



Governance reporting: getting the message over

For many companies it's that time of year. The annual report drafting has come around again all too quickly. With it comes the challenge of saying something different – or at least making it look different. This can be particularly difficult with the governance section which, let's face it, is probably destined to be pretty dry whatever you do. But it's always worth looking for opportunities to set out your governance stall in a better way. Some changes over the past year or so mean that you (and the audit committee in particular) need to keep on top of what's included. And the Strategic Report initiative makes this a good time to take a fresh look. Here are just a few pointers on some aspects to consider and mistakes to avoid. .



Good practices to consider...

An introduction sets out what the Board currently sees as its governance objectives and priorities, and how the approach to governance fits with the way the company is managed. The description is relevant to what's happening now and how the Board is working to help management secure strategic opportunities and manage risks.

The report "tells a story" about how the Board and committees are working together to help you achieve your governance objectives.

There is a clear relationship between the governance report and other narrative sections. If the Strategy Report says that there has been a shift in strategic focus, for example, the governance report will explain how the Board was involved in the strategic planning and risk assessment.

The directors' biographies highlight the relevance of their experience and skills to the organisation's operations, strategy and governance needs.

Things to avoid...

If there's an introduction at all it sets out the formal responsibilities of the Board. Or in fact the responsibilities of any old board, as generally they're little different. The wording gives no feel for how the Board is actively thinking through what it needs to be achieving at this point in time – indeed if it is thinking at all.

Unlinked sections, without an introduction or narrative which runs through. Committee sections look as though they've been compiled separately and lumped together. The Board section reads like last year's and fails to distinguish your Board from anybody else's.

The sections on strategy, risk and governance are clearly written by three different people who never talk to one another.

Brief "CVs" simply list the organisations the director worked/works for and positions held.

Good practices to consider...

As well as director profiles, there's a paragraph which sets out how the mix of experience meets the governance needs of the business both today – and for the mid-term given the expected strategic and operational changes.

Succession is discussed – for both non-execs and execs. You might not want to give many details. But at least make sure you give the impression that the Board is on top of it.

The approach to the board effectiveness review is explained and sets out what was involved, especially if it was an internal self-assessment. There might be a description of the overall approach to a cycle of internal or external reviews. The description gives the feeling that a serious, well-thought-through approach to the Board's continuous improvement is in place.

The results of the board effectiveness review are detailed enough to sound plausible as a fullish, reasonably transparent report. They are action-oriented. And there's a look back to what you said you'd do last year and how far you've made progress.

Committee reports give a good picture of what they have been focusing on during the year. They set out how they have responded to significant developments or challenges during the year. They give a flavour of the level of direct contact with the management team. And they describe how the committee's approach has changed as a result of eg new regulatory requirements or internal or external risk developments.

The Audit Committee gives a convincing explanation of the approach it takes to assessing the effectiveness of the internal audit function and the external audit process. Even if it's not an extensive review, the factors that the committee has discussed are explained to give reassurance that a rigorous approach has been taken.

The same applies (for Audit or Risk Committees) to reviewing the effectiveness of Risk Management. It's a big part of their role so it gets a decent mention in their report.

Things to avoid...

There's no discussion on the mix, with analysts (who do take notice of this bit, at least) left to decide for themselves whether the combined impact is what's needed.

A description of succession planning is missed out altogether or covered through a bland acknowledgement that it's one of the Board's responsibilities. This gives little confidence.

There's a brief (obligatory) reference to the approach used without any explanation as to why the Board decided on it. Minimal information is given on what was involved so the reader gets the feeling that it was somewhat perfunctory even if it wasn't.

The outcomes of the review are described very briefly or in terms that could fit anywhere. The description sounds grudging, leaving the reader to wonder if that's because the outcome was too awful to report or because the review was so superficial that there's nothing to say.

Reports list the committee's activity in the style of its terms of reference, failing to give an impression of how it has actually operated. Despite major strategic developments, issues or new demands, the report sounds just like last year's.

There's only a passing reference – or no reference at all.

There's a mention of the committee reviewing the internal control section – and not much more. And if the risk management system is covered separately, there's little on how the committee actually satisfied itself that it's working well.

Good practices to consider...

The Remuneration Committee's activity is covered specifically, whether within the remuneration report or separately. As with the Audit Committee, it covers how it has looked at its effectiveness.

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Things to avoid...

There's little on what the Remuneration Committee has been doing, with an assumption that a detailed report of remuneration = the remuneration committee report.

Read a bit more...

Our 2006 publication [Better Governance Reporting](#) may sound a bit dated but it's still a good guide to communicating effectively how the board and committees are working.

Our regular newsletter, The Effective Board, is issued monthly.

Read our past issues:

- [How can you refresh your board review?](#)
- [Are we doing enough around risk?](#)
- [Succession planning: breadth, depth and transparency](#)

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