board to assess and monitor. Assuming that it's just about the Code of Conduct. Or simply leaving it to HR to come up with an approach – it goes wider than staff surveys. Existing KPIs can be used (staff turnover, training, staff/customer/supplier surveys…) and it needs a strong risk and controls bent.
Focusing on organisational and **subsidiary governance**. Boards of financial institutions are more used to looking at how oversight works in subsidiaries through boards and audit/risk committees. But across many large organisations, as Group-level governance gets more demanding, subsidiary governance is an opportunity waiting to be taken – especially around audit and risk management.	Relying solely on the management control structures and overlooking the comfort available (or that ought to be available) from subsidiary governance. Depending on management is inevitable and necessary – but you need the best view you can get of the "sources of comfort" and the fit of oversight, controls and assurance.

If you have any questions on the issues covered here, please contact Richard Sheath at richard.sheath@independentaudit.com

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