

Module 5: Corporate Governance (CG)

**Attracting
capital**

**Building a
resilient enterprise**

MODULE STRUCTURE

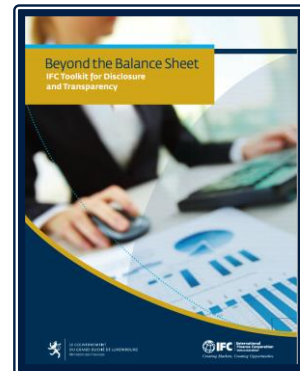
Unit 1: Leadership, Culture Commitment to ESG

Unit 2: Board Structure and Functioning

Unit 3: Control Environment

Unit 4: Treatment of Minority Shareholders

Unit 5: Governance of Stakeholder Engagement



Integrated Environmental, Social
and Governance Standards
Program



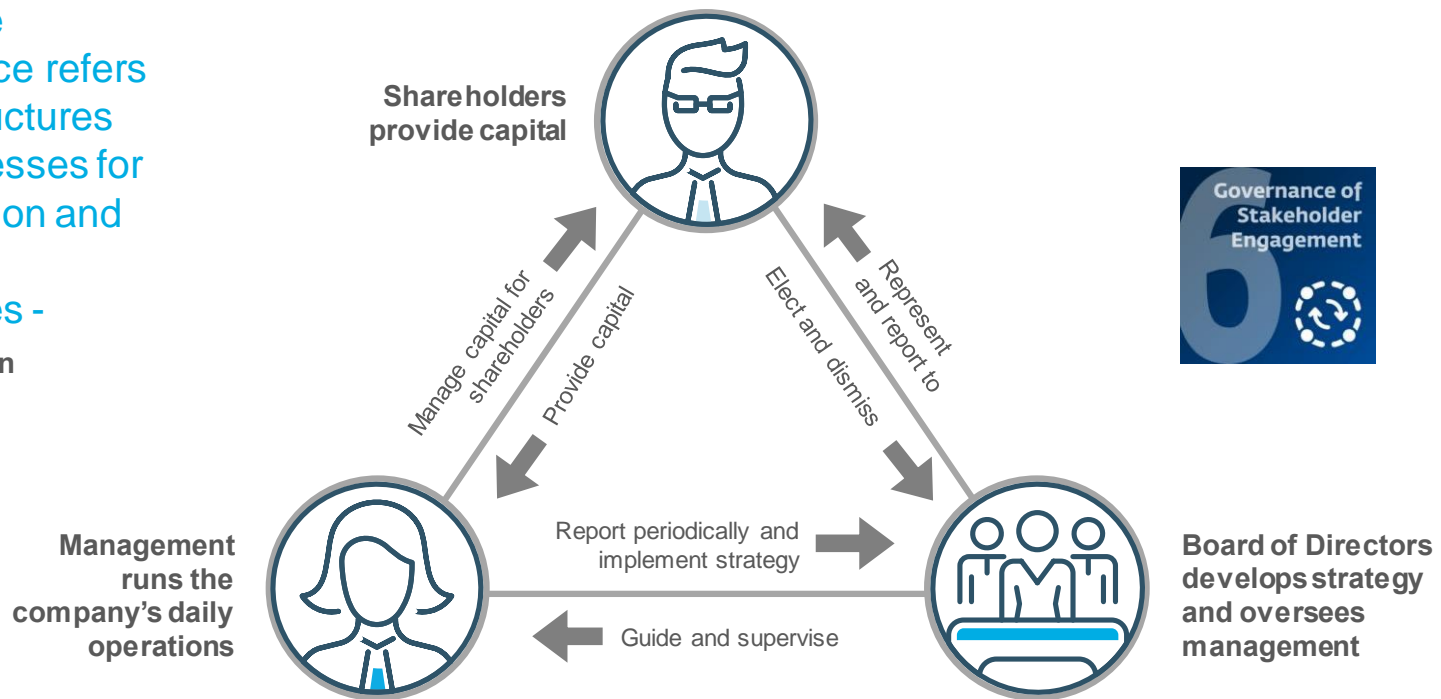
IN PARTNERSHIP WITH
Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Confederation
Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

What is Corporate Governance?

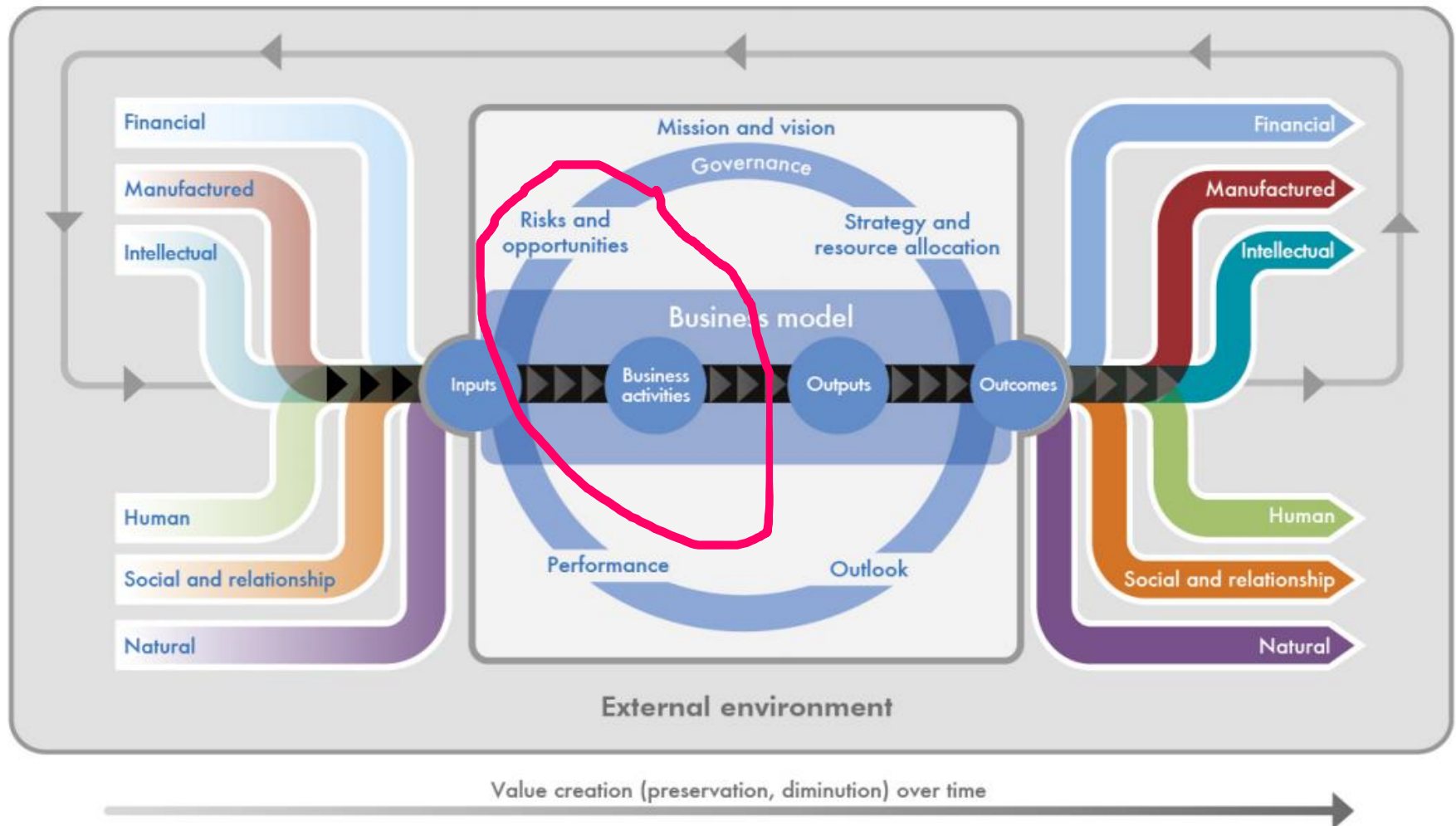
What is Corporate Governance?

Corporate governance refers to the structures and processes for the direction and control of companies -

IFC Definition



Example: Integrated Reporting



Module 5: Corporate Governance



1. Describe the company's **leadership and culture**, including its commitment to sound corporate governance, crisis response, and the management of environmental and social issues.



2. Understand key disclosure elements of reporting on **board structure and functioning**.



3. Appreciate how the **control environment** should be disclosed and the linkages between risk management and control systems.



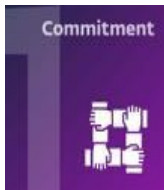
4. Understand how to disclose **shareholder rights**, including minority shareholder protections.



5. Be able to report on the **governance of stakeholder engagement**.



IFC Corporate Governance Methodology Parameters



Commitment to ESG

- Formalities: CG code & basic CG documents
- Code of Ethics
- Designated CG Officer/Corp. or Company Secretary
- Recognition
- Understanding of Business case for CG



Structure and Function of the Board of Directors

- Roles, Election & Succession
- Composition
- Committees
- Meeting Frequency, Procedures & Practices
- Evaluation & Performance
- Oversight of E&S



Control Environment

- Internal Audit Function
- Internal Control System
- Risk Governance
- Compliance
- Elements of External Audit
- Integration of E&S
- Subsidiary Governance



Disclosure and Transparency

- Financial reporting and External Audit
- Risk Disclosure
- Corporate Disclosure
- Sustainability /ESG Reporting



Treatment of Minority Shareholders

- Voting Rights
- Protective Rights
- Investor Relations



Governance of Stakeholder Engagement

- Stakeholder Mapping
- Stakeholder Engagement Policy
- Worker Grievance Mechanism
- Affected Communities Grievance Mechanism

Questions

1. Who is responsible for the control environment?
2. What is included in the control environment?

Control Environment



Internal Audit



Internal Control



Risk
Management
Function



Compliance



Elements
of External Audit



Integration
of E&S



Subsidiary
Governance

Control Environment

How is the company's control environment structured, and internal control and risk management interconnected?

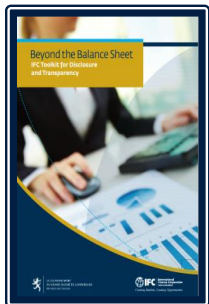
This unit addresses:

Role of Management

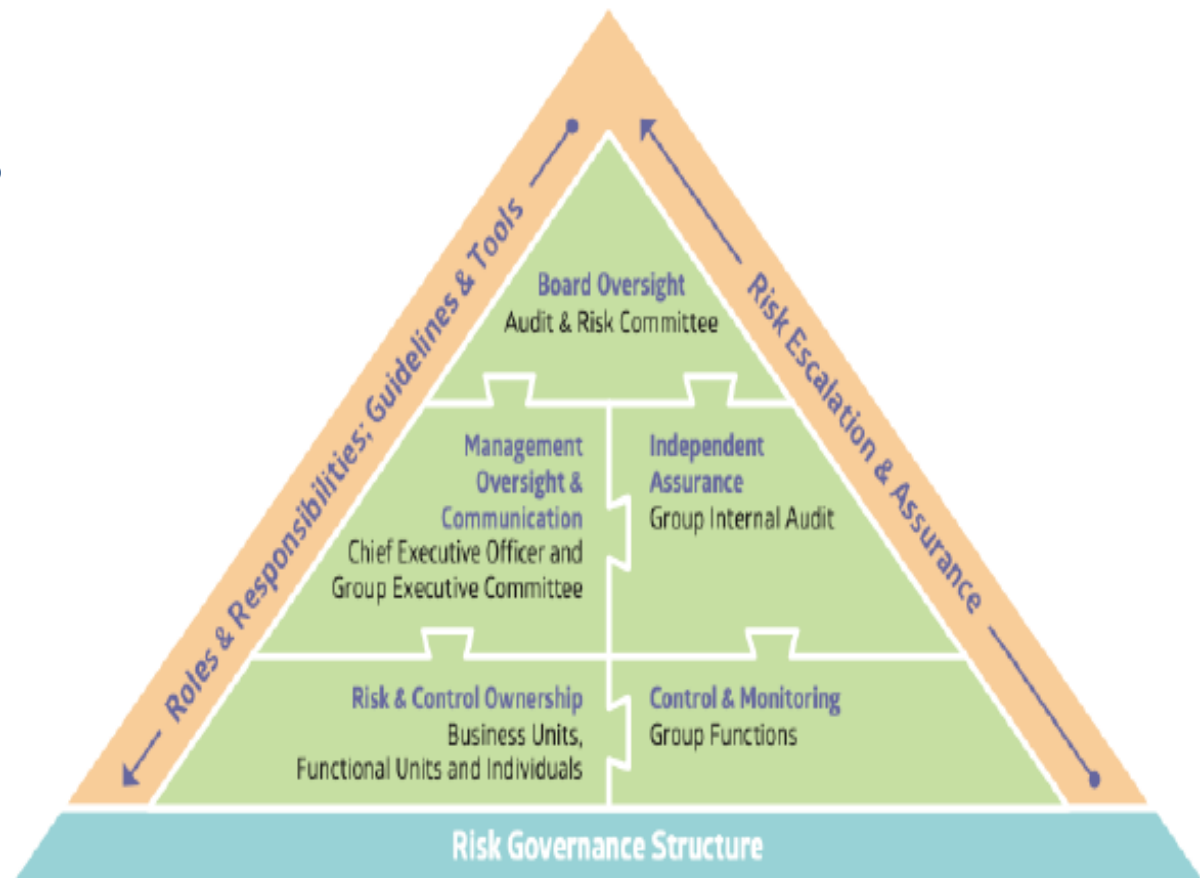
Role of Internal Audit

Role of Audit Committee

Role of Risk Governance



2.3 Control Environment



Risk Governance Structure
CLP Holdings 2019 Annual Report

Failure to Heed IA Reports and Initiate Corrective Action

- September 2009: internal audit of structure identified potential weaknesses in testing and maintenance.
- Inadequate testing, quality assurance and risk assessment related to cement design.
- Procedures related to periodic testing was flawed.
- April 20, 2010 equipment/material failure and incorrect procedures led to explosion.
- Impact . . .

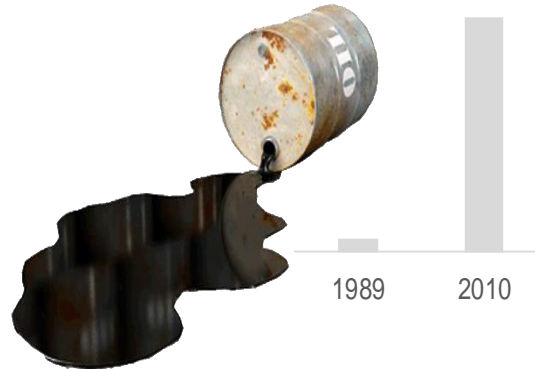




Deepwater Horizon Spill: By The Numbers

2010 Deepwater Horizon Spill
210 million gallons

1989 Exxon Valdez Spill
11 million gallons



Miles of Coastline Affected
1,300 miles



Almost double the entire shoreline of California!

Wildlife Death Toll

6,100
birds



600+
sea turtles



100+
dolphins & others



Impact








- 11 Lives Lost
- > 8,000 Species of Wildlife affected
- \$2.5 B fishing industry
- \$2 B tourism industry

BP Fines and Penalties

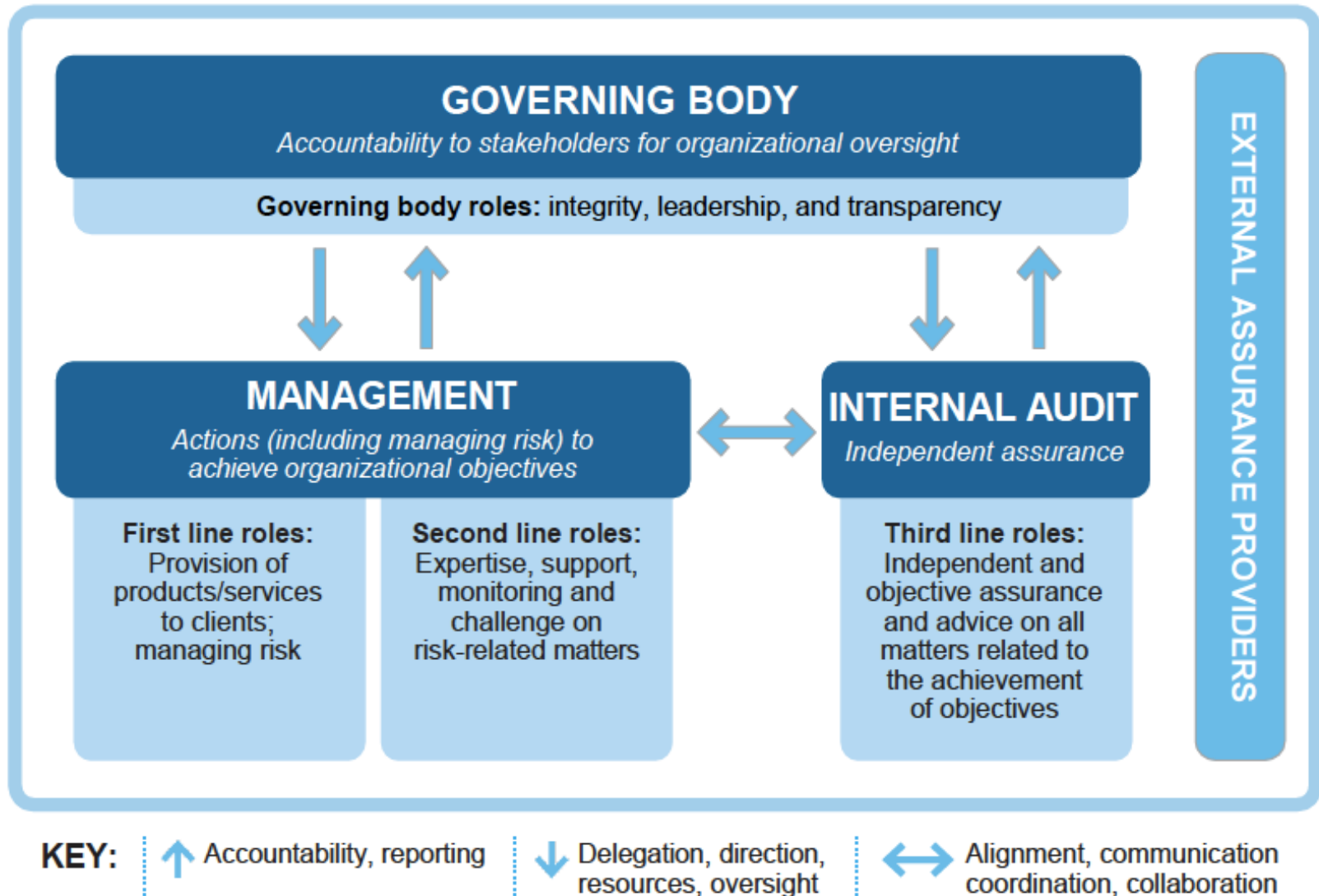
- Guilty of manslaughter
- Felonious obstruction of justice
- BP paid more than **\$65 billion** to cover clean-up costs, charges and penalties
- Reputational damage

Source: U.S. Government

Example: Eskom Annual Report 2019

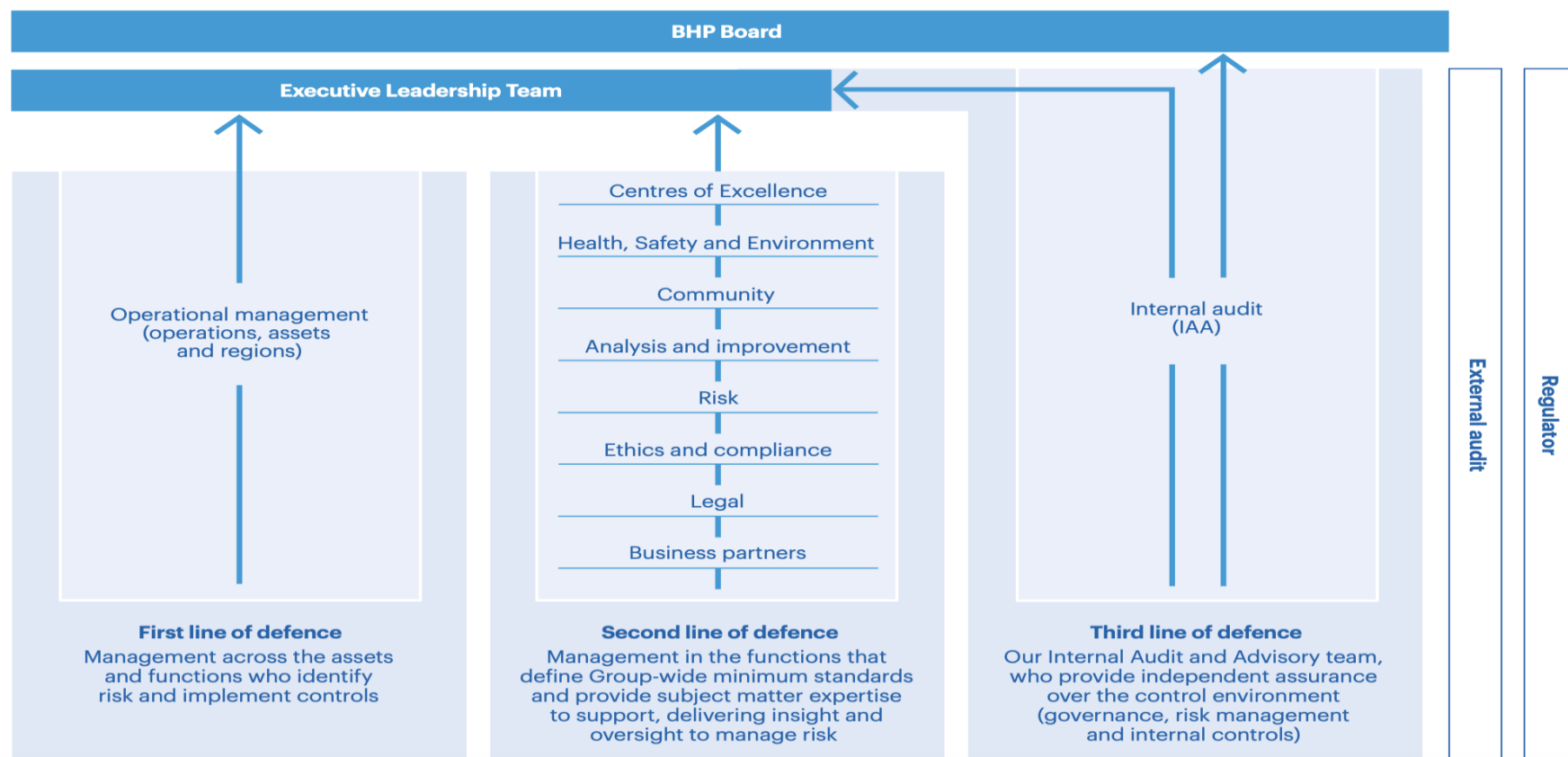
BOARD AND ARC		
Level 4		Considers the myriad of control deficiencies, risk and realities affecting the organisation, and then provides guidance on how to address these in order to ensure performance, business health and sustainability
EXTERNAL AUDIT		
Level 3		Independent reasonable assurance that the annual financial statements and integrated report are free from material misstatement and are prepared, in all material respects, in accordance with IFRS and King IV™. Provides business insights on internal financial controls and financial reporting
INTERNAL AUDIT		
Level 3		Assurance over the adequacy and effectiveness of the network of risk management, control and governance processes, including key financial controls as represented by management
SPECIALISED CONTROL FUNCTIONS		
Level 2		Development and maintenance of internal control frameworks and policies, reviewing their suitability and monitoring their application
RISK, RESILIENCE AND COMPLIANCE MANAGEMENT		
Level 2		Assurance over the implementation of risk, resilience and compliance management practices and processes
OPERATIONS MANAGEMENT AND SPECIALISED REVIEW FUNCTIONS		
Level 1		Assurance over the adequacy of operational risk management, effective adherence to control processes and delivery against operational and sustainability objectives
OPERATIONS EXECUTION AND MANAGER/SUPERVISORY OVERSIGHT		
Level 0		Management and supervisors ensure the implementation of set controls and risk management processes to ensure a safe, high-performing and sustainable operating environment

The IIA's Three Lines Model



Reporting on Risk Management and Control

BHP uses the 'three lines of defence' model of risk governance and management to define the relationships and clarify the role of different teams across the organisation in managing risk. This approach is illustrated in the diagram below and integrates risk management, control definition, control improvement, governance and assurance frameworks into one governance model.



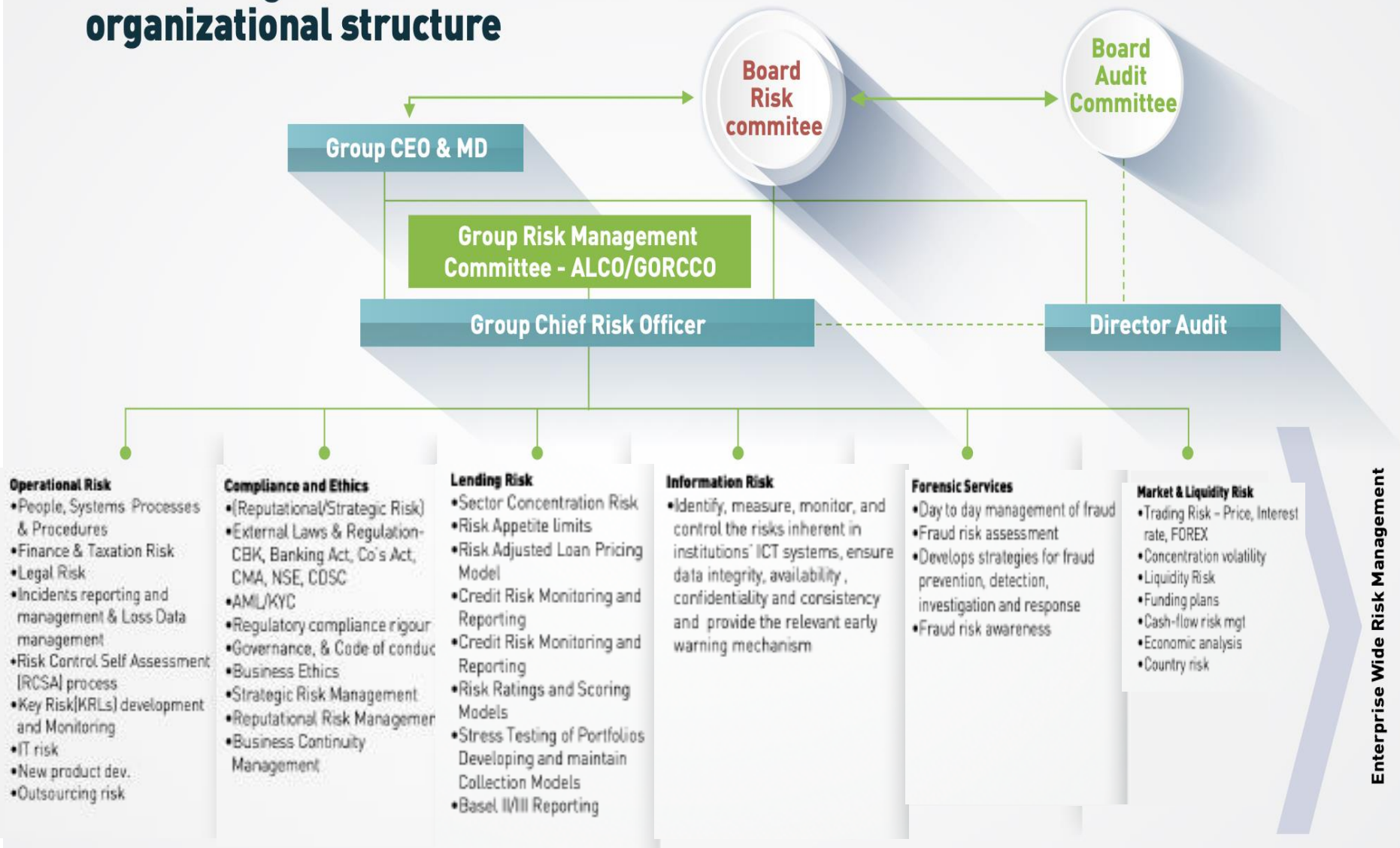
Adapted from Institute of Internal Audit Position Paper: The three lines of defence in effective risk management and control.

What is Internal Audit?



Source: BHP 2020 Annual Report

Risk management organizational structure



Group Internal Audit

Subsidiary Head of Risk - Tanzania, Uganda, South Sudan, Burundi, Rwanda, KCB Foundation & KCB Capital

Role of Audit Committee

- Fundamental to CG
- Under clear charter with mandated role
- Composed of independent and competent individuals
- Oversight of financial reporting and accounting and financial management of the entity
- Select and recommend external auditor
- Oversight of risk and control
- Oversight of internal audit and internal auditor and external audit

Reporting on the Audit Committee's Role

Source: Aggreko plc, 2019
Annual Report, p 58

The Audit Committee ensures the integrity of financial and sustainability reporting by overseeing systems for internal control and risk management.

Risk management framework – roles and responsibilities

The Board has implemented a risk management framework that is summarised in the diagram below.

Ultimate responsibility

Board of Directors

→ Ultimate responsibility for risk and internal control

- Approves the risk management framework
- Approves risk appetite and monitors compliance
- Approves the Group Register of Principal Risks
- Approves the viability statement

Oversight

Audit Committee makes recommendations to the Board

- Responsible for reviewing the effectiveness of the Group's systems for internal control and risk management
- Reviews and challenges the risk management framework
- Reviews the effectiveness of the control environment
- Reviews the effectiveness of and approves the approach for the viability statement

What Should the Audit Committee Disclose?



Glossary

- Role and composition of the Audit Committee, including identifying independent members and chair
- Meeting attendance
- Committee activities and responsibilities, including:
 - Assurance on the integrity of financial and sustainability reporting
 - Oversight of the internal audit process, the external audit and the external auditor
 - Oversight of related-party transactions and *whistleblowing policy*

INDEPENDENCE means free from any interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, would be deemed to unduly influence or cause bias in decision-making.





Audit Committee Independence

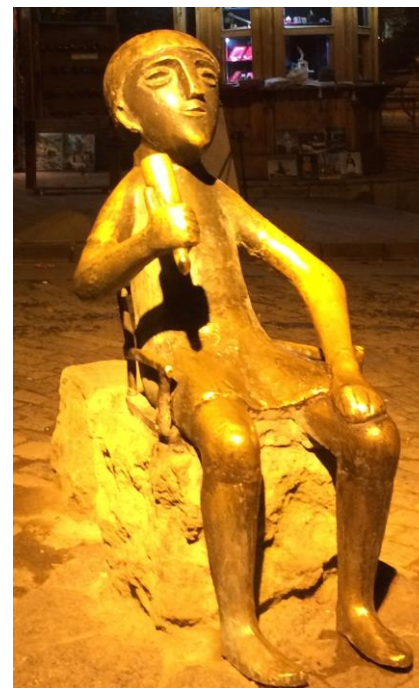


Glossary

Multiple Choice Activity

Which of these candidate would qualify to be an **independent** member of the Audit Committee?

- a) Executive manager of a major supplier of the company
- b) The company's designated external auditor
- c) A member of the internal audit team before early retirement five years ago
- d) An executive committee member entitled to remuneration contingent on the performance of the company
- e) A well-respected member of Board of Directors for 11 years



ANSWER

C

Audit Committee – An Organized and Busy Schedule

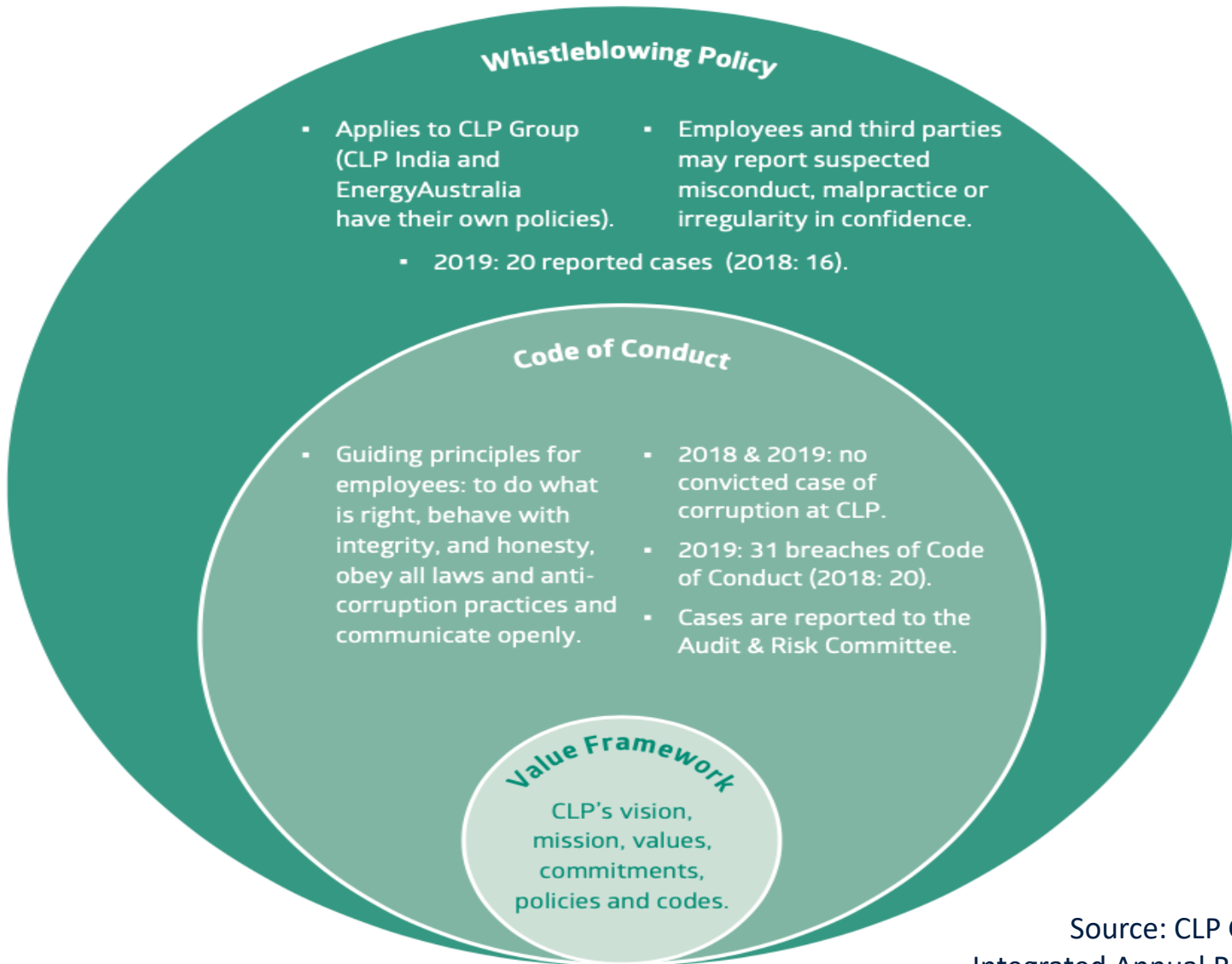
The following table shows the key topics the Committee considered at its meetings held during the Period:

	2019						2020	
	Jan	Feb	Apr	Jun	Jul	Oct	Jan	Feb
Risk Management, Internal Control and Compliance								
Quarterly risk management report		○	○		○	○		○
In depth briefing on high risks and processes								
▪ health and safety	○						○	
▪ cyber security				○		○		
▪ CLP India land acquisition process					○			
▪ EnergyAustralia payroll function and system						○		
Internal control review update		○		○		○		○
Management's general representation letter		○			○			○
Outstanding internal audit issues		○	○	○	○	○		○
Legal and regulatory compliance		○			○			○
Interim and Annual Financial Reports								
Annual and interim financial statements and reports		○			○			○
Assessment of critical accounting and judgemental issues	○	○		○	○		○	○
Sustainability Report data assurance review		○				○		○
Internal and External Auditing								
Internal audit results and audit issues		○	○	○	○	○		○
Internal audit administered policies and practices				○				
Ethical and controls commitment surveys			○					
PwC's audit report, audit plan and audit progress	○	○	○	○	○	○	○	○
Audit fees and non-audit engagements by auditors		○			○			○
Corporate Governance								
Corporate governance trends, developments and related policies						○		
Code of Conduct and whistleblowing cases		○	○	○	○	○		○
Continuing connected transactions		○						○

Samples from
CLP Group 2019

Audit Committee - Oversight of Whistleblowing

Management and staff adhere to various Group policies that reflect the values and corporate culture of CLP.



Source: CLP Group, 2019
Integrated Annual Report, p 132

Audit Committee - Check on Independence of External Auditor

How the Group ensures the **independence** of the external auditor:

- The lead audit partner of PwC is subject to rotation every seven years (as per The Independent Federation of Accountants rules on independence of external auditors).
- As part of the rotation, the current lead audit partner was first appointed for the 2014 financial year-end audit and he did not have any involvement in CLP Group for 10 years prior to the appointment in 2014.
- PwC is required to give an annual confirmation on their independence.
- The Audit & Risk Committee will assess PwC's independence in considering their re-appointment.

Audit Committee: Oversight of Sustainability Reporting

Key sustainability topics of the Group's nonfinancial statement (German Commercial Code)

Key topics of the Group's nonfinancial statement (German Commercial Code)	Relevant aspects in accordance with the Group's nonfinancial statement (German Commercial Code)	Section reference in the Group Management Report
Innovative solutions that contribute to the UN Sustainable Development Goals	Environmental matters, social matters	"Innovation," "Integrated Management System for Occupational Health, Safety, Environmental Protection and Quality"
Environmentally efficient operations	Environmental matters	"Environmental Protection," "Integrated Management System for Occupational Health, Safety, Environmental Protection and Quality"
Occupational health and safety	Employee matters	"Safety," "Integrated Management System for Occupational Health, Safety, Environmental Protection and Quality"
Employer attractiveness	Employee matters	"Employees"
Product stewardship	Social matters	"Product Stewardship"
Circular economy	Environmental matters	"Circular Economy"
Inclusive business	Social matters	"Social Responsibility"
Sustainability in the supply chain	Environmental matters, social matters, fighting corruption and bribery, respect for human rights	"Sustainability in Supplier Management," "Compliance"
Business ethics, human rights due diligence and transparency	Fighting corruption and bribery, respect for human rights	"Employees," "Social Responsibility," "Sustainability in Supplier Management," "Opportunities and Risks Report," "Compliance"

DISCUSSION OR QUESTIONS