



Audit and risk committee effectiveness in financial services

7 September

PHILIPPA KELLY

JOHN HITCHINS

JON BINGHAM

Presenters



Philippa Kelly
Head of Financial Services
Faculty, ICAEW

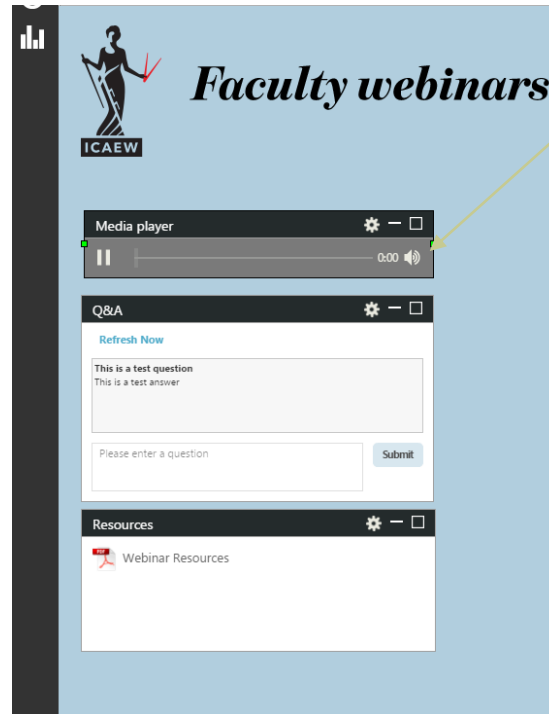


John Hitchins
NED, Aldermore and Societe
Generale International



Jon Bingham
Financial Services Partner,
KPMG

Introduction



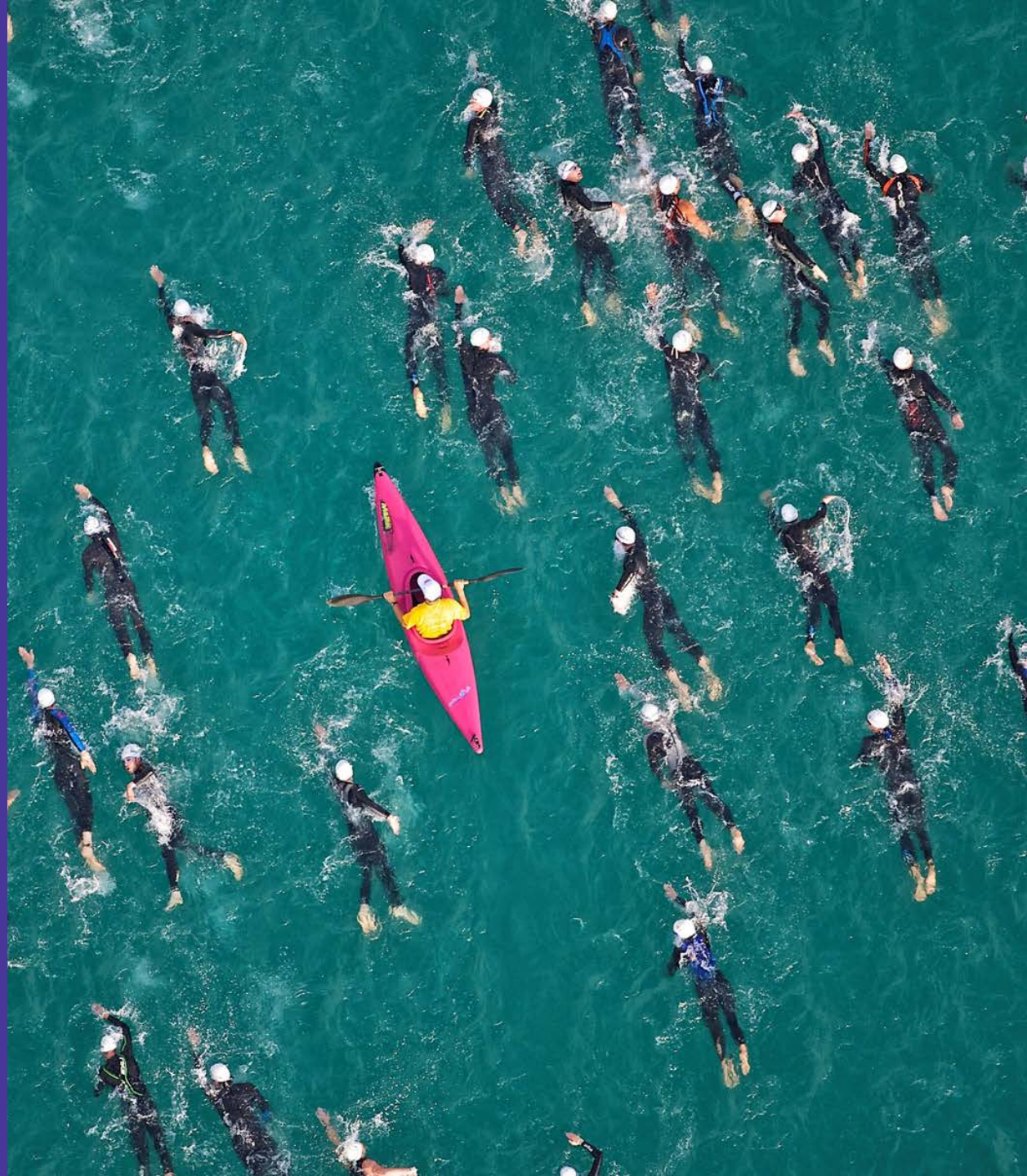
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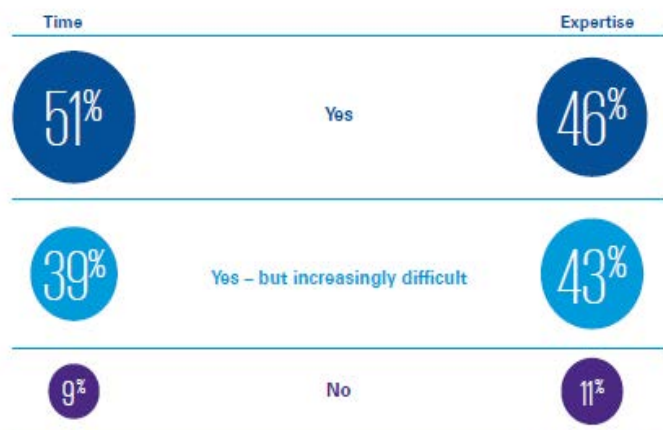
Agenda

- 1** The challenges 
- 2** The diversity of skills
NEDs need 
- 3** How to demand the
best data 
- 4** Structuring meetings and
doing your own work 
- 5** What next? 

The challenges

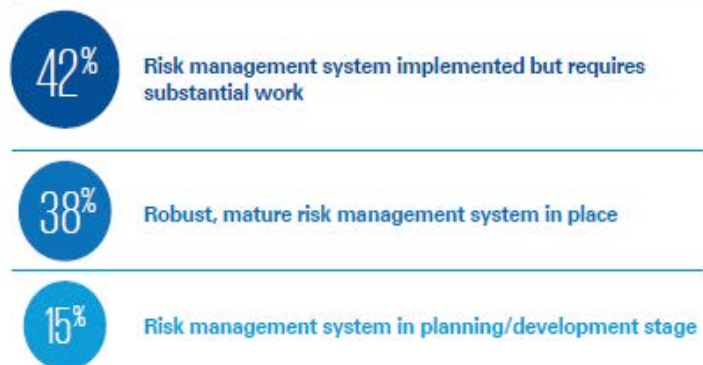
A recent KPMG survey of 800 NEDs globally, across multiple industry sectors, echoed the challenges facing audit and risk committees in today's environment. In many ways, the expectations on financial services committee members are higher than ever before and the challenges are broader.

Q Are you satisfied that your audit committee has the time and expertise to oversee the major risks on its agenda in addition to carrying out its core oversight responsibilities?



May not equal 100% due to rounding

Q What is the status of your company's risk management program/process?



The diversity of skills NEDs need

39% of NEDs said that committee's overall effectiveness would be improved by a better understanding of the business and risks. 31% of NEDs said that additional technology/cyber security expertise was needed.

2018 audit committee agenda

- Financial reporting integrity
- Intersection of finance and risk reporting
- Internal audit value / quality
- External audit quality
- Control culture and issues
- New control challenges (cyber)
- Whistle-blowing



2018 risk committee agenda

- Risk appetite, profile and metrics
- Geopolitics
- Risk culture, ethics and trust
- Artificial intelligence and new technologies
- Conduct risk and controls
- Embedding regulatory compliance
- Cyber security risk

Practical approaches

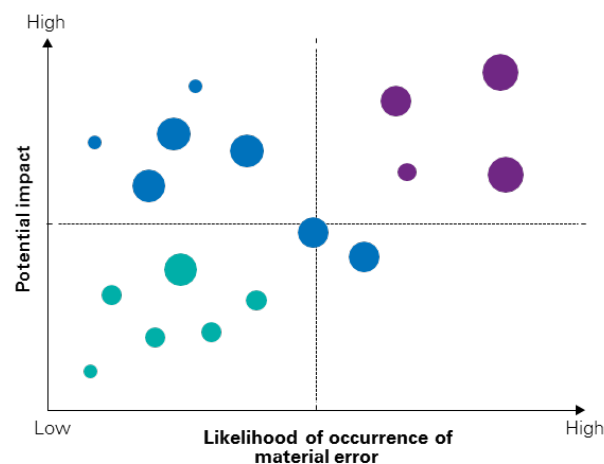
- 1 Committee composition
- 2 More use of deep-dives and educational visits
- 3 External input
- 4 Topic leads
- 5 Advisory panels
- 6 Balance of soft-skills vs technical diversity

How to demand the best data

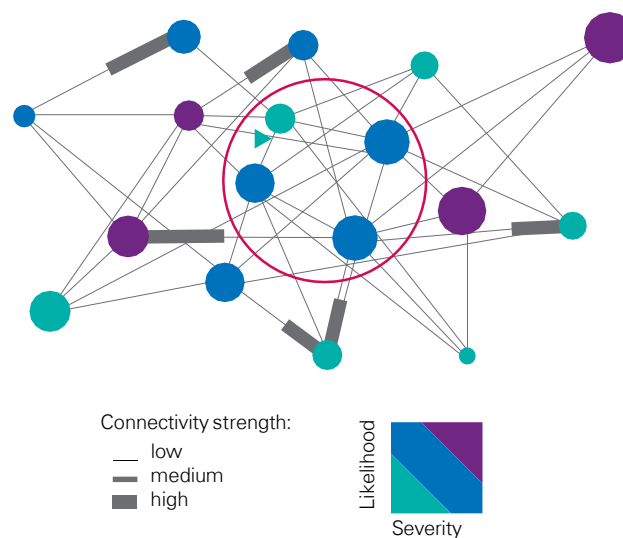
Financial services institutions have developed sophisticated tools for measuring financial risks. However, many of the emerging issues are, at least initially, non-financial risks. Measurement and aggregation of non-financial risk is more challenging.

68% of UK NEDs surveyed by KPMG believe their companies have robust, mature risk management systems in place – the global average is 38%.

Individual risk analysis (reality)



Understanding risk connectivity (ambition)



Practical approaches

- 1 Be careful around RAG ratings
- 2 Well structured risk indicators and escalation framework
- 3 Measure risk driver/indicators where you can't measure risk outcomes
- 4 Formalise rudimentary risk/control connected systems
- 5 Caution about large numbers of control self-assessment failures – focus on root-causes

Structuring meetings and doing your own work

Practical approaches

Tomorrow's Company has analysed the corporate governance lessons of the financial crisis and produced a toolkit to help NEDs – warning signs:

-  Discussion and debate is insufficient or even stifled/discouraged
-  Decisions are frequently presented as answers rather than options
-  There is over-dominance or under-contribution from certain individuals
-  Focus is on the quantity of areas covered not quality of areas / discussion
-  The level of challenge and consideration of fresh ideas is limited
-  The group rarely self-reflects or accesses third parties for input

"Be mindful of increasing the committee's workload and don't accept responsibilities that rightfully reside with the board as a whole or that cannot be reasonably achieved. Learn to say 'no'."

"You can only do three things in a meeting – educate, persuade, and have a call to action. Because actual face-time is so incredibly precious, anything that happens in the audit committee meeting ought to be well thought-out, highly focused and to the point."

"Seventy percent of the audit committee role is spent outside the head office – not just for the audit committee chair, but for all audit committee members."

"Don't allow anyone to script your time out in the business. Ask unconventional people questions about audit-related matters."

"Understand the line between oversight and management. Effective oversight is difficult to achieve where management views the audit committee as nothing more than a necessary corporate governance burden."

- 1 Discussion between members outside formal meetings
- 2 Avoid being 'managed' by the executive team
- 3 Unstructured time in committee meetings
- 4 Minimise but accept committee duplication – chairs sit on both Audit and Risk committees
- 5 Walk the floors

What next?

The role of audit and risk committees continues to be vital to the effective governance of financial services institutions.

The challenges are ever more diverse and the accountability feels ever more constraining **but the quality of committee dialogue has improved immeasurably in the last ten years** and with support the upward trajectory will continue.





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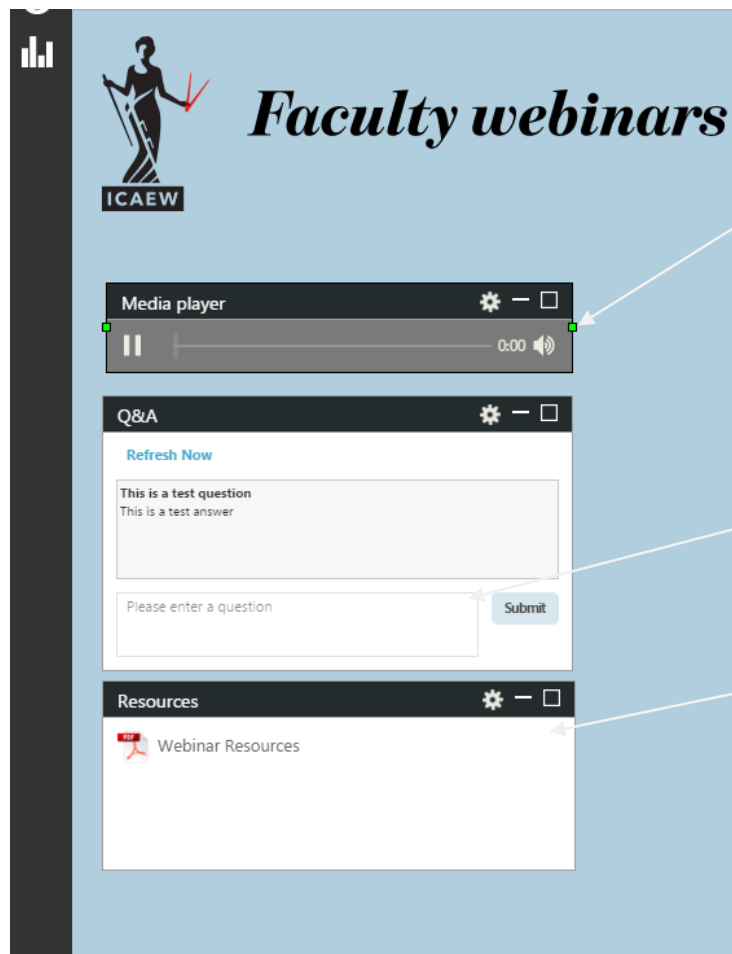
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Download resources

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Contact the Financial Services Faculty

 +44 (0)20 7920 8689

 fsf@icaew.com

 icaew.com/fsf

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