The Effective Board

INDEPENDENT AUDIT
LEADERS IN BOARD EFFECTIVENESS

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What's Happening Below?

Boards have to rely on executive-level governance. In fact, it's difficult for a board to work effectively without it. Non-executives can't have constant insight into how accountability, controls, checks balances, decision-making etc work; they have to be able to rely on all of this working well at the level below. So they need to have confidence that executive governance is sound.

Yet we often find during our board effectiveness reviews that the Board's knowledge of how executive governance is working is quite limited. That can result in the Board being pulled down into the executive level, as NEDs try to build confidence by doing their own digging.

In mature organisations, executive governance usually works well, so it doesn't take much to give the Board the confidence it needs. Here are a few suggested good practices to follow – along with problems to avoid.

Good practices to consider…	Things to avoid…
Set out an overall picture of how executive governance works. Start with an organigram, supplemented by some high-level narrative. For example, the objectives of the different components of the governance structure, how they fit together, and the overall "story" of how executive-level oversight meets the governance objectives of the organisation.	Just assuming that "how our organisation is governed" is clear to everyone involved. Or simply accepting a verbal description or brief assurances without actually understanding the responsibilities and the flows, and how that aligns with the business model, strategy and risks. The framework might be unclear, or might not have been revised as the business changed.

Good practices to consider…	Things to avoid…
Support the general picture of the framework with a bit more detail to help the Board understand how it works in practice. For example, the frequency and length of meetings, attendance (whether minuted or not), who chairs (both regularly and as substitutes), etc.	Stopping at the CEO's verbal description. Many CEOs will want their executive-level governance to work well – as a sounding board, a safety net, a way of improving decision-making… and they will be happy to set it out. But some will find it inconvenient, for reasons which may or may not be valid. Either way, you will need to probe a bit if you're to understand how things really work.
Ask the CEO what they want to get from the executive governance, and ask them to explain how the structure and practices help achieve it. And, for that matter, where things don't quite work as well as desired, and where the Board might be able to push them along.	Pushing for an approach which runs contrary to the way the CEO wants to run the business. Yes, the Board will want to know how executive governance achieves the necessary objectives. But they need to approach it hand-in-hand with the CEO, not in a way that leads to confrontation.
Consider whether the attendance at executive-level meetings is right. That's the CEO's call, but there may be some oddities which need explaining. For example, if key individuals such as the CRO, Company Secretary, General Counsel or Head of Internal Audit are not involved in a body where you would expect them to have a voice.	Assuming the right voices are being heard. Even if the right people are invited, it doesn't mean they carry an appropriate weight. It's not a given that their opinions must be followed – but it's important for the non-executives to know that checks and balances are given a chance to work.
Ask the executives how it works in practice. There's a big difference between simply attending a meeting and having a voice. And ask the Company Secretary too – they should have a good line of sight into how it works. If not, that raises questions.	Asking members of the executive team in a way that upsets the CEO. A strong CEO who has confidence in how executive governance operates should not have a problem with a NED asking, as long as there's no implied criticism. Just tell the CEO that you'd like to better understand how governance works and suggest that the odd conversation would be helpful. If the answer is "I'd rather you didn't" that's telling you something.
Set out the typical governance path for key strategic issues so that this can be understood by the NEDs. For example, aim to understand the evaluation and decision route for M&A opportunities, major new product launches, new territory initiatives, etc. And how standard executive review happens, such as Exco discussion of the financial position or risk picture.	Getting into individual decisions. It's not the Board's place to check the process each time, and certainly not to second-guess. What's needed is an understanding of the generic processes and what controls are in place to make sure these are effective – along with the confidence that the senior executives are using these processes in a way that actually achieves good governance.
Stand back from time to time and ask: "Are we exercising board-level or executive-level oversight?". If the answer is executive-level when it shouldn't be, work out why that might be happening. Does it reflect a lack of executive governance, or a lack of confidence in it? Does the executive need to give the Board more grounds for confidence? Or do the NEDs just need to be more careful in how they operate?	Getting too involved with the detail – and being comfortable with that, or even (perish the thought) enthused by it. Instead, keep asking "why are *we* doing this, rather than the senior management team?" For example, does detailed board review of technology initiatives and security reflect a gap at executive level or in project governance? Why aren't senior management asking these questions and then bringing just the big issues to the board or committee?

Good practices to consider…	Things to avoid…
Understand how board papers are considered by the Executive before being submitted to the Board.	Requiring a burdensome executive review process that unduly slows the paper submission process. Yes, it's important to have confidence that executive paper owners have drawn on the experience and expertise – and the fresh pairs of eyes – of their executive colleagues to make sure the analysis or proposal is sound, and that the paper works well. This should be possible without unwieldy process.
Understand how the strategic risk picture brought to the Audit/Risk Committee and the Board has been discussed amongst the execs. The Board needs confidence that the picture reflects a well-considered view across the Executive team, and that dissenting views have been debated rather than suppressed.	Assuming that the list of principal risks and strategic risk picture captures the thinking of the executive group as a whole. A consensus picture may not be achievable. But knowing that it has been through a rigorous discussion before being presented helps the Board understand that the list is a good reflection of the Executive's well-considered opinion.
Understand what happens if a key control officer raises a contradictory voice. That might be, for example, the CRO, the GC or the MLRO.	Putting that person in a tricky spot, perhaps by giving away what they said in a private session with the audit or risk committee. Try asking the responsible executive directly for confirmation that these control officers have been consulted and whether they are supportive. That puts the onus on the executive to be straight with the Board.
Ask the Head of Internal Audit and the external audit partner for their perceptions of executive governance. Both will have a private session with the NEDs, so ask them how far they perceive the type of checks and balances that you'd expect.	Letting them dodge the question. Both, for different reasons, will form a view on the quality of executive governance. Both should recognise that they ought to highlight any concerns at both executive and board level. But both might also require some gentle encouragement.

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