# Optimising the Effectiveness of Regulatory Reporting to the Board
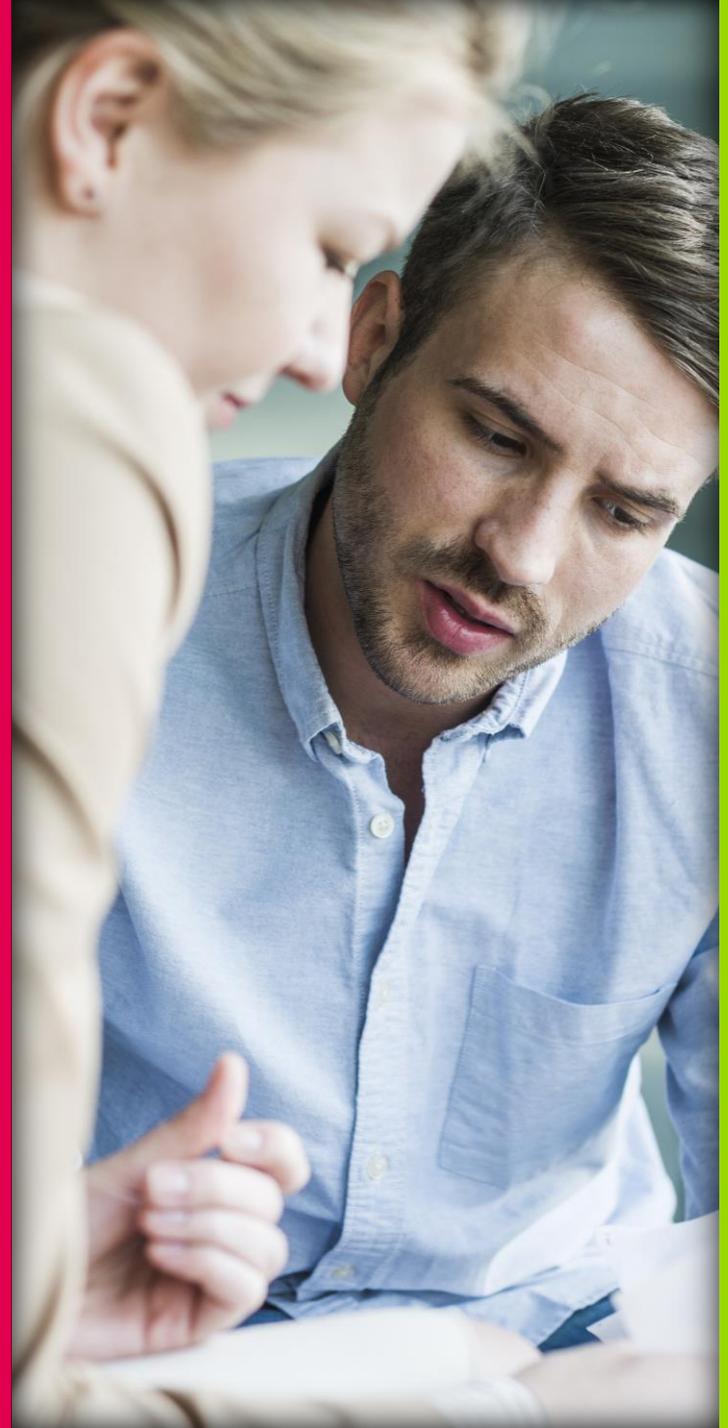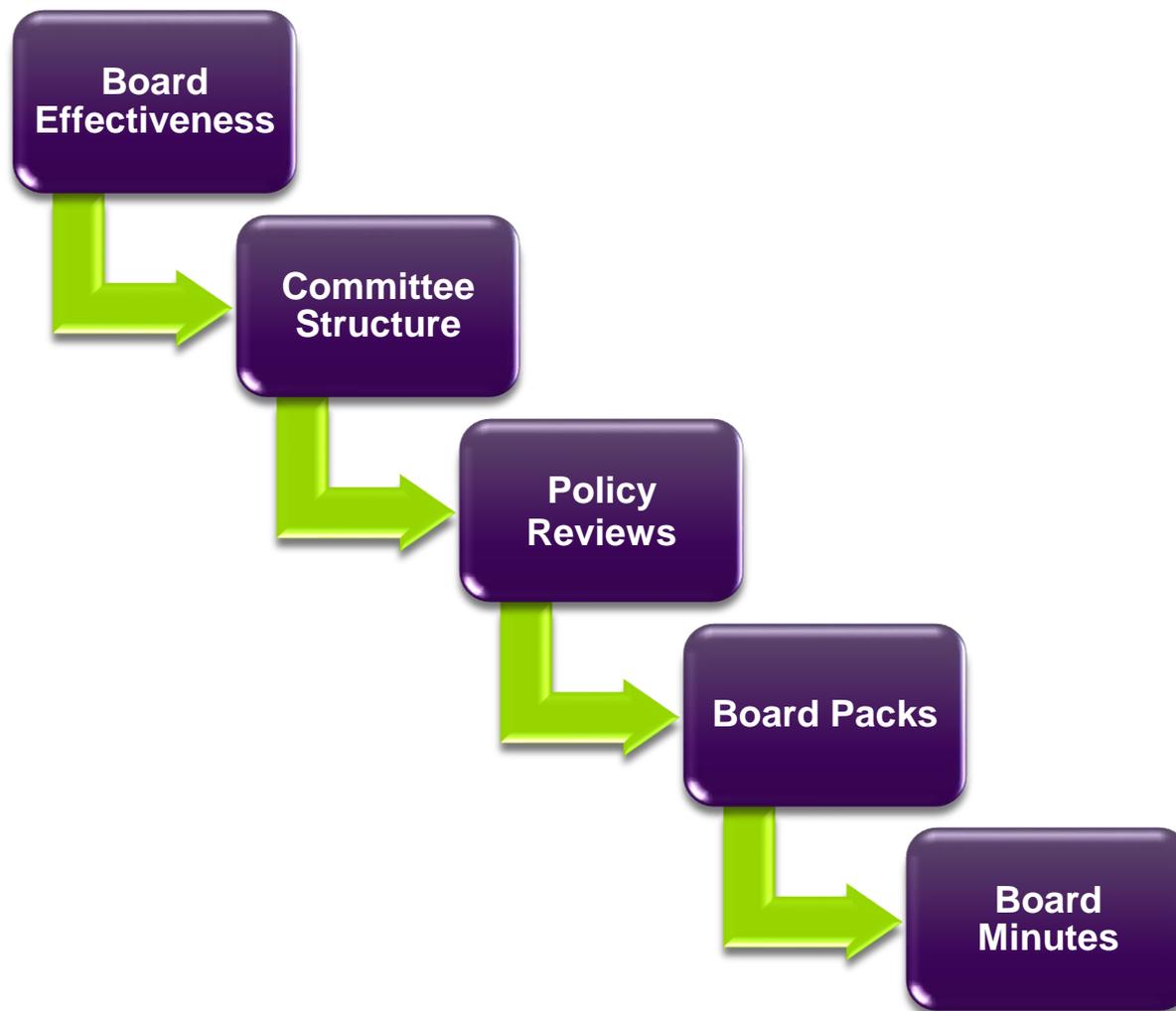
**MICHELLE O'DONOGHUE – DIRECTOR**

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1

# Agenda



Board Effectiveness → Committee Structure → Policy Reviews → Board Packs → Board Minutes

**RBK**

# PRISM Findings

*From a review of the minutes of the board meetings and from our onsite engagement meetings, it would appear that the board has not transitioned to its non-executive or governance role as required under the Act. Too much time at board meetings appears to be spent on operational and day-to-day matters.*

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# Functions of the Board – Section 55

# Board Effectiveness

> Survey indicates that only 10% of Boards are fully effective

> Obstacles to effectiveness include:

- Lack of monitoring of strategic plan

- Too much time on operational matters

- Policy reviews

- Disconnect with outsourced providers

- Poor reporting

- Lack of understanding of what the regulatory functions roles are

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# Improving Board Effectiveness

> Need a strong chair – Keep meetings relevant and moving

> Board need a bridge between the governance and operational – Head of Regulation

> Committee Structure needs to be right

> Improve the process for policy reviews

> Board pack should be reviewed

> Recording of minutes needs strengthening

# Committee Structure – General Comments

> Have an appropriate number of committees for the size of the Credit Union

> Have appropriate terms of reference and meet regularly

> All directors should contribute to the committees

> Have sufficient expertise to make decisions and recommendations to the Board as a whole

> Committees if operating effectively should reduce workload of Board as a whole

# Committee Reporting

> Chair of each committee to report to the Board on its proceedings at least quarterly

> Committees should ensure the following:

- Have access to sufficient resources to complete their role

- Be provided with appropriate and timely training

- Arrange for periodic reviews of its own performance

- Annually review its terms of reference

> Present an annual summary of work completed to the Board

# Committee Terms of Reference

> These should include the following:

- Objectives and KPI's

- Membership

- Reporting arrangements

- Meeting frequency

- Voting Rights

- Quorums

- Method and frequency of review of the TOR

# Regulatory Reporting and Committees

> Regulatory Reporting includes:

- Risk

- Compliance

- Internal Audit

- AML

- Data Protection

> Organising the reporting

> How can this be improved?

# Audit Committee

> Not a mandatory committee

> Where established this committee should be responsible for:

- Assessing the performance of the auditors at least annually to determine continued independence, effectiveness and compliance with the Act

- Monitoring the financial reporting process

- Reviewing the financial statements and ensuring they give a true and fair view

- Ensuring the IA function is independent and has unfettered reporting to the Board

- Reviewing the IA plan, charter and reports

- Monitoring the effectiveness of the IA function

# Audit Committee Reporting

> Should meet with the External Auditor to review the outcomes of the audit

> Should meet the IA function regularly

> Report to the Board on:

- Internal control weaknesses identified

- Number of findings closed

- Number of open findings and timelines to address

- External auditors management letter findings

# Risk Committee

> Not a mandatory committee

> Where established this committee should be responsible for:

- Overseeing and advising the Board on the Risk Management System including assessing its appropriateness

- Assisting the Board in setting risk tolerance and ensuring that significant risks are mitigated to a level consistent with Risk Tolerance

- Ensuring the Risk Management System is reviewed and deficiencies are identified

# Risk Committee Reporting

> Committee should meet with the Risk Officer

> Top 10 Risks this month v Prior month

> Risks outside of risk tolerance

> Any Risk Appetite trigger events or breach of risk appetite taking place

> Number of risks added/closed/rescored

> Remedial action needed to mitigate risks

> Amendments to plan

# Compliance

> Compliance often reports:

- Directly to Board

- Via the audit committee or risk committee

> There should be a committee that deals with compliance function

> Report on:

- Progress of testing against plan

- Number of compliance breaches identified

- Number remedied/open and timelines to close

> Completion of the Annual Compliance Statement

# Regulatory Reporting – PRISM Findings

*As evidenced from discussions with the board and management team, the credit union was unable to demonstrate compliance with Sections 55 and 76B of the Act as there is an absence of effective board oversight of the risk management, compliance and internal audit frameworks.*

*The inspection team noted a lack of challenge by the Board on the reports from these functions, a lack of follow up on issues identified and a lack of review of the performance of these functions.*

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# Streamlining Regulatory Reporting

> Consider combining committees into a single Audit, Risk and Compliance Committee

> Review of plans to leverage reporting and remove duplication of effort

> Create a dashboard of all findings and timelines for remediation – monitor regularly

> Committee should meet with owners of open items for update/progress

> Present a consolidated regulatory summary to the Board

> Consider outsourcing

# Benefits of Outsourcing

> Survey shows an increase in outsourcing of risk and compliance

  ▪ Risk up from 42% to 50%

  ▪ Compliance up from 33% to 44%

> Brings a greater level of objectivity and independence to the function

> Allows greater oversight of the sector as a whole

> Frees up internal resources

> Internal Head of Regulation can co-ordinate

> Facilitates faster embedding of the functions

# Sample Regulatory Dashboard

| Date Raised | Raised by | Item | Priority | CU Response | Status |
|---|---|---|---|---|---|
| Q2-2018 | Internal Audit | CU is unable to generate a report of members with third party authorisations on their accounts.  This leads to an increased risk of fraud | High | Work continues with IT providers to allow a flag to be put on system. | Open |
| Q1 – 2019 | Internal Audit | Cash handling procedures have not been updated following the implementation of Gloria | Low | Procedures document reviewed and presented at Board meeting in February | Closed |
| Q3 – 2018 | Compliance | Succession plan to be updated for change in management team structure | Medium | Draft has been provided to Board.  For approval at May Board meeting | Open |
| Q1 -2019 | Risk | Implementation of PAYAC increases risk in relation to credit control for overdraft facilities | High | PAYAC will be providing guidance on amendments required for policy.  To be reviewed by Risk, Compliance and IA and concluded | Open |
| Q1 – 2019 | Risk | Decision by BNP to withdraw from Irish market creates a risk that services to members may be disrupted in CU cannot change provider within 90 days | High | CU to meet with CUSOP by end of month re on-boarding | Open |

# Policy Reviews



> 16 mandatory policies

> Any other policies as necessary

> Boards inundated with reviewing policies

> Need a schedule of polices to spread over the year

> Review the overall number in place and streamline, e.g. merge investment and liquidity

> Consider if policies can be shortened and have a separate procedures document to support the policy

# Board Pack

> Often contains a volume of information

> Need to reduce amount of reading for Board

> Develop scorecards for each area

> Give the highlights – mandatory reading

> Detailed reports – optional reading

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# A Typical Board Pack

> CEO's report including financial review

> Strategic Plan update

> Credit Committee (including loans for approval/appeal)

> Credit Control

> Risk

> Compliance

> Internal Audit

> Membership committee

> Investment committee

> Nomination committee

> Remuneration committee

> AML report

> Data Protection

> Policies for review

> BOC report

> Officers Loans

> CBI correspondence

> Other

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# A Suggested Board Pack

## Monthly Pack

> **CEO's report to include:**

- Financial review

- Credit and Credit control

- Investment decisions and outcomes

- Operational KPI's

> **Strategic Plan update**

> **Regulatory report update to include:**

- Regulatory dashboard

- Update on progress against plans

- New and emerging risks

- AML and Data Protection reports

## Quarterly Pack

- BOC Report

- Nominations Report

- Officer Loans and Loan Appeals

- Policies for review

- AOB

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# Board Minutes

> Board minutes are difficult to get right

> Central Bank have levied a lot of criticism at this area

> If done right have clear actions arising

> Detailed enough to record extent of discussions held

# Board Minutes – PRISM Findings

*At times the minutes of the Board do not document the discussions that took place, the action points or the rationale for decisions. For example, risk, compliance and internal audit reports are tabled but the minutes do not indicated what level of discussion took place nor agreed action points.*

# Improving Minutes - Sample

| Area | Actions | BOD Comments | Owner | Timelines |
|------|---------|--------------|-------|-----------|
| **Regulatory Reporting** | | | | |
| **The ARC presented a summary of their work in the month which includes the following:** | | | | |
| 1. Regulatory Dashboard presented and discussed – 3 new items since last month.  5 closed, 7 open | 1. Dashboard – continue to monitor and close items | 1. Board satisfied that open items are addressed within agreed timelines. Continue to monitor. | Head of Regulation and ARC | 1. April 2019 |
| 2. IA met with committee to review IA report.  3 outstanding items closed | 2. Current IA findings to be closed by end of April | 2. Agreed | | 2. May 2019 |
| 3. Compliance Officer presented summary of monthly Compliance report | 3. Compliance summary highlighted a need for Nom Comm to complete annual review of BOD, this needs to be completed | 3. The BOD accept that this is a statutory requirement but would like guidance from CO on how to complete | | 3. Q3 2019 |
| 4. Risk Officer presented summary of monthly Risk report | 4. Two new and emerging risks (PAYAC and Merger risk). RMO to revert on recommended scoring and potential mitigating controls | 4. The BOD would like additional information of the potential controls in place to mitigate risks from PAYAC before adopting these risks | | 4. Q3 2019 |
| 5. MLRO presented summary of monthly report | 5. MLRO report highlighted a need for staff refresher training on AML and MLRO to meet with Training Officer to agree dates | 5. The BOD note that all staff received AML training in the past 12 months and the MLRO should meet with the Training officer to complete a needs analysis | | 5. May 2019 |

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# Conclusion

> Improve the effectiveness of the Board in exercising their governance role

> Review the committee structure and committees TOR

> Have strong and clear reporting – Head of Regulation

> Review the information in the current Board pack

> Differentiate between material that is a "must read" and an "optional read"

> Ensure the minutes accurately capture the extent of Board discussions

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# Questions

# RBK

# **Thank you**

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