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Transparency and Disclosures for Better Corporate Governance

September 09, 2007

Venue: Symbiosis Institute of Management Studies

Spirit of Governance

Hemant Joshi
M. Com., FCA, ICWA, CISA, CIA, ISA, CCSA, CFE

August 25, 2007: Hyderabad Blasts

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Atleast 44 killed, over 50 injured in Hyderabad serial blasts

Hyderabad, Aug 25: In two near-simultaneous terror attacks, at least 44 people were killed and over 50 injured in two explosions at crowded Lumbini Park and Gokul Chat Bhandar here on Saturday evening, three months after the Mecca Masjid blasts.

The first blast took place at Lumbini Park open-air auditorium, opposite State Secretariat when a laser show was going on. The second blast took place at Gokul Chat shop in Koti area, 5 Km from here.

Twenty six people died and 22 wounded when an explosion ripped through Gokul Chat Shop at Koti locality at around 7.30pm, Andhra Pradesh Home Minister K Jana Reddy told reporters here.

Six people, most of them from outside the state, were killed and 13 injured in

September 11, 2001

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Impact

- 19 terrorists hijacked 4 aircraft for suicide attacks
- Almost 3000 people killed
- In Manhattan: - 34.5 million ft^2 office space lost

  - $50-70 billion in insured losses

Most of these direct economic losses were incurred by the private sector

Corporate Scandals – Non Stop Action

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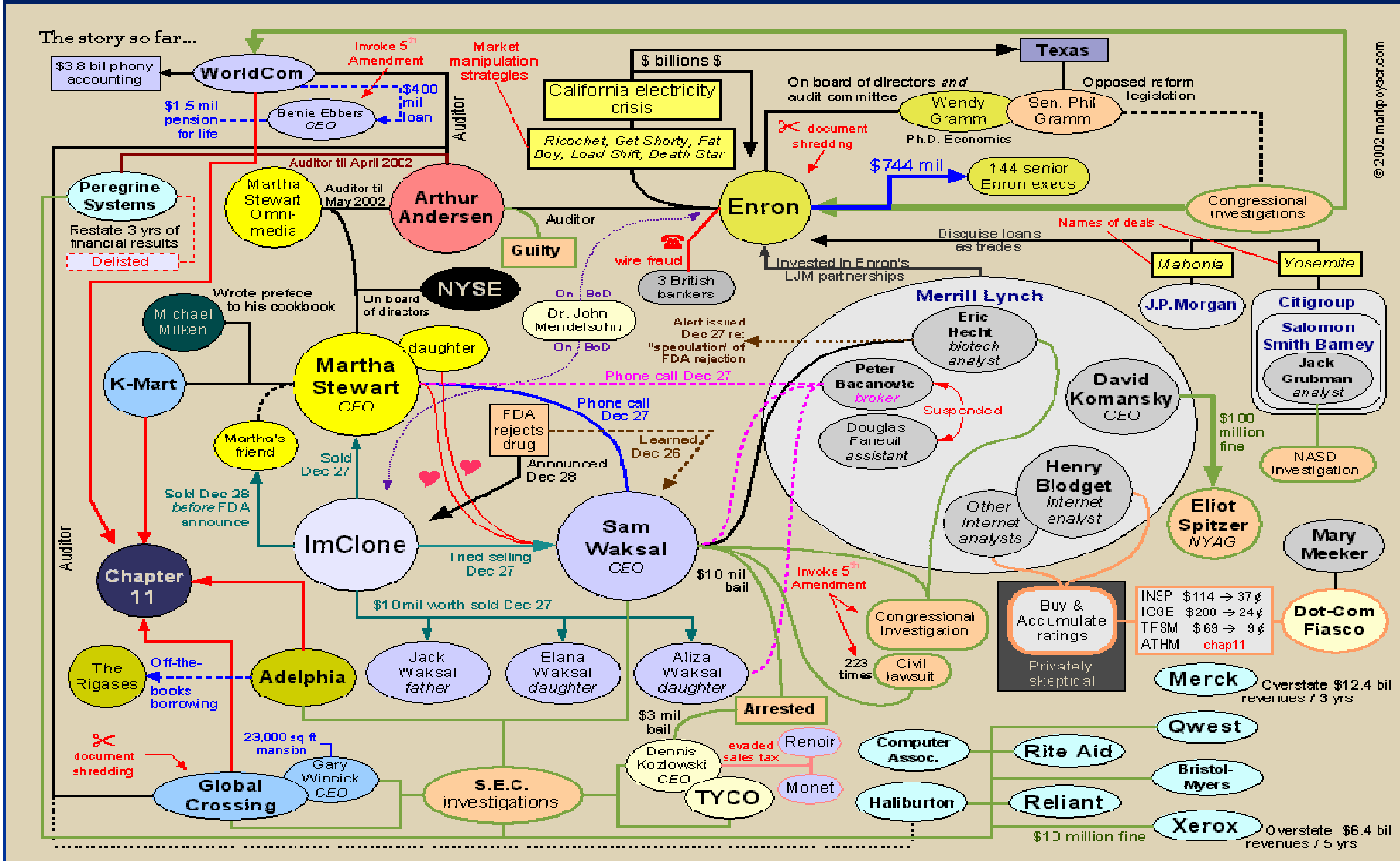

Agenda:

- Corporate Governance: Concept
- Enhancing Shareholders' Value
- Global Practices
- Board and Management Structure
- Risk Management

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Corporate Governance: Concept

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7 Things which Shareholders Want?

1. Shareholders seek a meaningful say in who sits on the board
2. Shareholders lack trust in a board that lacks independent leadership
3. Shareholders expect disclosure to reveal the company’s true condition beyond
4. Shareholders are skeptical of complex compensation schemes
5. Shareholders want exit scenarios to be reasonable
6. Shareholders expect the board to take responsibility -- and change the board -- when necessary
7. Shareholders should be able to effect change

Source: Paper by Weil, Gotshal & Manges LLP, New York

McKinsey Studies: October 1999 and April 2000

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Knowing that the relationship between corporate governance and a company's profits is complex, McKinsey conducted three studies between **October 1999 and April 2000** to discover how shareholders both perceive and value corporate governance in Asia, Europe and the US, and Latin America

Important Observations:

- Board practices are at least as important as financial performance
- 80 percent of those surveyed said they would pay more for shares of a well-governed company than a poorly governed one.
- Failure to reform governance will result in competitive disadvantage.

Source: http://www.mckinsey.com

McKinsey Quarterly 2005: Value and Performance

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According to a McKinsey survey of more than 1,000 directors around the world:

- Many board members are frustrated by their companies' excessive focus on short-term financial performance
- Prefer to devote more time to long-term issues, such as strategy and leadership development
- Directors lack the information for sound decision making and may not understand the objectives and risks of their companies
- Board oversight will improve only if directors can develop a more comprehensive picture of the performance of their companies and learn to participate more deeply in discussions about strategy and leadership.

Source: http://www.mckinsey.com

Corporate Governance: Kumar Managalam Birla Committee Report

DEFINITION:

Fundamental objective of **corporate governance** is the "**Enhancement** of **Shareholder Value,** Keeping in View the Interests of Other Stakeholder".

Corporate Governance: Kumar Managalam Birla Committee Report

Majority / Minority Stakeholders	Return on invested capital compared to weighted average cost of capital, payout ratio etc.
Debt Holders	High debt protection measures – credit rating; upgrades in ratings etc.
Customers	Market Share; Assessment of Customer satisfaction; Cost savings passed on to customers etc.
Employees	Absolute Salary levels, adjusted growth in average annual salaries; ESOPs; Attrition rates; Intangibles etc.

Corporate Governance: Kumar Managalam Birla Committee Report

Suppliers	Relative change in credit terms; Passing on increased realization; Support/Intangibles to suppliers, etc.
Society	Total direct taxes paid; Employment generated; Expenditure on social infrastructure; Environmental./Social impact cost; Fair practices followed etc.

Corporate Governance: Kumar Managalam Birla Committee Report

- Strong **corporate governance** is thus indispensable to resilient and vibrant capital markets
- It is an important instrument of investor protection
- It is the blood that fills the veins of transparent **corporate** disclosure and high-quality accounting practices
- It is the muscle that moves a viable and accessible financial reporting structure
- Without financial reporting premised on sound, honest numbers, capital markets will collapse upon themselves

Benefits of Corporate Governance:

Markets and investors:

- Take notice of well-managed companies,
- They respond positively
- Reward such companies, with higher valuations.

- Companies with better governance present less agency risk to shareholders, resulting in a lower cost of equity capital #

- Research examining the link between corporate governance and bond yields found that governance mechanisms can help reduce agency risk as well as information risk by inducing firms to disclose information in a timely manner, resulting in higher bond ratings and lower bond yields #

A common feature of such companies is that they have systems in place, which allow sufficient freedom to the boards and management to take decisions towards the progress of their companies and to innovate, while remaining within a framework of effective accountability. In other words they have a system of good **corporate governance**.

 # Source: Survey by GOVERNANCEMETRICS INTERNATIONAL INC (GMI) 2006

Link between Corporate Governance, ROE, ROA and ROC

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Groupings As Determined By GMI Ratings	Return on Equity (ROE) in % 1 Year	3 Year Average	5 Year Average
Top 10% Worldwide	17.95	16.63	14.35
Average for All Companies Rated by GMI Worldwide	14.60	12.79	10.44
Bottom 10% Worldwide	13.71	12.23	9.20

Groupings As Determined By GMI Ratings	Return on Assets (ROA) in % 1 Year	3 Year Average	5 Year Average
Top 10% Worldwide	6.49	5.67	4.81
Average for All Companies Rated by GMI Worldwide	5.66	4.96	3.87
Bottom 10% Worldwide	5.06	4.24	3.46

Groupings As Determined By GMI Ratings	Return on Capital (ROC) in % 1 Year	3 Year Average	5 Year Average
Top 10% Worldwide	13.02	11.45	10.26
Average for All Companies Rated by GMI Worldwide	10.98	9.86	8.51
Bottom 10% Worldwide	8.65	7.86	6.69

Principles of Good Corporate Governance

- Lay Solid Foundations for Management and Oversight
  - Formalize functions reserved to Board & Delegated to Mgmt
  - Ensure balance between Chairperson, Independent Direcotor & CEO
- Structure the Board to Add Value
  - Majority of independent Directors
  - Independent Chairman
  - Role of Chairperson & CEO not same
  - Existence of various committees
- Promote Ethical and Responsible Decision-Making
  - Establish Code of Conduct
  - Security Trading Policies

 # Source: Australian Stock Exchange

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Principles of Good Corporate Governance

- Safeguard Integrity in Financial Reporting
  - CEO/CFO Report to Board
  - Establish Audit Committee
  - Structure of the Audit Committee
  - Charter of Audit Committee
  - Reporting in Corp Gov Section
- Make Timely and Balanced Disclosure
  - Policies & Procedures to ensure disclosure compliance
  - Reporting of all departures

Source: Australian Stock Exchange

Principles of Good Corporate Governance

- Respect the Rights of Shareholders
  - Establish & Publish Communication strategy
  - Maintenance of Website
- Recognize and Manage Risk
  - AC to oversight RM Process
  - COE / CFA reporting – Risks / Control Assurance
- Encourage Enhanced Performance
  - Performance evaluation of Board/ Committees / Independent Directors/ Key Executives

 # Source: Australian Stock Exchange

Principles of Good Corporate Governance

- Remunerate Fairly and Responsibly
  - Remuneration policies to understand the cost & benefit
  - Linkage of remuneration with performance
- Recognize the Legitimate Interest of Stakeholders
  - COC with legal & obligations for stakeholders

Source: Australian Stock Exchange

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Overview of Global Corporate Governance Trends

Global Corporate Governance Regulations

Board Member Roles & Responsibilities	Country
Portion of the board of directors which must be <u>independent</u> (i.e. majority of the board, at least three members, etc.)	All countries
<u>Compensation committee</u> must be composed of independent members	All except Australia, Mexico, S. Africa, India
<u>Annual self-assessment</u> of board performance required	All except Germany, Japan, Mexico, S. Africa, Spain, India

Global Corporate Governance Regulations

Audit Committee Roles and Responsibilities	Country
Audit committee required to have responsibility for hiring, terminating, and overseeing work of independent auditor	All countries except S. Africa
Required to establish procedures to receive accounting, auditing, and similar complaints from those outside the company	UK, US, India
Required to establish procedures to receive accounting, auditing, and similar complaints from employees	UK, US, India
Required to have authority to engage outside advisers	Germany, Mexico, US, India, China

Global Corporate Governance Regulations

Management Roles and Responsibilities	Country
Management required to forfeit bonuses or other compensation if a restatement occurs	Germany and US;
Management required to certify &/or report on financial statement accuracy	All except Russia, S. Africa, Spain
Management required to certify internal control structure and/or disclosure controls	All except Germany, Russia, S. Africa, Spain, China (Board certifies); Japan- proposed
Prohibition on loans to officers and directors	All except Australia, Japan, Mexico, Russia, S. Africa
Required separation of chief executive and chairman of the board roles	All except Germany, Japan, Mexico, Spain, US, India (not mandatory but recommended)

Global Corporate Governance Regulations

Auditor Independence	Country
Prohibitions on the auditor's scope of services	All countries
Required audit committee preapproval of non-audit services	US, Mexico, South Africa
Required rotation of audit partners	All except Russia, India
Mandatory audit firm rotation	None
Auditor required to attest to management's report on internal control	France, Germany, Mexico (only recommended, not required), UK (although not a public report), US, India, China

Global Corporate Governance Regulations

Disclosure	Country
Rules regarding <u>disclosure of off-balance sheet transactions and contractual obligations</u>	All except Mexico, Russia, S. Africa, Spain, India, China
Rules regarding <u>disclosure of financial measures computed on a basis other than GAAP</u>	Canada, Mexico, US, India
Rules regarding <u>disclosure of forward looking earnings guidance</u>	Australia, UK, India

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Overview of legislations for Corporate Governance and Reporting Requirements

Overview of legislations for Corporate Governance

- Setting up of international committees for Corporate Governance such as Cadbury, Greenbury & Turnbull committees in UK.
- Sarbanes Oxley Act (SOX).
- In India - Kumaramangalam Birla committee , Naresh Chandra committee and Narayanmurthy committee.
- Clause 49 of listing agreement – SEBI (in line with SOX)

SOX- A Snap…

- July 25, 2002 – passes both houses of Congress
- July 30, 2002 – President Bush signs into law
- Provides clarity (subject to rulemaking by SEC) by:
  - Establishing PCAOB - an independent, full-time oversight board
  - Establishing responsibilities for audit committees and officers
  - Establishing certification requirements by CEO and CFO
  - Strengthening penalties for corporate fraud
  - Requiring rules to address analyst conflict of interest
  - Significantly enhancing the SEC's powers

Clause 49 of Listing Agreement modified by SEBI to include above concepts !!!!

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Summary of Section 404 Requirements

The SEC recently finalized its rules related to Section 404 of the Sarbanes-Oxley Act ("SOX") requiring each annual report (including Form 10-K and Form 20-F) to contain an internal control report as follows:

- A statement of management's responsibilities for establishing and maintaining adequate internal controls over financial reporting;
- A statement identifying the framework used by management as criteria for evaluating the effectiveness of internal control over financial reporting;

- Contd.

Summary of Section 404 Requirements contd..

- **Management's assessment of the effectiveness of internal control as of the end of the company's most recent year (point-in-time assessment), including disclosure of any material weakness in the company's internal control identified by management (*); and,**
- **A statement that the registered public accounting firm that audited the financial statements included in the annual report has also issued an attestation report on management's assessment of internal control over financial reporting.**

- ***This requirement is now*** law***. The internal control report is required annually and is*** in addition ***to the CEO/CFO Certifications required under Sections 302 and 906.***

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Reportable Conditions: PCAOB

Specifically, these are matters coming to the auditor's attention that, in his judgment, should be communicated to the audit committee because they represent **significant deficiencies in the design or operation of internal control**, which could **adversely affect the organization's ability to initiate, record, process, and report financial data** consistent with **the assertions** of management in the financial statements.

Reportable Conditions: PCAOB Auditing Standard No. 5

- Identified All Material Weaknesses to management and the audit committee
- Conclusion that the oversight of the company's external financial reporting and internal control over financial reporting by the company's audit committee is ineffective to the Board in writing
- Identified **significant deficiencies** (single / combination) to the Audit Committee

SOURCE: Auditing Standard No. 5 – An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements issued by PCAOB on June 12, 2007

Reportable Conditions: PCAOB Auditing Standard No. 5

- All deficiencies in internal control over financial reporting (of lesser magnitude than Material Weakness) to the management
- Fraud or possible illegal acts detected should be communicated as per AU sec. 316, *Consideration of Fraud in a Financial Statement Audit*, AU sec. 317, *Illegal Acts by Clients*, and Section 10A of the Securities Exchange Act of 1934

SOURCE: Auditing Standard No. 5 – An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements issued by PCAOB on June 12, 2007

Requirements of amended Clause 49 of the listing agreement……….

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Part V of the Annexure I to the circular SEBI/CFD/DIL/CG/1/2004/12/10 dated *October 29, 2004 requires* CEO/CFO certification as below:

The CEO, i.e. the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO i.e. the whole-time Finance Director or any other person heading the finance function discharging that function shall certify to the Board that:

(a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief :

- these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(b) There are, **to the best of their knowledge and belief**, no transactions entered into by the company during the year which are **fraudulent, illegal or violative of the company's code of conduct.**

Requirements of amended Clause 49 of the listing agreement…contd.

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(c) They accept responsibility for **establishing** and **maintaining** internal controls and that they have **evaluated** the **effectiveness** of the internal control systems of the company and they have **disclosed** to the auditors and the Audit Committee, **deficiencies** in the **design or operation** of internal controls, if any, of which they are aware and the steps they have taken or propose to take **to rectify** these deficiencies.

(d) They have indicated to the auditors and the Audit committee

- significant changes in internal control during the year;
- significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
- instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system

Directors' Responsibility Statement:
Section 217 (2AA) of the Companies Act, 1956

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to section 198.]

[75][(2AA) The Board's report shall also include a Directors' Responsibility Statement, indicating therein,—

(*i*) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(*ii*) that the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;

(*iii*) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(*iv*) that the directors had prepared the annual accounts on a going concern basis.]

[76][(2B) The Board's report shall also specify the reasons for the failure, if any, to complete the buy-back within the time specified in sub-section (4) of section 77A.]

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Reporting Under CARO- An order issued by the Central Government of India as per Section 227 (4A) of the Companies Act, 1956

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REPORTING FRAUD:

whether any fraud on or by the company has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

REPORTING TRANSACTIONS WITH GROUP COMPANIES:

"has the company granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions…."

"has the company taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions….."

"whether transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time…"

Reporting Under CARO- An order issued by the Central Government of India as per Section 227 (4A) of the Companies Act, 1956

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ADEQUACY OF INTERNAL CONTROLS:

- Existence of the adequate internal controls system commensurate with the size of the company and nature of the business for the purchase of inventory, fixed assets and sale of goods/services; and
- Existence of an internal audit system commensurate with the size and nature of the business.

Reporting under AAS issued by the ICAI in the External Audit Report

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- AAS- 2 and thus the report of the statutory auditor states that financial statements are the primary responsibility of the "Management"
- AAS- 6 requires a statutory auditor to assess the risks by classifying them into inherent, control and detection risks.
- The negative outcome of risk assessment by the statutory auditor may lead to qualification in the auditor's report which may be due to a material misstatement either by the fraud or the control weakness.

Specimen of Reporting: Statutory Audit

Issue: Non-provision by a Company for a demand from Central Excise Authorities of material amount

Reporting to Shareholders: Disclaimer of Opinion

to in sub-section (3C) of Section 211 of the Companies Act, 1956;

v. Attention is invited to Note 7 in Schedule 18 regarding demand of Rs. 1982 million from the Commissioner of Central Excise for payment of Excise Duty and penalty out of which a sum of Rs. 1886 million and interest thereon has been confirmed by CESTAT during the year. Pending the outcome of the appeal in the appropriate courts no provision has been made barring Rs. 45 million towards provision for contingencies. We are unable to express an opinion on the outcome of the matter at this stage. This is the result of a decision taken by management at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year.

vi. *In view of the uncertainity concerning the material issue referred in above paragraph* (v) and to the best of our information and according to the explanations given to us, though the said accounts read with the other notes thereon give the information required by the Companies Act, 1956, in the manner so required *we are unable to express an opinion whether they give a true and fair view in conformity with the accounting principles generally accepted in India :*

a. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2006;

b. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

c. in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For **Deloitte Haskins & Sells**
Chartered Accountants

Specimen of Reporting: Internal Audit

Issue: Frauds due to Excessive accesses in the system

Reporting to Audit Committee: Detailed Observation

Issue Title: **Excessive rights given to buyers in BPCS leading to exposures**

C Ma Mi

Issue No: **01**

Observation:

- Buyers can make unauthorized modifications to the existing / closed purchase orders (POs) in the system after these are manually approved.
- No trail is available for such modifications
- Finance also does not get authorized manual PO copy and billing accuracy is ensured only w.r.t. system data. A procurement of Rs 54 lakhs (in 05-06) was noticed against POs created prior to 2003 and such old / short closed order are also susceptible to unauthorized modifications. .
- In case of commodity items, the rates are negotiated by the indenters and Purchase Requisitions are sent to buyers for raising Pos. There is no mechanism to ensure that the POs are raised with the same rates as negotiated by the indenter.
- In CMT division, the Sourcing Manager has access to the vendor / Quote Master updation as well as creation of purchase orders resulting in the conflict of interest.
- Although system queries are developed to identify rate variations (Pos raised other than Primary Vendor / Quote Rate), these were not used by Oil Free Division. Spares Procurement used this only once a year.

Suggestion:

a) All modifications to purchase orders should be independently reviewed and a trail is to be maintained for such modifications.

b) Segregation of duties should be maintained as regards the vendor code / quote updation and purchase order creation.

c) Indenters should be informed about the PO details.

d) Exception queries should be generated and reviewed monthly for AIF division and Spares also.

Management Response :

Short Term Measures:

- In respect of commodity items, the PO will be authorized by the buyer, user and approver. Further, Accounts will pass the bills on the basis of authorized PO copy.
- It will be ensured that buyers do not have access to the quote master.
- In respect of fast moving commodity items, item nos. will be created to facilitate quote rate updation for these.
- Rate variation queries will be used for review by Flow team managers.
- ASAP will purge the old / Shot-closed POs based on the parameters developed with the help of operations.

Board and Management Structure

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Board of Directors- (BOD)

- Principle of Separation of Ownership and Management
- Directors are REPRESENTATIVES of the shareholders
- They perform a STEWARDSHIP function
- They bring to the corporation a range of experience, knowledge and judgment
- Roles & Responsibilities of BODs are Governed by:

  a) Mercantile Law

  b) Company Law

  c) SEBI

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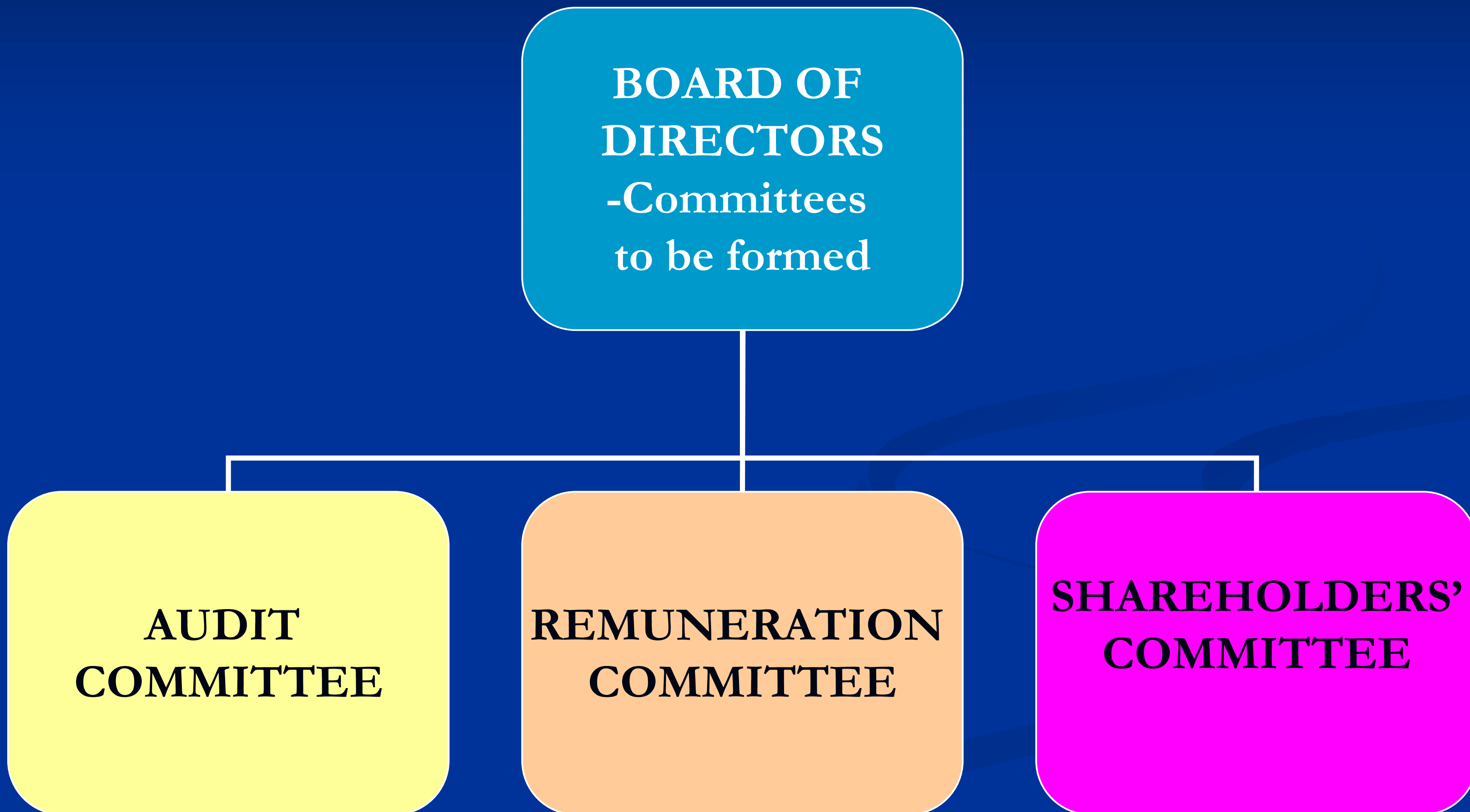
BOD: Clause 49 Requirements

- Optimum combination of executive and non-executive directors
- No. of independent directors is a function of status of the Chairman, i.e. Executive/Non-Executive
- Qualified and Independent Audit Committee
- Members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise

Clause 49: Suggested BOD Structure



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Today's Business:

- Complex than ever before
- Dynamic
- Voluminous
- Global

Intelligent efforts are required in pulling the information available at operational level to strategic level in a objective manner

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Information Systems:

- Complex
- Relational Database Systems (ERPs)
- Real time
- Access to global data
- Dynamic
- Vulnerable

Desired Mgmt. Reporting Structure

Deloitte Survey of Senior Executives and Board Members: 2007

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Relevance of NON FINANCIAL factors in Board Decision Making

- Many boards and executives are still in the dark about the health of their businesses
- Non-financial factors are important drivers of success for a company, yet they receive considerably less attention than financial data
- Financial metrics seem more solid and familiar. Naturally, there is resistance
- Companies such as Harrah's Entertainment, Standard Chartered Bank, Edcon, or Royal Bank of Canada are scoring visible successes by more closely tracking and managing non-financial performance metrics
- Many more companies are including non-financial data in their annual reports or their shareholder briefings
- Compensation structures continue to evolve to include non-financial targets
- **Boards and management teams by their own admission see that the information they need is not the information they are receiving**

Deloitte Survey of Senior Executives and Board Members 2007

15. Are there any areas in which you feel your company's senior management needs better quality information than it now receives?

Select all areas where better information is needed.

Three main groups responsible for Financial Reporting

- A proper and well functioning system exists therefore, when the three main groups responsible for financial reporting – the **BOARD**, the **INTERNAL AUDITOR** and the **OUTSIDE AUDITORS** – form the three-legged stool that supports responsible financial disclosure and active and participatory oversight.
- The audit committee has an important role to play in this process, since the audit committee is a sub-group of the full board and hence the monitor of the process.
- The Audit Committee's job is clearly one of oversight and monitoring
- Reliance is put on the senior financial management, the internal auditors and the outside auditors.

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Risk Management

- An important aspect of Corporate Governance

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What is Risk?

- Possibility of an adverse event which may negatively affect the ability of an organization to achieve its objectives
- Dictionary (Mirriam- Webster On- Line)
  - Possibility of loss or injury
  - Some one or something that creates or suggests a hazard (i.e. source of danger)
- Working view of risk
  - The impact of and the likelihood of threat occurring
  - Affecting the organization’s ability to achieve business strategies and objectives

What is Risk? Contd..

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- Risk may be defined as “an uncertain future event which could influence the achievement of organization’s objectives”
- Types of RISK
  - **Strategic Risks : Risks of doing wrong things**
  - **Operating Risks : Doing right things in wrong way**
  - **Financial Risks : Losing financial resources or incurring unacceptable liabilities**
  - **Information Systems Risks : Inaccurate/Unreliable/ Misleading Information**
  - **Reporting and Compliance Risks : Unreliable reporting and non-compliance with laws and regulations**

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Categories of Risks

What kinds of risk can take your business down?

Risk Focus categorizes all business risks into nine areas:

1. *Asset management risks* – property loss, damage, destruction, or loss of use (to you or another party) of buildings, plants, equipment, stock, etc.
2. *Compliance risk* – losses stemming from inadequate compliance systems
3. *General management risk* – impact of poor management practices

Categories Of Risks Contd..

What kinds of risk can take your business down? (contd.)

4. ***People risk*** – injury to employees or other parties; failure of duties of care to other parties

5. ***Environmental risk*** – damage to the environment, both direct and indirect

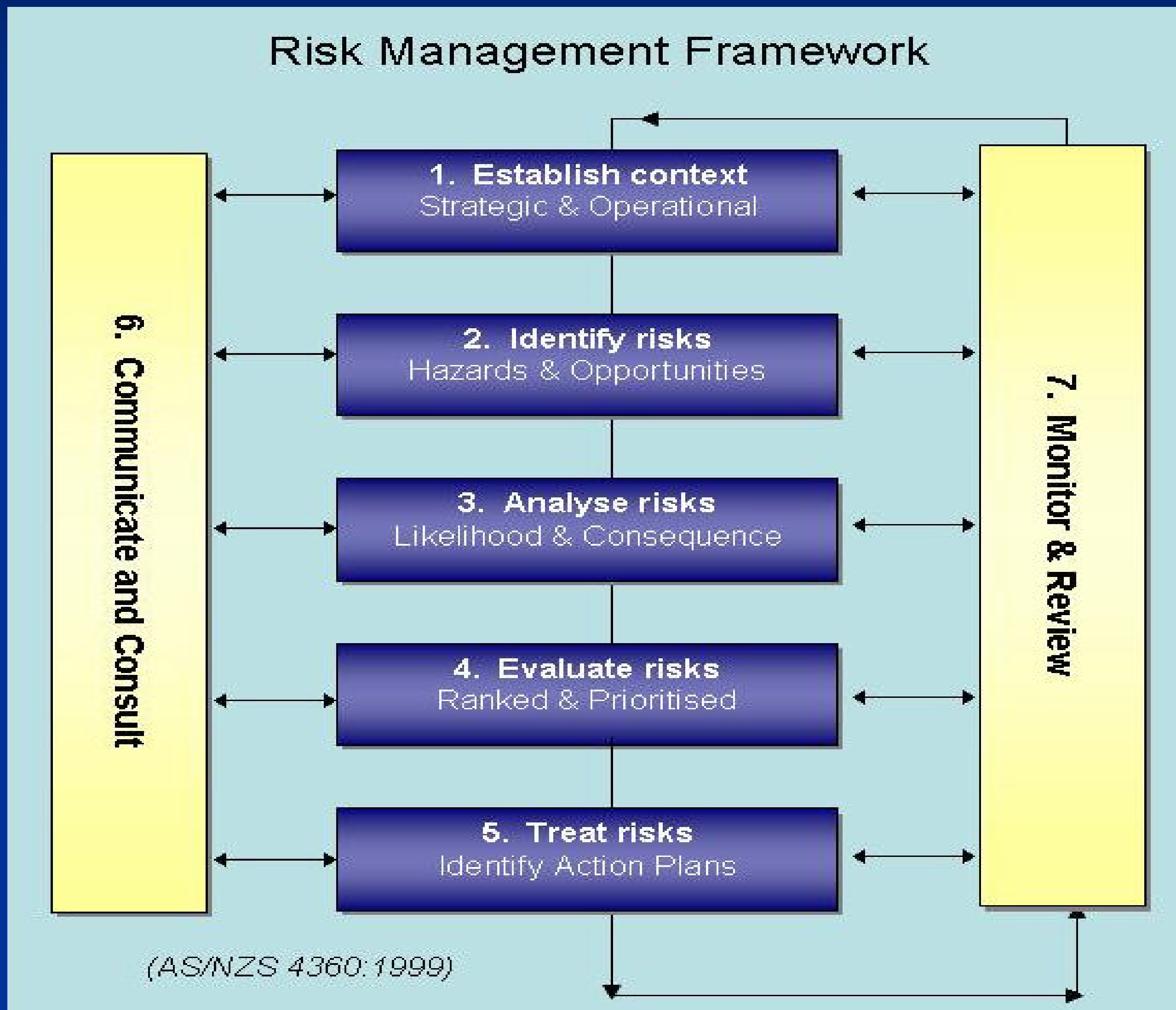
6. ***Change management risk*** – impact on business because of poorly managed change processes

7. ***Financial risk*** – reduced revenues and/or increased expense flows

8. ***Product/service risk*** – liability arising from a product or service, including quality and delivery

9. ***Technology risk*** – negative impact on the business because of failures of technology

New Zealand Standards on Risk Management



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Risks without control and mitigation is disaster…

Acceptable Control Framework is COSO

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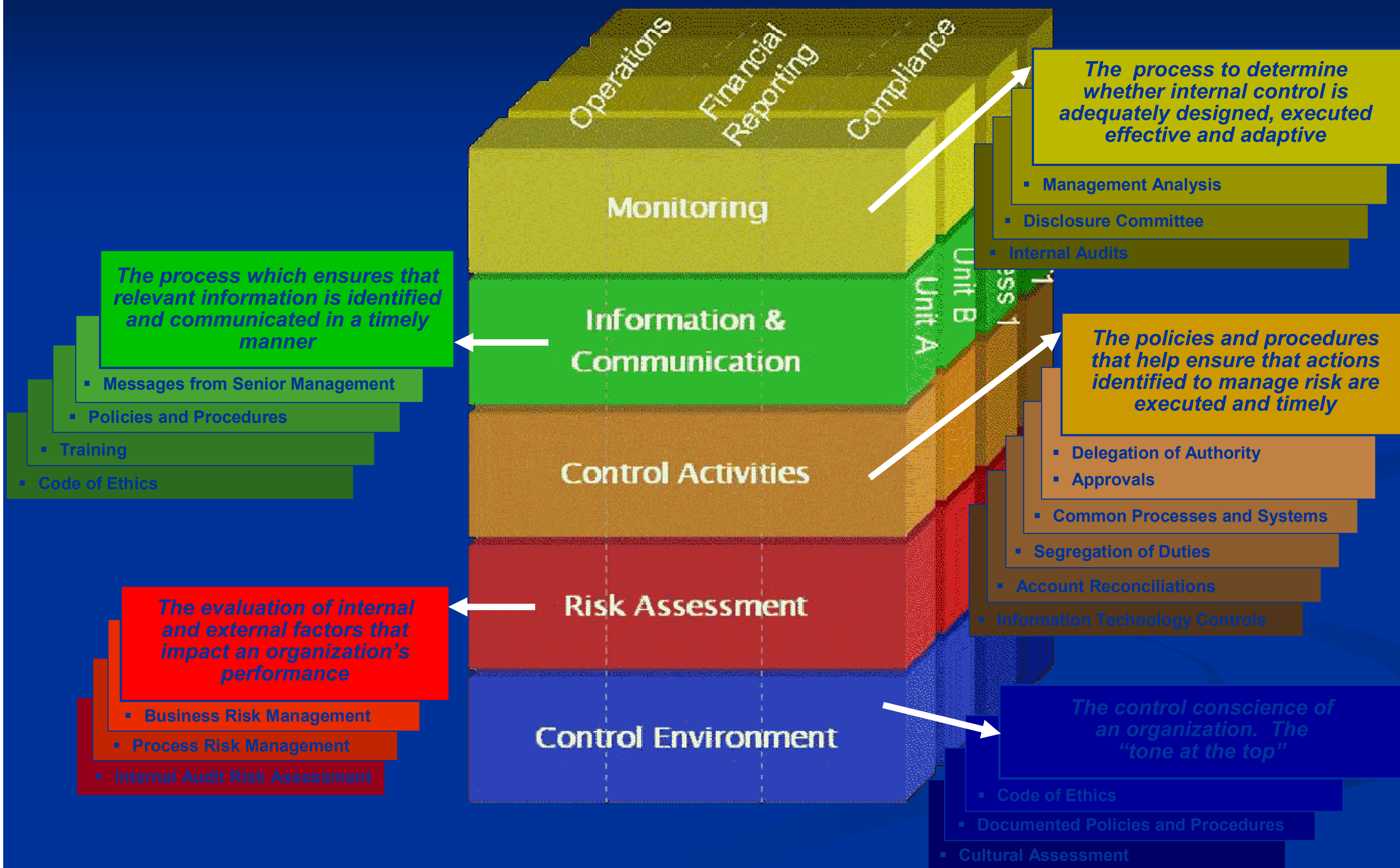
- Internal control is comprised of:
  - Control Environment
  - Risk Assessment System
  - Control Activities
  - Information & Communication system
  - Monitoring system

COSO Framework



Role of Internal Audit in Risk Management

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Definition of Internal Auditing

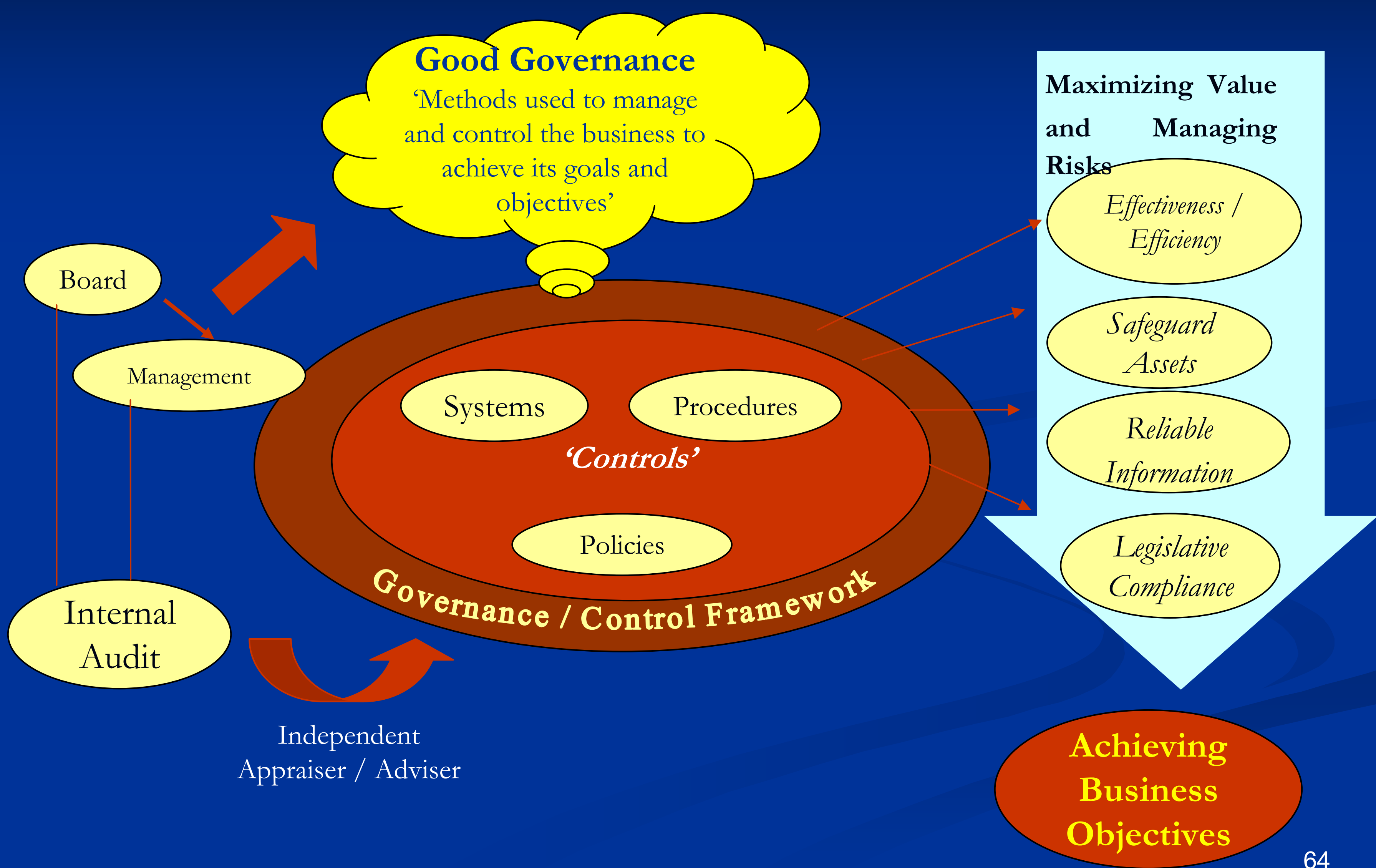
As per Institute of Internal Auditors (IIA), USA:

-"an independent, objective **assurance and consulting activity**

- designed to **add value** and improve an organisation's operations.

-It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of **risk management, control and governance process**."

Objectives of Internal Audit…



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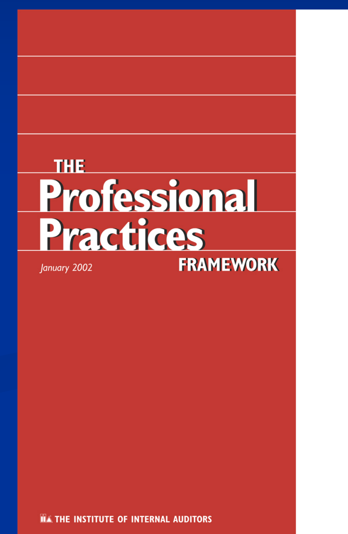
Risk vis-à-vis IIA Standards

- **2010.A1** – The internal audit activity's plan of engagements should be based on a ***risk assessment, undertaken at least annually***.
- **2120.A1** – Based on the results of the risk assessment, the internal audit activity should ***evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations, and information systems***.
- **2210.A1** – When planning the engagement, the internal auditor should ***identify and assess risks relevant to the activity under review***. The engagement objectives should reflect the results of the risk assessment.



Deloitte Infrastructure for Corporate Governance

https://www.corpgov.deloitte.com

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Corporate Governance Tools:

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https://www.corpgov.deloitte.com/site/CanEng/menuitem.61dc5aef1ec3b19c20369755027ea1a0/

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Corporate Governance Tools

Home > Self-Assessments, Tools, and Other Resources > Corporate Governance Tools

From compliance to effectiveness, Deloitte accompanies clients on their journey to meet new corporate governance requirements with a range of assessment tools. Which tool is right for you? We've streamlined our tools into three major categories to help you whether you're learning, implementing or evaluating your corporate governance activities. It all depends on where you are in the process.

Note: In order to view documents listed on this page, you must be logged in to the site. Click here to log in.

Awareness

Use these tools if you are in the early stages and need to gather information and understand the impact of the new requirements on your organization.

Board readiness assessment
This tool helps boards more clearly understand the impact the Canadian Securities Administrators Corporate Governance Guidelines will have on their organizations, and identify where structural, procedural and disclosure changes might be required.

Compliance

If you are just about to embark on implementation activities or knee-deep into them now, check your progress against these assessment tools. They'll keep you on track.

Disclosure controls and internal controls of CEO/CFO Certification
This assessment tool helps CEOs and CFOs determine the effectiveness of their organization's disclosure control policies and procedures as well as their readiness to respond to the requirement for disclosure control certification.

Creating the Charter: A benchmarking tool

Effectiveness

Do you require a more retrospective evaluation of your compliance effectiveness? These benchmarking tools will help you compare your efforts with industry best practices.

Audit committee performance evaluation
This tool assists audit committees who are required by the NYSE's corporate governance listing standards to perform an annual performance evaluation.

Internal Audit Quality Assessments

Enterprise Risk Assessment

Financial Literacy Self-Assessments:

- **Basic**
- **Advanced**

Security | Legal | Privacy

Report of the Committee Appointed by the SEBI on Corporate Governance under the

Internet | 100%

Relevant Web sites:

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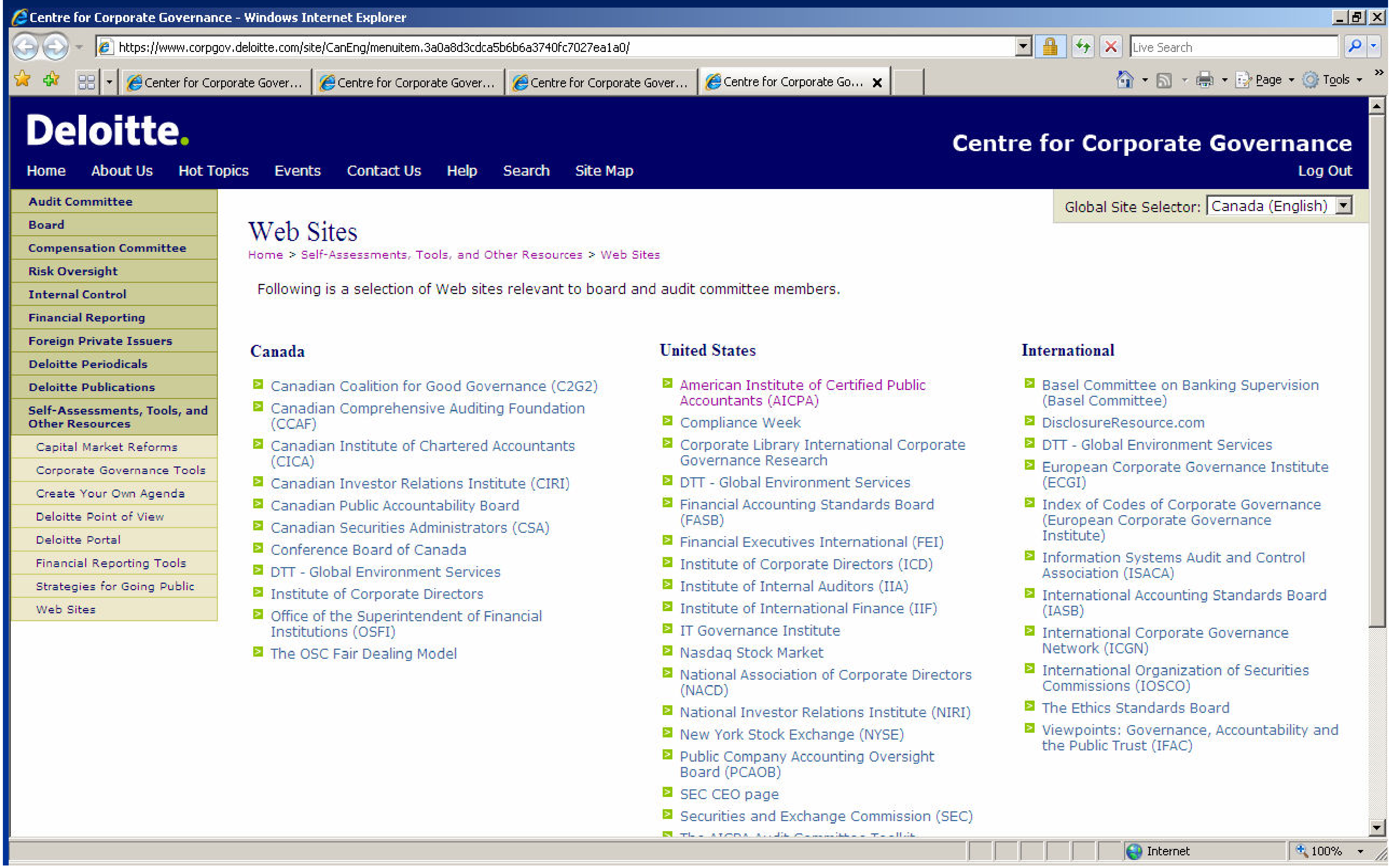

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