

Director's Obligations

Over the last few years, risk management and corporate governance have assumed a much higher profile and are now firmly on the agenda for boards. Individual directors are very clear on their personal obligations. Standards, codes and guidelines tell us what must be achieved – and by when.

Risk management ought to be much more than just an annual assessment. Instead it can become an everyday, ongoing activity that adds value – helping to avoid pitfalls and creating opportunity for the enterprise as a whole.

How can directors assure themselves that this is happening? What are the questions they can be asking their executive team? How can they probe the implementation of policy and the effectiveness of risk management systems?

This issue of *Risk Aware* provides directors with information on the types of operational measures that executive management might implement as they seek to give effect to policy directives. Armed with this information, directors are better placed to probe the effectiveness of policy implementation – at any time, not necessarily at formal board meetings and reviews. As well, this bulletin lists a few warning signs that may help directors and executive managers discover issues before more serious problems emerge.

Operational Measures

Control Assurance Plan

There should be a document that outlines at a glance the assurance activities conducted throughout the organisation – providing a guide to persons accountable for each part, and acting as a control to ensure that activities have indeed been carried out as intended. Assurance activities will be both routine (conducted at defined periods) and non-routine (conducted for specific pre-defined events).

The control assurance plan should be conveniently aligned to the organisation's structure so that accountability for action is clear and unambiguous.

Performance Management System

For significant and important matters, schemes will be in place to ensure two things – first, that people agree to meet commitments, and second, that follow up takes place to ensure commitments are indeed carried out. “Best intentions” are not enough. People will be required to agree to the performance required, and promise to deliver the outcomes – much like a formal contract.

Incident Reporting / Whistleblower Protection

Executive leaders recognise that incident and near-miss information is vital, and that its reporting can easily be inhibited unless certain measures are in place. Mistakes will be treated professionally. There should be a just culture, but not necessarily a “no blame” culture. There should be suitable channels for escalating the issues.

High-Level Risk Tracking

Systems should be in place to allow both risk identification and then tracking of actions associated with risk scenarios of significance. Identification will come from a number of directions, including control assurance activities, incidents, internal and external audit activities.

Testing for Weaknesses in Critical Procedures

High-performing organisations are not satisfied with just developing critical procedures (eg. for emergency response, disaster recovery, data corruption and the like). Instead they probe the implementation weaknesses in such procedures. They recognise that too often, procedures are seen as ends in themselves and insufficient attention is given to whether they will actually work when called upon in a crisis.

Board Tutorials

Executive management may arrange periodic tutorials to keep directors informed on significant business operations including control assurance.

Periodic Reviews of Risk Management Effectiveness

Control assurance will necessarily include reporting of control failures, and instances where limit breaches and the like have not been acted upon as required. Executive management should conduct periodic reviews of risk management and control effectiveness.

Warning Signs

- Independent channels for escalating risk issues (eg. Board Audit Committee private sessions with internal and external audit) may be less than fully independent of executive management.
- Significant limit breaches – and changes to limits – not being escalated as required.
- Incident and near miss reporting being unwittingly stifled by prevailing culture.
- Over-reliance on rules and procedures – with little desire to augment the rules with a culture of risk awareness and questioning.
- Poor accountability for actions – too many ways for people to get off the hook.
- Pressures with business development and growth opportunities causing loss of focus on risk management and control activities.

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