

GOVERNANCE, RISK MANAGEMENT AND CONTROL ASSURANCE

Standards Australia Handbook HB 254-2005. (Principal Author Ted Dahms)

HB 254-2005 is the first Handbook to link risk management and corporate governance in a proactive manner. For this reason it is an essential supporting Handbook for Standards Australia's Corporate Governance Standards and a companion for the revised Risk Management Standard AS/NZS 4360-2004. In addition, its simplicity and common sense approach make it an indispensable reference for organisations seeking to achieve better practice corporate governance.

The concepts developed by Ted Dahms and incorporated into HB254-2005 are the foundation of Plum Concepts & Solutions' services. The key concept is the linkage of risk management with objectives,

CONTROL ASSURANCE - PLUM CONCEPTS & SOLUTIONS METHODOLOGY

HB 254-2005 outlines a Control Assurance Plan, and defines the Plan's Control Elements, Control Criteria and Control Activities. The good news is that the Control Assurance Plan promotes sound governance by refining and aligning current management practices. This means that its implementation can be accomplished within existing resources and without additional infrastructure.

The Plan relies on the concepts of risk and control which in summary are —

- Risk is part of each objective both strategic and operational.
- Risk treatments for each objective are also controls and strategies.
- Controls provide governance.
- Everyone who has responsibility for achieving an objective also has the responsibility for managing the risks associated with that objective and the controls to manage those risks. This means that responsibilities and accountabilities for the management of risks are clearly and appropriately established.
- Governance practices are in essence standard management practices, which are in turn Control Activities.

Under the Plan assurance is achieved through a balance of two aspects of control –

- inherent control, based upon soft controls that occur continuously and consistently throughout the organisation, is embedded in normal business practice, and is to a large extent self sustaining; and
- formal control processes of assigning, monitoring, reviewing and reporting (command-control style based upon a hierarchy, e.g. statutory and regulatory compliance systems).

In addition to linking risk management with objectives, the Plan acknowledges that the establishment of a governance framework without an underlying system of inherent controls encourages compliance rather than commitment. Accordingly, it sets out a methodology for establishing an effective, underlying system of inherent controls through the development of capable and committed Directors, chief executive officers, managers and employees who have a clear understanding of organisational, divisional and personal purpose.

Inherent controls are proactive and centred around standard management practices (Control Activities). The Control Activities address the Control Criteria of purpose, capability, commitment, monitoring and learning, and information throughout an organisation and are reliant on sound HR practices, ethics and communication.

The aim of the Control Assurance Plan is to increase the focus on inherent control and reduce the reliance on formal control. In so doing, the Plan provides a framework for moving the organisation towards self-management at the operational level. This leaves the Board free to concentrate on its key tasks of policy formulation, strategic thinking, supervising management and accountability.

The foundation of the plan is five Control Elements, defined by their control responsibilities, linked by an information system. The Control Criteria operate in each Control Element and are addressed through the application of Control Activities according to the control responsibilities of each Element. The Control Elements in a public company, and a summary of their control responsibilities are as follows —

- **Planning** (the core control element setting the purpose for the organisation and its divisions in the form of linked corporate plans and operational plans underpinned by sound risk management practices – provides organisational, divisional and personal purpose).
- **Board** (shareholder representatives accountable for organisational performance to key stakeholders – sets organisational direction, develops broad policy and supervises management).
- **Organisation** (CEO, senior managers and employees – responsible and accountable for the delivery of organisational outputs in line with the Board's corporate objectives).
- **Independent Assurance** (includes elements such as internal and external audit, and Board committees e.g. audit, risk and compliance committees - provides risk management and control assurance to the Board independent of management and supports the Board's accountability).
- **Management Assurance** (management's performance/compliance reporting, including the associated risk and control assurance to the Board – supports management's accountability).

The Control Elements are linked by an information system that promotes —

- effective decision-making;
- clarity of roles, responsibilities, authorities and accountabilities; and
- the performance/compliance processes of monitoring, reviewing and reporting.

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