

Risk Management MN220:
Seminar 5: Corporate
governance



SHERIDAN COLLEGE

PERTH | WESTERN AUSTRALIA

Seminar 5

Risk management, strategic planning and corporate governance

- Review lectures 1-4
- Introduction
- Strategic planning and risk management
- Corporate governance and risk management
- History, International-Australian
- Risk management frameworks relating to governance - International (COSO, Turnbull)
- Australian regulatory environment – ASX, ASIC, APRA
- Australian Standards (AS 8000-8004:2003, HB 400-2004)
- Relationship between 4360 and 8000
- Development of a corporate governance system (framework)
- Case study- Enron

Review lectures 1-2

- Risk management principles, frameworks and processes
- The standards as part of risk management
- Tools, techniques and processes
- Integration of risk management into business process
- Risk management adding value to the organization

Strategic planning and risk management

- Strategy sets the long term path for achieving the organization's objectives – use SWOT analysis for internal
- Strategy is formed following analysis of the ***internal*** condition:
 - ✓ Strengths
 - ✓ Weaknesses
- Strategy is formed following analysis of the ***external*** condition:
 - ✓ Opportunities
 - ✓ Threats
 - ✓ Use PESTLE ANALYSIS

Risk identification and S.W.O.T.

- **Strengths** enable the organization to achieve its objectives
- **Weaknesses** may be risk events or risk factors potentially impeding success
- **Opportunities** are presented by the broader market in combination with the organisation's strengths
- **Threats** are generally external to the organisation but may arise from inadequate business performance

Risk register and S.W.O.T.

- The identification of risks assists in the **strategic planning process**
- Setting strategy without risk analysis (opportunities and threats) leads to **sub-optimal outcomes**
- The two processes are **iterative** (new risks arise from taking a strategic position)

Corporate governance

*“Corporate governance is the system by which companies are **directed and managed**. It influences how the **objectives** of the company are **set and achieved**, how **risk is monitored and assessed**, and how **performance is optimised**¹.”*

¹Australian Stock Exchange Corporate Governance Council,

“Principles of Good Corporate Governance and Best Practice Recommendations, March 2003”

Risk and corporate governance

- Risk management is part of the corporate governance process
- Poor risk management = poor corporate governance
- Good governance leads to successful business outcomes

History

- Bad corporate conduct was generally accepted
- Significant corporate failures have impacted on individuals more than before (Enron, Bear Stearns)
- Governments regulators have strengthened their position
- Shareholders and stakeholders now demand more accountability

Corporate failures

- Enron
- Worldcom
- Ansett Airlines
- One-Tel
- HIH Insurance
- Lehman Brothers
- GM
- Babcock and Brown

Risk and governance

- USA:
 - COSO
 - SOX
- UK:
 - Turnbull
 - BSI 31100
- Australia:
 - ASX, ASIC, SAI Global

GRC - Governance, Risk & Compliance: The Power to make better decisions

<https://www.youtube.com/watch?v=jJec9h4SNgc>

Enron-

<https://www.youtube.com/watch?v=Mt2O1bH8pvw>

Corporate Governance (Australia) -

<https://www.youtube.com/watch?v=D3W4lrc8DBk>

USA

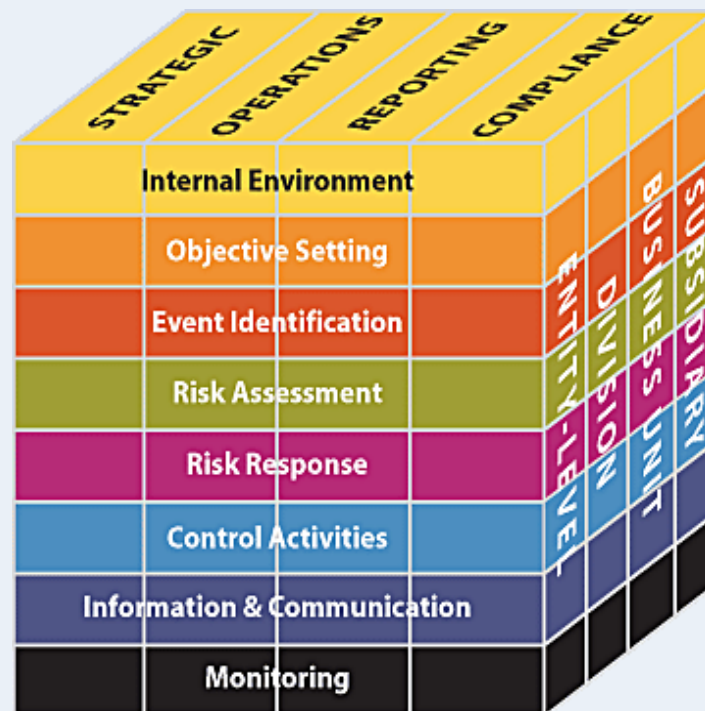
COSO – (Committee of Sponsoring Organisation of the Treadway Commission)

- Formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting
- Commission wholly independent of each of the sponsoring organizations
- The Chairman of the National Commission was James C. Treadway, Jr
- COSO model developed in 1992
- Risk management framework completed 2004

COSO

Entity objectives can be viewed in the context of four categories²:

- Strategic
- Operations
- Reporting
- Compliance



http://www.sox-online.com/coso_2004_coso_framework.html

² COSO Enterprise Risk Management – Integrated Framework. 2004. COSO



COSO ERM Framework- Business Objectives

- <https://www.youtube.com/watch?v=b7JldvsY7Ac&index=1&list=PL68AA245BF50F4A8C>

USA

Sarbanes-Oxley Act 2002:

- Based around financial and accounting disclosure
- Aimed at preventing corporate fraud and hence collapse

– Reference to risk management:

- Section 302 – Corporate responsibility for financial reports
- Section 404 – Management assessment of internal controls

UK

Turnbull:

- Developed by The Institute of Chartered Accountants in England and Wales
- Report issued in 1999
- Working party led by Nigel Turnbull
- Risk management framework with similarity to AS/NZS 4360

UK

- BS 31100:2008 Risk management – Code of practice:
 - Principles
 - Framework
 - Process
 - Risk management activities
- Is very similar to AS/NZS/ ISO 31000:2009

Australia – Regulatory framework

- ASIC – Australian Investments and Securities Commission (corporations and businesses)
- APRA – Australian Prudential and Regulatory Authority (financial services)
- ACCC – Australian Competition and Consumer Commission (“corporate watchdog”)
- ASX – Australian Stock Exchange (publicly listed companies)
- CLERP – Corporate Law and Economic Reform Program (program of business reform)

Corporate Governance – listed companies

ASX – The essential corporate governance principles³

1. Lay solid foundations for management oversight
2. Structure the board to add value
3. Promote ethical and responsible decision-making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Remunerate fairly and responsibly

³ASX Corporate Governance Council – “Principles of Good Corporate Governance and Best Practice Recommendations, 2nd Edition, 2007”

Corporate Governance – Standards

Standards Australia – Corporate Governance:

- AS 8000-2003 Good Governance Principles
- AS 8001-2003 Fraud and Corruption Control
- AS 8002-2003 Organizational Codes of Conduct
- AS 8003-2003 Corporate Social Responsibility
- AS 8004-2003 Whistleblower Protection Programs for Entities



Corporate Governance – Standards

Standards Australia – Corporate Governance:

HB 400-2004, Introduction to Corporate Governance

HB 401 – 2004, Applications of Corporate Governance

HB 407 – 2006, Corporate Governance for Small Business

Corporate Governance System⁴

STRUCTURAL

- Management commitment, culture and leadership
- Policy development
- Continuous improvement

OPERATIONAL

- Identification of issues
- Operating procedures and controls
- Management accountability
- Non conformities and record keeping
- Reporting*

MAINTENANCE

- Education and training
- Visibility and communication
- Monitoring and assessment
- Review, liaison and benchmarking

⁴Adapted from Standards Australia AS 8003-2003, Good Governance Principles

*Link to risk management

Underlying Values⁵

- Accountability
- Transparency (all information open to all parties)
- Fairness and balance
- Honesty
- Dignity
- Respect for the law
- Spirit of goodwill
- Conflict of principles
- Benchmarks for an ethical organisation (code of conduct)

⁵Standards Australia AS 8003-2003, Good Governance Principles

Values

*“Being a good corporate citizen
is good risk management”*

Margaret Jackson – Chairman Qantas Airlines, February 2004

Internal reporting

“Clear links should exist between the entity’s governance system, strategic and operational objectives and risk management strategies (refer to AS/NZS 4360).

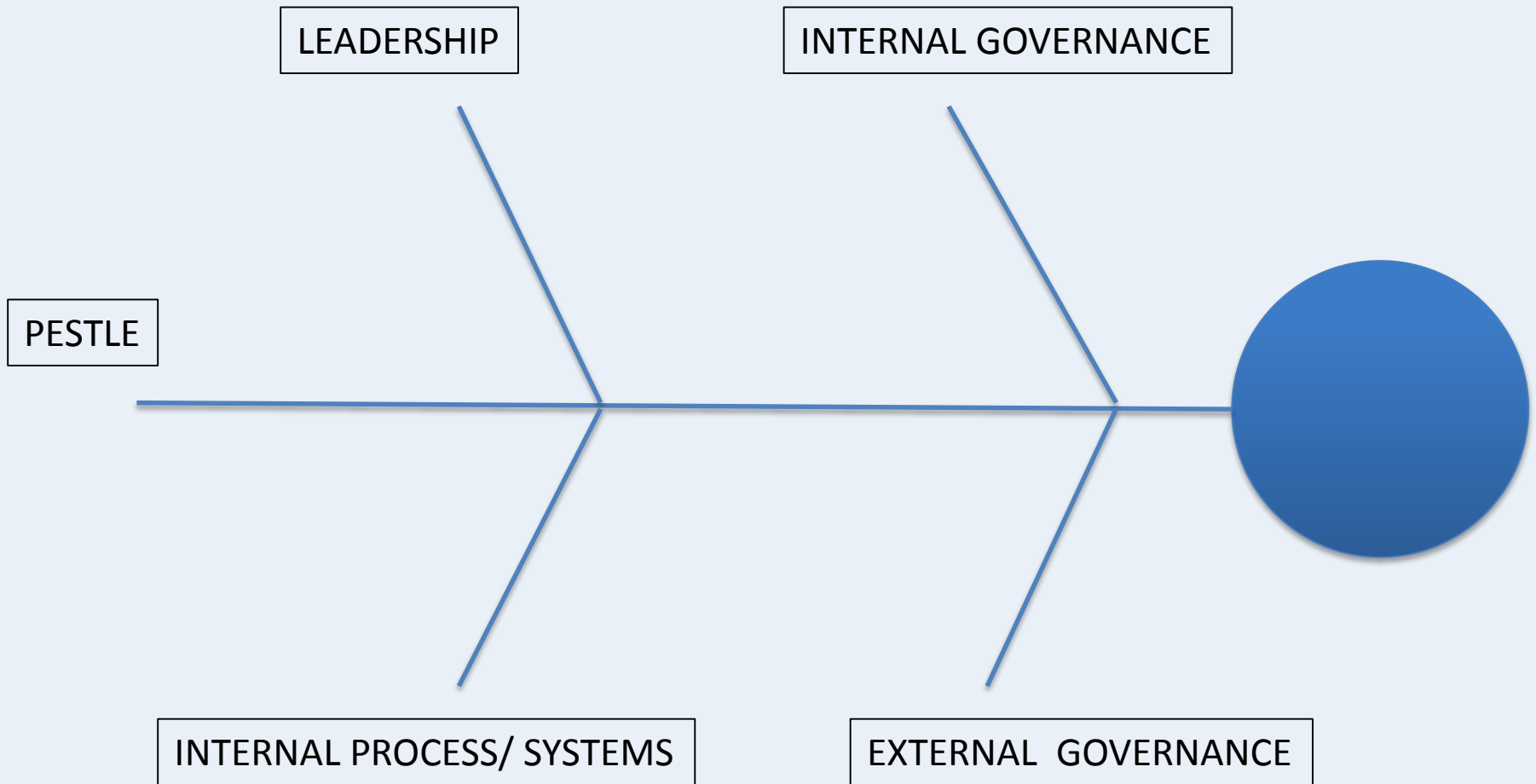
In particular internal reporting arrangements should ensure that...

- (a) there is an ongoing process for identifying, evaluating and managing the entity’s key risks that is regularly reviewed by the board;
- (b) the entity’s system of internal control includes procedures for reporting immediately to appropriate levels of management and/or the board any major control weaknesses that are identified⁶”

⁶Standards Australia AS 8003-2003, Good Governance Principles

Enron Case study- Lecturer to discuss questions below with students

- What has happened? (the **event**)
- What was the root **cause**? (contributing factors)
- What could have been done to prevent it? (controls)
- How have governments managed stakeholders? (citizens)
- What were the risks and outcomes for the stakeholders? (different context)



[https://www.youtube.com](https://www.youtube.com/watch?v=gxzLX_C9Z74)
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Timings: (0-2.20), (5.45- 8.20) (9.33-15.50),
(17.35-21.45), (22.30-23:15), (32.00-34.00), (35:30-36:50),
(40:25-42.35), (46.00-48:50), (50:35-52:15)
(1.05-1.07.30), (1.24:30-1.26:30) , (1.28-1.33)
(1.42-1.45:30)

Example of Good Risk Management

- NAB Case Study to be advised by lecturer
- Student and lecturer to go through NAB website to review NAB's corporate governance-
- <http://www.nab.com.au/about-us/our-business/corporate-governance>



Case study – NAB Corporate Governance Policy

Corporate governance - N x

www.nab.com.au/about-us/our-business/corporate-governance

Careers Contact us Corporate responsibility Our Business Shareholder Centre Capital and Funding Media

› Board of Directors

› Group Executive Committee

~ Corporate governance

Corporate governance

[About Us](#) / [Our Business](#) / Corporate governance

The Group's corporate governance framework plays a key role in supporting our business operations. It provides clear guidance on how authority is exercised within the group.

As a fundamental element of our culture and our business practices, our corporate governance framework provides guidance for effective decision making in all areas of the Group through:

- strategic and operational planning
- risk management and compliance
- financial management and external reporting
- succession planning and culture.

You can read about the key aspects of our corporate governance framework and practices for the 2013 year in the [Corporate Governance Statement](#) (PDF 164KB), and our compliance with the ASX Corporate Governance Principles and Recommendations in the [2013 Checklist](#).

Key documents and policies which form part of our corporate governance framework and highlight the Group's significant commitment to corporate governance are set out below.

Constitution +

Feedback

10:59 AM 11/02/2014

Case study – NAB's Risk Management Policy



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The screenshot shows a web browser window with the address bar displaying www.nab.com.au/about-us/our-business/corporate-governance. The page content is organized into a list of topics, each with a plus or minus icon to its right. The topics are: Stakeholder Communications (+), Diversity (+), Corporate Responsibility (+), and Risk Management (-). The Risk Management section is expanded, showing the following text:

Risk exists in every aspect of our business and throughout our operating environment. We identify and manage our risks as part of a Group-wide Risk Management Framework (RMF). The RMF supports the successful implementation of our strategies and allows us to run a sustainable, resilient business that is responsive to its changing environment.

We differentiate between risks that originate from within our business that we can control (our people, our processes and our systems), and those that originate outside of our business that we need to respond to (economic, regulatory, competitive and political).

We continually assess our risks so that we can take the appropriate action to manage them, within our Board approved risk appetite.

Risk Management Framework

Our Risk Management Framework is described in our Risk Management Systems Descriptions (RMSD), provided annually to the Australian Prudential Regulation Authority as part of prudential requirements to establish systems to monitor and manage key risks.

We describe these systems using the following risk categories:

RMSD Risk Categories	Definition – “The risk of loss from...”
Credit Risk	...the potential that a counterparty or customer will fail to

On the right side of the page, there is a vertical sidebar with social media icons for Facebook, Twitter, YouTube, and LinkedIn. At the bottom right, there is a black button labeled "Feedback". The Windows taskbar at the bottom shows various application icons and the system clock indicating 11:01 AM on 11/02/2014.

Summary

- Corporate governance defined
- History, International-Australian
- Risk management frameworks relating to governance - International (COSO, Turnbull)
- Australian regulatory environment – ASX, ASIC, ACCC, APRA
- Australian Standards (AS 8000-8004:2003, HB 400-2004)
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Review of Assignment 1

- Review of scope of Org's Risk and management through Risk Register.