



TO: FRC Code review

My post yesterday on what I believe the #1 change FRC should make to the May UK Governance Code consultation draft is below. I post to about 10,000 general feed followers and on 10 Linked In discussion groups. The sections of the current and draft UK Governance Code imply, but don't explicitly state, that a core board duty should be to oversee management's risk taking linked to MISSION CRITICAL OBJECTIVES. I define MISSION CRITICAL OBJECTIVES as a company's top strategic/value creation and value preservation objectives. If FRC is willing to make the change, other changes, particularly to the Audit and Risk, and Internal Control section would be required. The board PURPOSE clarification makes it clear why boards should do what the CODE says they should.

I think shareholders and broader stakeholders that invest on UK markets should know what FRC's position is on this question is. Why? Because weak board oversight of management's risk taking is at the root of a large majority of the biggest risk governance disasters in history.

I would be happy to answer any questions you might have.

Regards

**Tim Leech FCPA FCA Managing Director**  
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TO: Code Review

My post today describing what I see as the most important change required to the draft in the May consultation draft is pasted below FYI. I would be happy to answer any questions you may have.

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To: UK GOVERNANCE CODE REVIEW

My post this a.m. on Linked In and 10+ Linked In discussion groups is below. It references the UK Code requirements that UK companies indicate if they have an internal audit function or, if they don't why not. I think it would be much better if the Code defined the PURPOSE of an internal audit function linked to the PURPOSE of a board. Registrants would then have to specify in comply or explain how the board gets reliable information on management's risk taking in pursuit of top strategic/value creation and value preservation objectives and how they decide if that is within the board's risk appetite/tolerance.

Happy to answer any questions you may have.

Regards

Tim Leech

## **Internal audit and risk units that lack clear meaningful PURPOSE are putting staff at risk - "Human beings crave purpose and suffer serious psychological difficulties when we don't have it"**

For a primer:

The Power of Purpose | Psychology Today <https://bit.ly/3JVUjji>

The Power Of Purpose And Why It Matters Now Forbes <https://bit.ly/3ObD8ga>

Regular readers know I'm a big fan of clear PURPOSE. Entity PURPOSE. Board PURPOSE. Business unit PURPOSE. PURPOSE of IA and risk. It dates to 1984 in my first MGMT job as a young CA at Gulf. My unit was responsible for fixed assets/land accounting. As a new supervisor I felt a strong need to understand the business, and WHY my staff did what they did every day. I wasn't happy when I got "Because that was what I was told to do" or "Because I learned my job from Mary and this is what she did". Asking "WHY?" is an invaluable tool.

Most IA/risk groups lack clear meaningful PURPOSE and, by extension, people in them lack meaningful work PURPOSE. Lack of meaningful PURPOSE is harmful to physical/mental health. A growing number don't see reporting "audit findings"/co-workers' "significant deficiencies"/risk infractions as meaningful. See note below.

My somewhat jaded view is many IA/risk units exist so their company can say they have one. When you ask CEOs "WHAT DO YOU WANT TO BE DIFFERENT A YEAR FROM NOW AS A RESULT OF FUNDING IA AND/OR RISK GROUP?" CEOs often struggle. Realists sometimes answer - TO SATISFY REGULATORS. UK even requires listed companies via UK Corporate Governance Code to have IA, or publicly explain why not in the annual report. What UK CODE doesn't clearly state is what UK GOVT want/expect as outcomes from IA, risk groups, or boards – their PURPOSE.

My fear is internal audit is being pushed back to 1950s, to a narrow PURPOSE supporting external audit and SOX/SOX-like compliance. 2023 NA PULSE OF THE PROFESSION report confirms this trend is accelerating. <https://bit.ly/3NTdD1S> Per this report, IA is responsible for SOX compliance in 67% of listed NA companies. (p.4) Most CAEs report to CFOs. Most risk groups exist to support risk list ERM that adds little real value.

Regular readers will know I have been calling on IIA to clarify IA PURPOSE since March 1 standards update draft was released. I objected strongly to vague IA PURPOSE. I proposed a clear/meaningful PURPOSE for IA and risk groups. <https://bit.ly/3YA1XEQ>

There is a big barrier to positive change. For IA/risk to have clear SUPPORTED PURPOSE, boards need clear BOARD PURPOSE. I am not confident all boards agree. See CLARITY ON BOARD. <https://bit.ly/3Aaf453>

My advice – if you are in an IA/risk group that lacks meaningful PURPOSE, and lack of meaningful PURPOSE is having a detrimental impact on your health/mental wellbeing, you have a choice - try to influence positive change and more meaningful IA/risk PURPOSE; or get some mental help and/or seek a new, more PURPOSEFUL job elsewhere.



AUTHOR NOTE: When I entered internal audit in summer of 1981 at Westinghouse Canada their boot camp provided a full day with a psychologist. He tried to prepare new auditors for a role where most of the units you audit really didn't want you there. Later I learned many in MGMT believe the old saying "Internal auditors are those that go out after the battle is over and bayonet the wounded".

After I left Westinghouse I joined IA at Gulf Canada, a unit with 70+ auditors. Bruce McCuaig, Gulf's General Auditor, refused to allow internal auditors to join IIA. His reasoning – IIA was a "feel good club" that didn't spend enough time critically and objectively defining and assessing its own value proposition.

I now realize that joining a "feel good club" is an important part of how internal auditors try to cope with not being wanted/valued by people they audit; and part of how IAs deal with a legacy IA paradigm whose main PURPOSE is find/write up "audit findings", material weaknesses, and significant deficiencies of people they work with. (CRITICAL PARENT/CHILD interaction)

There is a better way – STRONG FIRST LINE/OBJECTIVE CENTRIC/DEMAND DRIVEN ERM and IA that uses ADULT TO ADULT interaction with the people you work with/for.

**Tim Leech FCPA FCA** Managing Director