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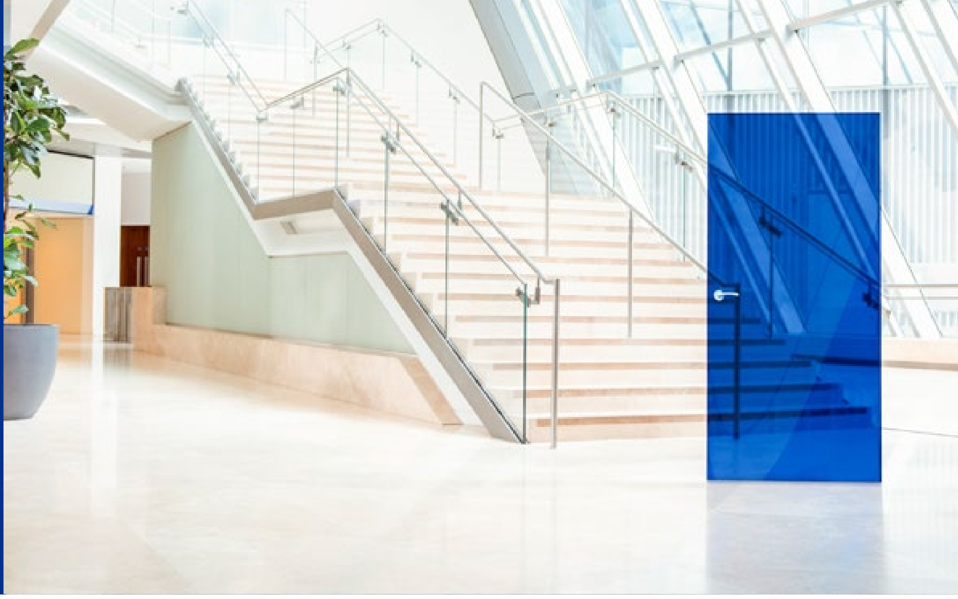
A further conversation about risk committees

KPMG Board Leadership Centre



Earlier this year, Chris Burt and Bryan Foss from the Risk Coalition joined our Board Leadership Centre FTSE350 discussion to help weigh up the pros and the cons of having a separate risk committee in addition to the audit committee? This time, Bryan was joined by his colleague Hanif Barma for a further conversation about risk committees, what good risk management looks like, and where non-executives and those charged with risk management responsibilities should be focusing.

The pandemic has provided organisations with a multitude of learning points and new insights. It has also served as a reminder of some permanent priorities – and one of the most critical of these is strong risk management and governance.

To that end, it was timely to hear from Bryan and Hanif, co-authors of Raising the Bar – the widely respected good practice guide and toolkit for risk management strategy, governance and oversight.

A principles-based approach

As Hanif explained, Raising the Bar was the result of extensive engagement and out-reach, with interviews of around 80 people connected to risk, audit and governance as well as a number of CEOs and investors. They also engaged significantly with regulators such as the FCA and PRA, while the FRC supported the initiative all the way through.

While the guidance is primarily designed for the financial services sector, the authors were careful to ensure it would be relevant to non-FS organisations too. As Hanif explained, it takes a principles-based approach to accountability.

"The exam question we set ourselves was, what does good risk governance look like?" he said. "But rather than delve into specific risks, we wanted to create a framework, based around eight key principles, with the first half geared around risk committees and the second half around risk functions."

Structuring the guide in this way, it has applicability for any business, regardless of sector and regardless of whether the company adopts a stand-alone risk committee or a joint risk and audit committee as is common outside the financial sector and in smaller organisations or with smaller boards.

"There are no uniform answers and there's no perfect model. The key thing is to have clarity within the organisation, particularly around accountabilities."

Gap analysis tool

Sitting alongside the report is an online gap analysis and benchmarking tool (GABI). This is designed to help organisations assess how well they are meeting the guidance. Some interesting insights have emerged as growing numbers of organisations use the tool. Bryan explained that one of the key insights coming from risk functions is their realisation of the need for greater clarity over the relative roles of the first and second lines within the organisation.

"The onus is on the first line to manage risk, but they need the right support to help them do this. Organisations are also increasingly looking for integrated assurance so that nothing falls between the gaps."

Bryan said this includes a growing emphasis on external and specialist assurance, such as assurance over ESG and sustainability matters. Such expertise may be particularly valuable now. As one attendee pointed out, there may naturally be a shortage of in-depth expertise on sustainability areas within a business and yet businesses face increasing expectations and requirements to report and attest on sustainability targets and performance. The Board and relevant committees need to know they are collecting the right information and benchmarking it appropriately.

Emerging risks on the radar

From the non-executive director perspective, the striking 'area for improvement' revealed through the GABI benchmarking tool was that 76 percent of non-executive directors felt they needed to spend more time focusing on emerging risks. Perhaps, the pandemic has driven concerns in this space, but there are many other emerging risks that could intensify in the coming months and years. Geopolitical risks attached to the West's relationship with China and Russia feature highly – including supply chain threats and cyber risks.

The Risk Coalition will soon be publishing a support checklist specifically around geopolitical risks. Meanwhile, sustainability/climate change risks and what Bryan described as 'technology transformation' risks as businesses seek to become more digital are also high on the agenda.

"The focus used to be very much on current risks," Bryan said. "But the world is evolving and moving on rapidly. Businesses need to move their risk focus in line with this and keep adapting and evolving themselves. We can see already from the events of the last year that, while few organisations had predicted or prepared for a pandemic, those who had prepared for other types of risks with similar effects – such as supply chain challenges, cash flow disruption – have tended to fare better."

Diversity and inclusion

Another key consideration for mitigating against emerging risk, as one attendee flagged, is to include diversity of thought and skills on relevant committees and indeed the Board. Hanif observed that many retail financial services businesses have brought in non-financial retail experts with an understanding of customer behaviours. But he also drew attention to importance of the 'I' in diversity and inclusion. Inclusion means being able to fully tap into the skills and knowledge of everyone on a committee (and across the wider organisation) – finding ways to bring in all perspectives, especially those not traditionally heard. A good chair is key to this – they can be facilitators of true inclusion.

"An effective chair and an effective Board or committee are virtually synonymous," Hanif said. "A good chair will ensure that everyone has the opportunity to engage and contribute. Preparation is often key, giving committee members time to think about their input. This is something the pandemic has actually been helpful with. Now that meetings aren't physical and so don't need to be squeezed into the same travel day, there is more opportunity to spread discussions out to build in adequate thinking time and time to action any issues before the ensuing board meeting. The pandemic has also heightened the relevance of considering those 'what if' questions which may have struggled for agenda time before but feel so relevant now."

Continuous development

In today's challenging environment, it is critical to ensure that there is a programme for the continuing development of non-executives and executives alike.

"All Boards and committees should have a development programme in place," Bryan said. "Indeed, the PRA says that this is an expectation of theirs, and chairs should specifically allocate budget to it. It's a balance between bringing new skills in from outside and building skills up from within, to maintain board vitality as new external challenges develop."

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

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