

BEYOND ATTESTATION

Governance Theatre: The Compliance That Reassures Auditors and Fails Boards

A white paper on the structures built to satisfy attestation — and the evidence that they leave boards no better governed



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“A control that can be evidenced to an auditor and a control that changes what a board decides are different objects, and the reforms now arriving reward the first while the failures that provoked them were failures of the second.”

1. Executive Summary

In the eighteen months since the corporate failures that reshaped the regulatory landscape, boards have invested heavily in governance. Certifications are signed, control frameworks documented, audit committees strengthened, and the coming attestations on internal control over financial reporting are already consuming senior attention. By the measures the new regime supplies, governance has improved markedly. This white paper argues that the measures are the problem.

The evidence assembled here points to a widening gap between two things that are easily confused: compliance that can be evidenced to an auditor, and governance that changes what a board decides. The structures now being built — documented controls, signed certifications, expanded committee charters — are optimised for the first. The failures that provoked the reforms were failures of the second. At the organisations whose collapse triggered this entire wave of regulation, the formal governance was not absent; much of it was present, chartered and audited. What was missing was a board that understood its own business well enough to challenge it. No volume of attestation supplies that.

The paper frames the problem, sets out the evidence for it, and explains why governance theatre is not a moral failing but a rational response to how the regime allocates reward and blame. It then weighs the realistic options — from doing nothing, through layering on further controls, to a more fundamental reorientation — and meets the strongest objection to its own thesis, which is that documentary compliance, however hollow it looks, provides a genuine floor of protection. It concludes with a specific recommendation: that boards adopt a decision-centred test of their own governance, measure themselves against it deliberately and separately from compliance, and protect the one scarce resource the theatre cannot manufacture — the independent judgement of directors who understand the enterprise they oversee.

2. The board that passed everything

Consider a board that has done everything the new environment asks. Its chief executive and finance director have certified the accounts under the certification requirements now in force. Its audit committee meets the strengthened independence tests and has a chartered remit running to several pages. Its internal control documentation is being readied for the attestation regime ahead. Its external auditors, newly constrained in the

non-audit services they may provide, have signed off without qualification. On every dimension the regime measures, this board is exemplary.

Ask that same board a different set of questions. Does it understand why its largest division's margins have been drifting for three years? Could any non-executive director explain, without management's briefing pack, how the company actually makes its money in its fastest-growing line? When the executive last brought a major acquisition, did the board test the case, or receive it? The uncomfortable truth in a great many well-certified boardrooms is that the answers are no, no, and received. The governance that can be evidenced is impeccable. The governance that consists of understanding the business well enough to challenge it is thin or absent.

This is the phenomenon this paper names governance theatre: the construction of structures that reliably satisfy the people who audit governance while leaving substantially untouched the quality of the decisions governance exists to improve. The theatre is not fraud. Its participants are conscientious and its artefacts are real. It is a systematic misallocation of effort, driven by a regime that can observe some things and not others, and it is being scaled up, at considerable cost, at exactly the moment its limitations should be clearest.

3. What the evidence shows

Four lines of evidence, drawn from the pattern of the recent failures and the shape of the response to them, establish the gap.

First, the failed organisations were not ungoverned. The most instructive fact about the collapses that produced this regulatory wave is how much formal governance was in place. There were audit committees. There were codes of conduct. There were internal controls and external auditors and board sub-committees with proper charters. The catastrophe did not occur because these structures were missing; it occurred because they did not function as understanding and challenge, only as form. A regime that responds by mandating more of the same structures is treating the symptom it can see rather than the disease that caused the harm.

Second, the reforms overwhelmingly reward the documentable. Read the obligations now landing on boards and one property recurs: they are satisfied by artefacts. A certification is a signature. A control is a documented procedure with evidence of operation. An independent audit committee is a matter of counting non-executives and checking their affiliations. Each of these can be produced, filed and inspected. None of them requires, or verifies, that any director understood anything. The regime measures what it can observe, and what it can observe is documentation.

Third, the investment is flowing to the measured. The scarce resource in any organisation responding to the reforms is senior attention, and it is being drawn, predictably, towards what will be tested. The preparation for internal-control attestation alone is absorbing finance and audit functions across entire sectors. This is effort that is genuinely being spent — but it is being spent on the evidencing of controls, not on the strengthening of board judgement, because the first is on the examination and the second is not.

Fourth, the reforms that target substance say so themselves. It is telling that the most thoughtful strands of the response — the recent reviews into the role of non-executive directors and into the operation of audit committees — are precisely the ones that reach beyond documentation towards behaviour, independence of mind, and the quality of challenge in the room. That these questions had to be raised separately, as matters of

board effectiveness rather than compliance, is itself the evidence: the main machinery of reform does not touch them, which is why they needed their own reviews.

The failed organisations were rich in governance structure and poor in governance substance. A reform programme that multiplies structure while leaving substance to separate, voluntary reviews is answering the crisis with more of the thing that did not prevent it.

4. Why the theatre is rational

It would be a mistake to read governance theatre as hypocrisy or laziness. It is the rational output of three incentives, and understanding them is essential to any remedy that hopes to work.

1. Auditability drives design. When an obligation will be tested by inspection, the cheapest way to satisfy it is to produce inspectable evidence. Faced with a requirement to demonstrate sound internal control, an organisation will rationally build the documentation that demonstrates it, because that is what will be examined. The requirement to have good judgement, being unauditably, generates no comparable artefact and therefore attracts no comparable investment.
1. Blame attaches to the missing document, not the missing thought. In the aftermath of any failure, the reconstructable question is procedural: was the control in place, was the certification signed, did the committee meet. A director who can point to the signed, chartered, documented structure is defensible in a way that a director who exercised judgement and was wrong is not. The regime rewards the demonstrable process over the sound decision, and rational directors respond accordingly.
1. Structure is easier to mandate than substance. For a regulator, a board chairman or a general counsel, requiring a structure is straightforward and its completion is verifiable. Requiring that directors understand the business is neither. So the mandates that get written are structural, the compliance that gets reported is structural, and the whole apparatus converges on the one dimension that can be specified and checked.

The result is a stable, self-reinforcing system in which everyone behaves reasonably and the aggregate outcome is a great deal of governance that reassures everyone except the people it is meant to protect.

5. The options before the board

A board confronting this gap has three broad responses available. Honesty requires setting out the costs of each, including the one this paper will recommend.

Option	What it involves	The real cost
Accept the theatre	Comply fully with the letter of the regime; treat governance as a compliance obligation discharged	Lowest effort and fully defensible, but leaves the board exposed to exactly the substantive failures the regime does not detect
Lay on more control	Exceed the mandate: more committees, more documentation, more internal assurance	Visible diligence and audit comfort, but it deepens the theatre, consumes the scarce attention, and can actively crowd out judgement with process
Reorient to decisions	Comply with the regime as a floor, then invest separately and deliberately in the quality of board judgement and challenge	Higher effort, unrewarded by the regime, and hard to evidence externally – but the only option that addresses the failure that caused the crisis

The first option is where inertia leads and where a surprising number of well-run boards will quietly settle, because it is safe. The second is where anxious boards go, mistaking more structure for more safety; it is the most expensive way to become no better governed. The third is the only one that engages the actual problem, and it is the least rewarded, which is precisely why it requires a deliberate decision by the board rather than a response to external pressure.

6. The objection that must be answered

The strongest case against this paper's argument is not weak, and it should be stated at full strength. It is this: documentary compliance, however theatrical it looks, provides a real and valuable floor. The signed certification does concentrate the mind of a chief executive who must personally attest. The documented control does impose a discipline that catches errors an informal process would miss. The independent audit committee does, on occasion, ask the question no one else will. To disparage this as "theatre" is to risk encouraging boards to neglect a floor of protection that was, manifestly, too low before the reforms. Judgement is all very well, the objection runs, but judgement without structure is how the failures happened in the first place – clever people, unconstrained by process, convinced of their own understanding.

This objection is substantially correct, and the recommendation that follows is shaped to accommodate it. The documentary floor is real and should not be lowered; a board that responded to this paper by dismantling its controls would have misread it entirely. But the objection establishes only that compliance is necessary, not that it is sufficient, and the entire argument here is about the difference. The danger is not that boards comply; it is that they mistake compliance for the whole of governance and stop there, their attention exhausted by the evidencing of controls, believing the theatre was the performance. The floor is worth having. It is not worth mistaking for the building.

7. Recommendation

This paper recommends that boards adopt, deliberately and in addition to full compliance with the regime, a decision-centred test of their own governance. The recommendation has four concrete components.

1. Separate the two questions, formally. The board should assess its compliance and its effectiveness as distinct exercises, with distinct evidence and distinct owners. Conflating them — reporting a clean audit as though it were proof of good governance — is the central error, and separating them structurally is the first defence against it.
1. Measure governance by the decisions it changes. For each significant decision the board takes — a major investment, a strategic shift, a risk accepted — the board should be able to say what its own scrutiny added. Where the honest answer is repeatedly "nothing; we received the recommendation and approved it," the board has evidence of theatre that no compliance report will ever surface.
1. Invest in directors who understand the enterprise. The scarce resource the theatre cannot manufacture is a board that genuinely comprehends the business — its economics, its risks, its fastest-moving parts — well enough to challenge management on the substance. Recruitment, induction and the board's own information diet should be built around this, treating understanding as the primary asset and structure as its support.
1. Protect independence of mind, not merely of affiliation. The tests now in force check whether directors are independent in their relationships. They do not check whether directors are independent in their thinking. A board serious about governance should cultivate, and protect, the willingness to ask the unwelcome question — the one capability whose absence, more than any missing control, is what the recent failures had in common.

8. What this demands

The demand this paper makes of boards is harder than the demand the regime makes, and it is unrewarded by inspection. It is easier to sign a certification than to understand the business one is certifying. It is easier to charter an audit committee than to ensure it asks the questions that matter. It is easier to document a control than to change a decision. The reforms now arriving ask for the easier thing, measure the easier thing, and reward the easier thing — and they are, on their own terms, a genuine improvement over what preceded them.

But the organisations whose failures set this entire process in motion were not brought down by a shortage of documents. They were brought down by boards that did not understand, or did not challenge, what was being done in their name, inside structures that looked, on paper, entirely sound. That is the lesson the theatre is built to obscure, and it is the one a serious board must keep in view precisely as everyone around it celebrates the new machinery. Compliance is the floor. Governance is the judgement built on top of it. The regime can compel the first. Only the board can supply the second, and no amount of theatre will do it for them.