

## Management Services and Supporting the Board<sup>^</sup>

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The management services profession embraces specialists in a number of disciplines. Practitioners employ a range of approaches, methodologies and techniques in support of management and to improve productivity, performance and quality. A succession of assignments can give many of them experience of operations in different business units and work on company-wide processes. This can broaden their perspective and raises the questions of whether they could do more and, particularly, the role they could play in the support of directors and boards. What factors should we consider when making the transition on a whole or part-time basis from supporting management and improving performance to supporting the board and providing assurance?

Directors, Boards and CEOs are expected to have a perspective that embraces a total organisation and its network of relationships, and to seek assurance that corporate processes are effective and corporate activities are in accordance with corporate priorities and policies. While their duties and responsibilities are onerous, directors usually have limited time for monitoring and identifying areas of deficiency and opportunities for improvement. They depend upon others for implementation and opinions. However, many people instinctively defend what they have done and are protective of the activities they are responsible for. 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 try to address the requirement for informed assurance and the reality of human behaviour. 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 directors 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, chief compliance, financial, legal and risk officers and management services professionals 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. As with 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 practitioners can be the eyes and ears of a board. If they are alert, perceptive and sensitive in their work and their recommendations add value, they can also earn the respect and trust of colleagues.

### Ensuring Clarity of Purpose

Boards can benefit from specialist assurance support. People with corporate wide responsibilities who support a board are more likely to be accepted if 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 (Coulson-Thomas, 2017). 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.

Internal groups supporting a board 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, compliance or performance 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 (CIIA, 2017). 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.

### Establishing Authority

The roles, duties and rights of certain professionals, for example to ask for information, could be set out in a code or charter (CIIA, 2017). 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 extend to assurance reporting relationships to the board or a relevant committee, 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 support 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 and significant enquiries and follows-up 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. Being curious and exploring can be better than going automatic and travelling along a standard path (Tenner, 2018). Priorities should be risk and opportunity led. Investigators should be encouraged to be open when reporting issues and flagging up if more or different resources might be required. They should also have a sense of proportion on what is material in each context.

Unrestricted access to records, places and people will normally be required by certain providers of assurance to a board. This enables them to form evidence-based opinions, assess risks and ensure compliance, but with this comes responsibility to observe confidentially and a duty to safeguard any evidence examined (CIIA, 2017). The 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 conclusions drawn and recommendations made.

### Ensuring Independence and Objectivity

Corporate officers and the committees or board to which assurance providers 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 assessment role is still objective and acting with independence. People concerned could be required to confirm that this is the case.

Independence can be a state of mind. People supporting boards in assessment, assurance and investigatory roles should be aware of and disclose any factors that either inhibit or constrain their independence and objectivity, or might appear to others to be doing so (CIIA, 2017). 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 when

forming their own judgements. They should be encouraged to declare factors that might influence their thinking and views, such as 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. If there is insufficient activity to justify full time and dedicated assurance roles, safeguards may be needed to preserve their integrity.

### Avoiding Conflicts of Interest

Although supporting a board and implementing a work programme approved by it or a relevant committee, people in advisory and assurance roles often also report into executives who have their own concerns and priorities. When a role is less than full-time this may lead to requests to undertake assignments or assist colleagues. Care should be taken to ensure that this does not result in conflicts of interest that might arise if someone were required to provide an opinion on a process that he or she designed. People can be less critical of areas they have contributed to and should not be expected to be entirely objective when assessing their own work.

Suggesting improvements in processes and activities designed and operated by others can be highly desirable. However, some obliging specialist professionals find that colleagues come to regard them as a free internal consultancy resource. High workloads and/or staff shortages can lead to requests from colleagues for help. Involvement in additional and unexpected activities can result in delay to an approved programme and insufficient attention to matters considered important by a board.

Certain roles require building relationships of trust that encourage others to be open about deficiencies and concerns, while one maintains 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, some people become less questioning. Should certain internal support roles be rotated every so many years as happens with external auditors?

### Ensuring Relevance

Individual compliance, environmental, governance, finance, legal, risk, internal audit 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, identifying factors that either deliver or could frustrate the delivery of key board and corporate objectives, and ensuring they are covered.

Those receiving requests to approve work programmes should ask 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 might 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 can also be helpful in identifying areas of deficiency or root causes that impact upon a number of different areas. Discussion sometimes highlights 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.

### Encouraging 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. Those who are engaged in assurance activities on behalf of a board and advising and supporting it 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, but they can benefit greatly from sharing concerns and lessons with colleagues.

When professionals with a corporate wide remit network and meet, synergy can occur. Bringing together evidence from different perspectives might enable deficiencies and root causes to be identified. It could highlight areas of actual or potential vulnerability or matters that others have tried to conceal. However, one should be alert to the possibility that a 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 an assurance, compliance and investigatory community often experience similar challenges and have certain qualities in common. 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 a similar role should be included in panels to interview proposed new members of the community. Candidates could 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.

### Reporting Considerations

Assurance and compliance professionals should account for their performance. Those receiving their reports should look for evidence of vigilance in relation to abuse and fraud, and flexibility rather than the slavish implementation of a plan in a fluid and uncertain context. They should look out for “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.

Data can be used selectively to support a particular point of view. When listening to boardroom explanations, justifications, presentations and contending views, many 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. Management services and other supporters of a board who are objective, informed and resistant to undue influence can help them to bring events, situations and views into sharper focus.

### References

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