The Effective Board
INDEPENDENT BOARD REVIEW
November 2014

Not just for the audit committee

Boards rarely complain if financial reporting and audit issues are kept at bay by a capable audit committee. The full board has to approve the accounts, certainly, but often there's a feeling that there's not much left to do after the committee's done its stuff. But there's now enough going on in the external reporting and audit areas for boards to pay a bit more attention. And the Tesco case highlights the risks to the whole business (not to mention to the directors) from accounting issues. The board needs at least to be familiar with what the audit committee is doing to respond to this changing environment. (If there is a separate risk committee, similar considerations can apply). So what might a board do a bit more of?

Good practices to consider...	Things to avoid...
Thinking ahead to work out how the board is going to review viability – and over what period – to support the "going concern" statement in the Annual Report. Code changes starting from the beginning of your next financial year mean you have to look at the viability of your business model, assessing future performance, solvency and liquidity and taking into account the principal risks.	Seeing "going concern" as a technical matter for the audit committee. Actually, it's about the business. The linkage to the principal risks now means that the "going concern" review is, more than ever, the whole board's concern. It's no longer just about technical calculations, forecasts and bank lines. It's linked to the board's work on strategy and risk during the year.
Anticipating what the board will want to say in the Annual Report about the business model and viability, so that this is clearly supported by the description of the board's work during the year.	Assuming that a boilerplate-ish statement will be enough. This section will attract more attention than ever before. Your explanation will need to be convincing and will have to tie in with statements on risk and board activity during the year.
Taking a close look at the principal risks and asking whether they really are what might threaten viability in the short and longer terms. And if they are, making sure that what you say about mitigation and resilience really stacks up and would withstand a hindsight attack	Assuming that your risk list is the right one – and unchanging. Too many risk statements stay the same and are still overly boilerplate with statements of the obvious, lists of the theoretical possibilities that could apply to just about any company, and vague or ambiguous descriptions of how the company is responding. By all means avoid divulging sensitivities – but not at the price of seeming superficial.

Good practices to consider...	Things to avoid...
Tracking how risks are covered across all of the board's discussions and so building up a picture of how the main risks are assessed. Risks are (or should be) discussed throughout the agenda and meeting. So in recording the Secretary can keep tabs of the risks raised, keep a trail and build up a picture of risk coverage by the board over the course of the year.	Thinking that you cover the principal risks through one or two agenda items a year – probably when you have to approve the risk statement for publication. Risk is an inherent aspect of many items discussed by the board and handling this well is more important than an annual compliance statement.
Making sure all directors are familiar with the high-impact reporting risks. The accounting technicalities might be a bit dry but everybody should know where things could conceivably go wrong and understand the risks around the adopted accounting policies. Increasingly non-execs who aren't audit committee members are attending the year-end committee.	Giving just a cursory glance to the financial statements, regarding it as a formal "item for approval". Yes, the audit committee should have done a detailed review. But the main assumptions and risks should be known to all. It may be a bit dry – but if something goes seriously wrong, it will be the whole board under the spotlight, not just the audit committee.
Briefing all directors on the consequences of the new requirements for compulsory external audit tender and rotation. These consequences can be much wider-ranging than people realise. It's not just about the finance function, as the new conflict rules mean that rotation can have all sorts of knock-on effects given the limited number of audit firms and the extent of other relationships they may well have.	Regarding the topic as "one for the audit committee" or one in the distant future, or both. The implications can be serious for other advisory relationships and it needs planning a long time in advance. Planning well ahead will help make sure you are not squeezed out when a lot of companies start putting out tenders at the same time – a crunch is expected when EU rules kick in in 2016. And if you have EU subsidiaries which count as "public interest entities" in their own right, there's a whole battery of additional headaches.
Ensuring that the audit committee's work on risk and control makes a coherent fit with the board's work on – and attitude to – risk.	Leaving the audit committee to make critical decisions about how much, and what sort of, assurance is enough.
Making sure that the board's review of the effectiveness of the audit committee is rigorous and has taken into account the changing demands and the governance risks – particularly around reporting risks and internal control.	Simply assuming that the committee's sufficiently on top of things. Of course you need to trust your colleagues – but it needs to be well-grounded trust. The risk environment has changed and all boards need to be able to demonstrate grounds for trust in the solidity of the committee's oversight of reporting and internal control.

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

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THINKING BOARD