RM RESPONSIBILITIES

The role of the Company Secretary

The company secretary has a pivotal role to play in the provision of appropriate guidance and advice to the board regarding its duties and responsibilities pertaining to RM. BY JOEL WOLPERT, CHARTERED SECRETARIES SOUTHERN AFRICA

Risk management has always been regarded as an inherent or integral feature of sound business management – the received wisdom is that the CEO of any business is the ultimate chief risk officer! As a feature of corporate governance, risk management really came of age in South Africa when it was allocated a separate chapter in the King II report.

In financial institutions risk management is effectively a line function as risk is a cost of doing business. In non-financial business enterprises, risk management is regarded as a "staff function", normally reporting to the CFO.

CRITICAL SUCCESS FACTOR

The major financial upheavals following the Enron crisis in the USA and more recently the 2008/9 downturn/recession following the banking crisis in the USA, UK and Europe, have catapulted risk management into a prominent management "soundbite", and it is now a critical success factor in the survival of any business. In terms of institutional credibility, governance of risk is covered by Chapter 4 of the King III report. The 10 key principles outlined have colloquially been referred to as the "Ten Commandments of risk management".

BUSINESS PHILOSOPHY OF RISK MANAGEMENT

From a corporate governance perspective, risk management involves reconciling the conflicting aspects of Conformance (control threat/hazard downside) with Performance (return opportunity/downside).

- **Investment and return:** All investment opportunities present uncertainty; embracing and mastering risk is critical to managing investment and return.
- **Opportunity and reward:** Risk is the partner of reward; managers must understand the risks and be empowered and enabled to manage them.
- **Competitive advantage and growth:** Business risk management must eschew a philosophy of avoiding risks and hedging bets; dynamic and powerful economic forces present opportunities.

CURRENT GOVERNANCE BEST PRACTICE RECOGNISES THE "GOVERNANCE" ROLE OF THE COMPANY SECRETARY

COMPANY SECRETARY'S ROLE

Current governance best practice recognises the "governance" role of the company secretary. Principle 2.21 of King III states: "The board should be assisted by a competent, suitably qualified and experienced company secretary".

In addition, paragraph 101 of King III emphasises: "The individual directors and the board collectively, should look to the company secretary for guidance on their responsibilities and duties and how such responsibilities and duties should be properly discharged in the best interests of the company."

Paragraph 102 states that "The company secretary should provide a central source of guidance and advice to the board, and within the company, on matters of good governance and of changes in legislation."

It follows from the above that the board and senior management would look to the company secretary to assist them in the exercise of their risk management responsibilities. The company secretary needs to be equipped with the necessary expertise in order to become the risk management "knowledge manager" in the organisation.

KEY PRINCIPLES IN CHAPTER 4 OF KING III

4.1 The board should be responsible for the governance of risk.
4.2 The board should determine the levels of risk tolerance.
4.3 The risk committee or audit committee should assist the board in carrying out its risk responsibilities.
4.4 The board should delegate to management the responsibility to design implement and monitor the risk management plan.
4.5 The board should ensure that risk assessments are performed on a continual basis.
4.6 The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.
4.7 The board should ensure that management considers and implements appropriate risk responses.
4.8 The board should ensure continual risk monitoring by management.
4.9 The board should receive assurance regarding the effectiveness of the risk management process.
4.10 The board should ensure that there are processes in place enabling complete, timely, accurate and accessible risk disclosure to stakeholders.

RM AND THE FINANCIAL CRISIS

The 2008/9 financial crisis highlighted the importance of risk management, particularly in financial institutions/banks. Poor risk management has been identified in every report regarding the financial crisis.

The board must accept responsibility for the risk management function. Risk management must be enterprise based and not only activity based. Boards may have approved a strategy but did not establish suitable metrics to monitor its implementation (KPIs). Disclosure regarding foreseeable risk was inadequate and there was a failure to implement stress testing and scenario analysis.

The risk management expertise of the board must be evaluated and monitored. Boards need to be educated on risk issues and to be given the means to understand risk appetite and the firm's performance against it. The risk or audit committee must be staffed with members with technical financial sophistication in risk disciplines or with solid business experience giving clear perspectives on risk issues.

RM FUNCTION: PRACTICAL ASPECTS

Risks can be grouped in a number of ways:

- Risks that are applicable to all types of business
- Risks that arise from the strategies adopted by the board /management of a specific company
- Risk areas that are industry specific.

RISKS APPLICABLE TO ALL BUSINESSES

- Changing political and competitive environment
- Compliance with laws and regulations
- Reliability and timeliness of financial and other management information
- Safeguarding assets and information systems;
- An appropriate corporate culture, business ethos and people integrity
- Effective investment in technology
- Fraud
- Sustainability and governance imperatives.

RISKS RELATED TO COMPANY STRATEGY

- Expansion by acquisition
- Investing in emerging markets
- Outsourcing
- New technology
- New products and services, and changes in business model
- Raising capital
- Organisational change
- Supply chain changes
- Major capital investment products.

INDUSTRY SPECIFIC RISK AREAS

- **Airlines:** terrorism, fuel price, passenger safety
- **Automobiles:** product reliability and safety
- **Banking:** credit /derivative products
- **Mining:** environmental issues
- **Gaming:** licence conditions
- **Pharmaceutical/healthcare:** product safety, medical insurance industry; and
- **Retailing:** consumer activism.

ELEMENTS OF A RISK MANAGEMENT FRAMEWORK

1. Policy: approach, attitude, appetite.
2. Resourcing: identification of resources required to implement, monitor and co-ordinate the risk management process as well as reporting.
3. Implementation: formalisation of processes involved in identification and definition of risk, likelihood and impact assessment and response processes.
4. Review and reporting: form and frequency of reporting.

BOARD'S MAJOR RISK MANAGEMENT FUNCTIONS

- Approve the firm's risk appetite as a component of its strategy. This requires the alignment of strategy, risks and financial objectives. Further, the interaction between risk and revenue drivers must be tested.
- Understand and challenge the breadth of risks faced by the company. This requires knowledge, communication and training.
- Ensure robust oversight of risk at board level. This includes managing the skill, competence and experience of NEDs as well as allocating sufficient time to co-ordinated risk oversight.
- Promote a risk-focused culture and open communication across the firm by setting the tone at the top and interacting with external risk professionals.
- Assign clear lines of accountability and enable an effective risk management infrastructure. This requires a formal risk governance policy approval, clear approvals frameworks as well as the integration of risk insights and intelligence into other functions' planning processes. The reference in King III to risk-based internal audit is an example of this.

RISK MANAGEMENT PROCESS

1. Identifying and assessing key risks.
2. Designing and implementing processes to manage those risks and maintain them at a level acceptable to the board.

TECHNIQUES TO MANAGE RISKS

1. Risk transfer (hedging/insurance)
2. Internal control (including internal audit)
3. Outright avoidance (non-engagement in relevant activity)
4. Accepted knowingly and objectively subject to business policy/criteria on risk tolerance.

UNDERSTANDING THE ROLES

The board of a company is responsible for the management of risk. The board must have a clear understanding of the risks facing the company; it must ensure that the organisation has effective risk management and control processes; and it must be provided with assurance that the processes and key risks are being effectively managed.

The company secretary has a pivotal role to play in the provision of appropriate guidance/advice to the board regarding its duties and responsibilities pertaining to risk management.

About the author

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