DTP VIEWS

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Why an effective audit and risk committee is essential...

– Angela Lomax, Director, DTP

We have talked a lot in recent blogs about the changing nature of governance in the social housing sector. As always it's a complicated picture and it's important to make a few caveats before sharing our thoughts on the specific areas of audit and risk.

We can, of course, tell you our experience of working with Registered Providers. And we can share with you the conclusions we've drawn and the general observations we've made. But in doing so, we're not making any universal claims which apply to all organisations; and we can never offer a complete picture which tells the whole story of the sector and its approach to governance, audit and risk.

So, that aside, we are all probably familiar with the general trends at play. The government has stepped back from regulating the sector in recent years (and we don't need to dwell on its motivations for doing so again here). In doing so, this has placed growing pressure on boards to step up to the plate and ensure their organisations are effective and fit for purpose. There's an increasing expectation of professionalism on boards and a growing demand that they have the skills and expertise in place to get the job done.

To add to this context, the sector itself has thrown up numerous examples of why a more rigorous approach to risk is needed. These range from concern over executive payouts to the health and safety issues raised by events such as the Grenfell tragedy. Valuable "lessons learned" have also been forthcoming from outside the sector, not least from the recent collapse of private sector contractor Carillion and the recent safeguarding issues at Oxfam.

So those are the general trends at least, but how about some specifics? Where I've noticed some interesting developments playing out recently is in the work of audit and risk committees, the way RPs approach risk and its overall place in the governance landscape.

This may seem arcane, but in many respects it cuts to the heart of what social landlords are there to do. Boards, and the governance structures that underpin them, are there to make sure the right strategy is in place and that the organisation's executive team are delivering on that strategy. And audit has a crucial role in ensuring that happens.

We know the requirement which is expected of RPs: it's there in black and white in the National Housing Federation Code of Governance. But just to reiterate: "all but small non-developing organisations must have a committee primarily responsible for audit, and arrangements for an effective internal audit function". Knowing what you have got to do and doing it effectively are of course two entirely different things.

The team at DTP works closely with boards on these issues - helping them to get the right structures and team in place. And if there's a general theme I can share with you it's that many audit and risk committees are raising the bar in terms of what they do.

One way in which this manifests itself is in the dialogue between officers and board members. I have sat in many audit and risk committee meetings where officers have been quick to reassure the board that shortcomings raised in an internal audit are something they don't need to worry about, everything is in hand and progress is good.

I don't know about you, but there's nothing makes me worry more than someone telling me not to worry about something. With all organisations there's room for improvement, so when boards are being told everything is fine it's usually a reason to question further (or be cynical). Audit and risk committees rightly are no longer taking things at face value; verbal reassurance isn't enough and assurance in the form of evidence is increasingly required to back up claims that everything is going to plan. That's progress in my view.

I've also noticed a greater focus on asset and liabilities registers, which are being used more to inform assurance frameworks. Doing this properly requires a deep understanding of where risk lies in an organisation, whether it's in your structure, your contractual arrangements, partnerships or joint ventures.

Getting internal audit right is critical here. Specific areas of the business have to be put under the spotlight and the audit and risk committee needs to make sure that light is illuminating. It requires great skill and a good chair to set the tone and encourage members to look into the detail and apply that at the strategic level. Strong, mutually respectful relationships will be needed with internal and external auditors. And your procedural documents governing all of this will need to be clear and robust - your audit and risk committee terms of reference, standing orders and delegation frameworks.

At the same time, tough questions need to be asked, such as what is our organisation for?; how are we performing? and are we well placed to deliver what will be required of us in the future? Above all audit and risk committees must be prepared to accept the onerous pecuniary and legal responsibilities their organisation has. It's about being consistently sure you are in a position to meet these responsibilities. And if you're not: what are you doing to put this right?

In some respects this is part of the natural evolution of the sector; the increasing maturity of approaches to governance, and an overall improvement in board level competence and effectiveness. It isn't always easy and sometimes it can lead organisations into uncomfortable places where difficult questions must be asked. But if providers are to survive and thrive in the increasingly challenging world of 'light touch' regulation it will be an essential requirement of all boards.