A board's response to the coronavirus crisis

Recent experiences from the risk and audit committees

This is the fourth in a short series of anonymised interviews in which I have been discussing their practical recent experience in the pandemic crisis with board members. In this interview, I speak to an experienced non-executive director who chairs a risk committee at one financial services organisation, and has variously sat on and chaired Risk and Audit Committees over a number of years.

Hanif: I appreciate your making the time to speak to me about your last few weeks as a board member at your different organisations. I particularly look forward to hearing about your risk committee and audit committee experiences. Can I start by asking about your boards' activities and their business contexts?

NED: At the onset of the crisis, as it was unfolding, my boards decided to meet more regularly, and there were frequent informal discussions between board members and with executives as has been needed. The chairmen and chief executives have been speaking daily and, in my capacity as chair of the board risk committee, I am in very frequent contact with my chief risk officer.

We have made sure there is a record of all key decisions; this is particularly important for us as regulation in the financial services sector is now so focused on personal accountabilities under the senior managers regime. We have had to make some big decisions, including our decision not to pay a dividend and how to keep the organisation safe over this extraordinary period.

In addition to staff and customers, an important focus has been on liquidity and viability, particularly as new business generation in areas like asset and consumer finance have slowed down considerably. By contrast, account maintenance and collections have been going well, and we have been providing our clients with a good level of support, according to the feedback we have been receiving from them. We have supported capital repayment holidays where possible and this has necessitated an increase in the number of credit committee meetings.

Hanif: What's changed from the risk committee perspective? And how has this impacted your work outside of committee meetings?

NED: In addition to the regular board meetings, the risk committee has also met more often. We have now been able to reduce this as a rhythm has now developed. Risk committee meetings were held quarterly before the crisis.

It has been important to let the executives get on with their work. We have therefore also been more selective about the information the risk committee receives, avoiding asking for information that is just 'nice to have'. However, in one of my organisations, we have an end-of-day information pack that is shared with board members, which is a distillation of the MI used in the business on a daily basis.

In my other business, in addition to my regular conversations with the CRO, I have been getting a more formal weekly risk overview from him. I then share this with other non-executive directors in a brief update note which includes macro data. An executive crisis management committee has been set up and this now meets weekly. I join these meetings in my capacity as risk committee chair. The executive continue to have their daily conference calls on a wide range of matters.

Hanif: That means the work of the risk function has had to change?

NED: The most immediate impact on the risk function has been increased monitoring of the changes in the business and tracking, on a daily basis, the key metrics.

We have relaxed some restrictions, such as allowing access to some limited client data from home – otherwise we would not be able to support our clients effectively. However, new controls have been put in place. In some cases, we have risk accepted areas which we would have thought twice about in the past, but you have to be pragmatic in these exceptional circumstances.

Hanif: How has internal audit responded at your organisations?

NED: In my two organisations, we have taken very different approaches. The driver has been business need, and it has been very important to prioritise the use of resource, including in internal audit.

In one organisation, we have increased monitoring activity and internal audit team members have been working with the risk function to do this. Internal audit brings the right skill sets and the required objectivity so this arrangement has been working very well and has met the needs of the board. In effect, our audit plan here has been suspended – for two reasons. Though the planned assurance work was important, it was no longer a priority focus in the light of our current risk profile. Additionally, with all staff working remotely, some audits would have been difficult to deliver.

In another of my organisations, internal audit's work has continued. In the current quarter, this has meant focusing on completing audits for the year end – much of the field work has been done and effort has been mainly gone on completing audits and putting together the annual opinion. For the months ahead, there are revisions to planned work. Some audits, no longer high priority, have been deferred. Other work has, in contrast, been brought forward due to increased risk. Though the circumstances are difficult, internal audit has been able to work remotely as has the rest of the business.

In short, the key with internal audit has been showing flexibility and agility. The current situation has led to the temporary redundancy of 'percentage completion of the audit plan' as a KPI for internal audit.

Hanif: What have been the challenges for your audit committees?

NED: In addition to decisions related to internal audit, the year-end financial statements have, of course, been a major focal point for my audit committees. The external auditors have not been able to sign off on accounts as we await further guidance from the Financial Reporting Council on going concern. Of course, there is an ongoing and regular dialogue with our external auditors about the situation.

Hanif: Finally, how do you think the changes in governance over risk and assurance resulting from the pandemic crisis will shape future board and committee activity?

NED: There will, inevitably, be some major changes. For a start, after considering the lessons to be learned from this crisis, we will be reviewing and rewriting our disaster recovery plans as well as revisiting our recovery and resolution plans.

There will be changes to the pattern and structure of meetings. Our meetings have been as effective when run remotely on Teams, so we will reconsider the timing of committee meetings and possibly hold more of these by video call. We will also need to review AGM arrangements as these currently need to be physical meetings.

We also need to turn our thoughts to preparing for a new future. Our next phase of strategic planning was scheduled for September and this will be a good opportunity for the board to consider a variety of aspects about how our business might change, including those driven by changes in customer loyalty and behaviour. We will have to consider whether we need to offer different products that are delivered in different ways. Businesses overtrading, post crisis, is a major concern and there will, unfortunately, be insolvencies and the risk of a double-dip recession. So this may give stronger companies opportunities to acquire businesses that are distressed but in essence our main goal has to be to support the economy to continue to function both now and going forward.

Hanif: That's been a very insightful discussion, many thanks for your time.

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