Nexia SAB&T
Training and Technical

Governance and the role of Directors and Audit Committees

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Corporate governance is essential to reduce risk within entities and to increase growth and long-term value for the business.

The role of Directors

The duty of a director to act in good faith requires that a director's primary responsibility is to the organization; this responsibility must ordinarily take precedence over the personal interests of the director or the interests of a third party. It is important that when a director walks into the boardroom, that director is exercising their powers for the benefit of the organization. This means avoiding actual, potential and perceived conflicts of interest.

Where there may be a conflict, directors are obliged to disclose their conflict of interest or duty and take appropriate action to avoid any adverse consequences. Directors should tread cautiously when considering an actual, potential or perceived conflict of interest. An actual or potential conflict does not necessarily disqualify a person from serving on a board, but full disclosure is a legal and ethical imperative.

Focus of the Audit Committee

The following items are important to keep in mind as audit committees consider and carry out their 2019 agendas:

- Take a fresh look at their agenda and workload.
- Sharpen the company's focus on culture, ethics, and compliance.
- Understand how the finance team will reinvent itself and add greater value in this technology and data-driven environment.
- Monitor management's progress on implementing new accounting standards.
- Reinforce audit quality by setting clear expectations for the auditor.
- Give non-financial measures, other key operating metrics, and cybersecurity disclosures a prominent place on the audit committee agenda.
- Focus internal audit on the company's key risks beyond financial reporting and compliance, e.g. tone at the top, culture, cybersecurity, legal/regulatory compliance, global supply chain etc.
- Board composition – confirm that the talent in the room is aligned with the company's strategy and future needs.
- Quality and content of the audit committee reports.
- Focus on cyber risk and security.

Audit committees can expect their company's financial reporting, compliance, risk and internal control environment to be put to the test in the year ahead. Among the top challenges and pressures are: long-term economic uncertainty (with concerns about global mounting trade tensions, resurging debt and market valuations), technology advances and business model disruption, cyber risk, regulatory scrutiny and investor demands for transparency; and political swings and policy changes locally and globally.

Governance tips for SMEs

Compliance with the full range of corporate governance regulations applicable to larger companies is not always appropriate for SMEs. Depending on the company's stage of development, here are a few governance tips for SMEs to consider:

- Ensure the roles and responsibilities of the Board are clearly defined.
- Put in place delegated authorities (e.g. authority to commit the company to expenditure, authority to sign contracts) - to whom and within what limits.
- Ensure regular and properly run board meetings are held where the company strategy is discussed, budgets and finances are monitored, and progress on operations is reported.
- Evaluate whether the composition of the board is appropriate for the next stage of the company's development.
- Implement a risk management process Where necessary, implement internal controls. This is especially important on the financial side (e.g. to monitor cash flow) but is also applicable to other areas of the business such as security of assets and company data.
- Develop a disaster recovery and business continuity plan.