Governance, Risk & Compliance

TOPIC 1 : INTRODUCTION TO GOVERNANCE

Objectives

- Governance

- Corporate and IT Governance

Scenario 1

- ACME is a company you formed and have invested almost all your money into it. You have hired about 100 staff.

- Staff in various departments do their own work without regard to what you want the company to do, and the other departments.

- For example, the IT department just buys all the latest gadgets to 'play with' and does not provide accountability to what it buys. It does not consult you on what they buy, on whether it is useful to the company.

Scenario 2

- You buy shares on the stock exchange of a company. You expect the company to make money, which will cause a rise in profits, giving you dividends and also enables the stock price to rise.

- You hope to sell the stock later at a higher price, making profits.

- The company suddenly announces that it is bankrupt suddenly and the CEO & CFO were found to be dishonest and have been siphoning off money into their own accounts.

- Your shares are now worthless as the company has become insolvent.

Scenario Questions

- What is an organization?

- What is the purpose of an organization?

- Do you think control is needed to guide what the employees do?

- Would a structure of proposals and approvals be able to solve the problem?

Governance

Corporate Governance

IT Governance

Information Security Governance
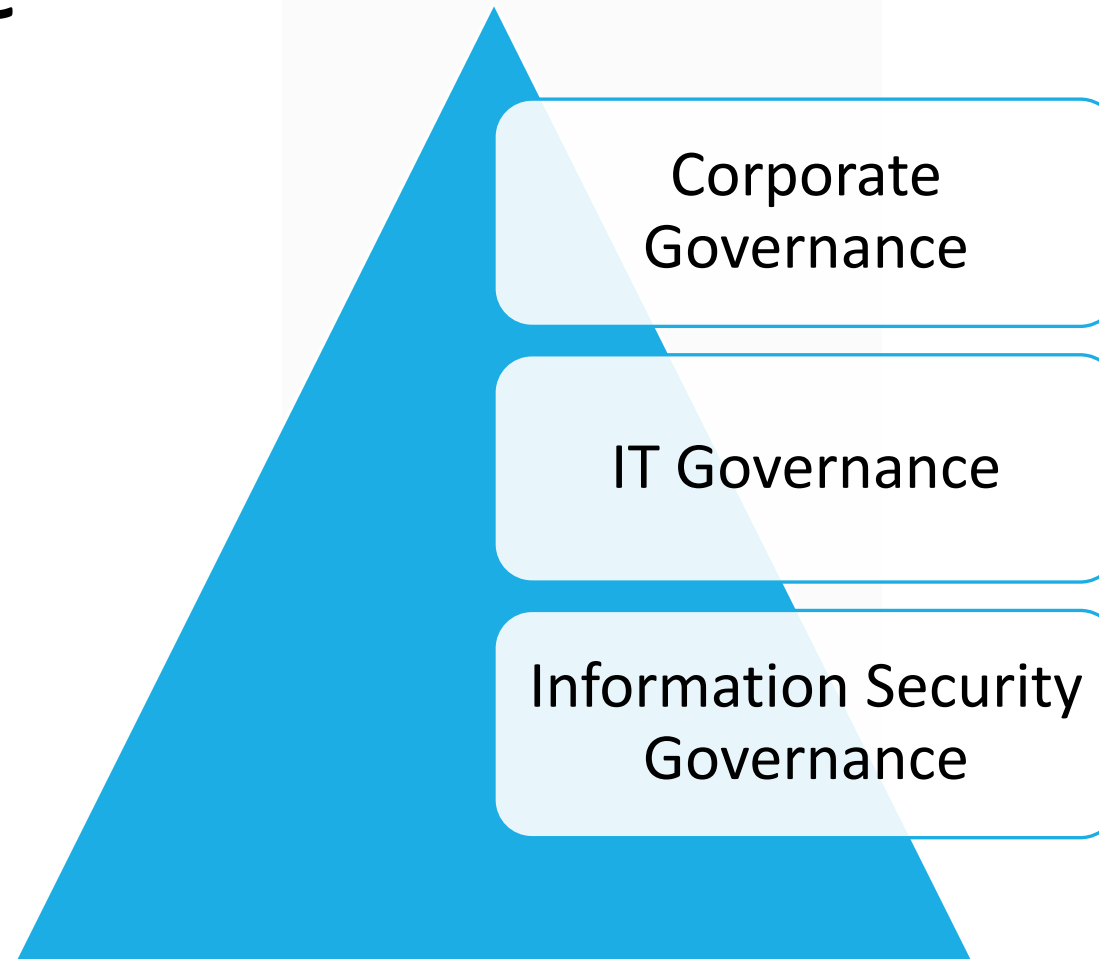
Governance

- Each model is independent of the other

- Different emphasis but similar objectives

- Example:
  - Corporate governance focuses on managing the whole corporation
  - IT governance focuses on managing the role of IT in a corporation
  - Information security governance focuses on managing information security within IT governance

Definitions

- Corporate Governance
  - Ensure that the company is run and managed to achieve the company's mission and vision, in accordance with the stakeholders' needs.

- IT Governance
  - Ensure that IT is managed to achieve the company's business objectives, in the most efficient manner, maximizing the benefits to achieve stakeholders' needs.

- Information Security Governance
  - Ensure that IS is achieved through effective controls, implemented in the most efficient manner to provide effective security to the company's information to achieve stakeholders' needs.

Objectives

- Governance

- Corporate and IT Governance

Code of Corporate Governance

- Published by the Monetary Authority of Singapore, it outlines the rules and guidelines for publicly-listed companies.

- It describes the composition and various functions of the board, in the running of the company.

- It provides for accountability, transparency and confidence in the company, whose shares are traded publicly in the stock exchange.

- Google 'Code of Corporate Governance Singapore'.

Corporate Governance

Singapore firms fare well in regional study of corporate governance

Published on Apr 04, 2014 9:29 PM

By Yasmine Yahya

Singaporean companies have fared well in a regional study of corporate governance, with four companies making the top 10.

The four companies were not named when the interim findings came out yesterday but will be disclosed when the full study is out at the end of the year.

The study, called the Asean Corporate Governance Scorecard looks at how listed firms in Singapore, Indonesia, Malaysia, Philippines, Thailand and Vietnam deal with issues such as shareholder rights, disclosure and transparency. Its initial findings also show that Singapore companies occupy 19 of the top 50 positions.

A Singapore country report placed Singapore Press Holdings in the top five, alongside DBS Group, OCBC, Singapore Exchange and SingTel.

Is this legal / proper?

Police impound passports of top executives amid penny stock crash probe

Print
2

Tweet
g+1 0

18
Share

Jonathan Kwok
The Straits Times
Sunday, Apr 06, 2014

SINGAPORE – Two of the men have even been told that there are reasonable grounds to believe that they have committed false trading and market rigging offences under Singapore's securities laws.

- Top executives in a public company are suspected to have used their power and knowledge in the company to manipulate the stock prices (of their company) to make profits.
- Compared to the regular investors who rely on public knowledge to trade in the stocks, these executives are at an advantage.
- Known as 'insider trading', manipulating the public stock prices of one's own company is a violation of good governance practices for publicly-traded companies.
- It violates the needs and interests of the shareholders and investors (who are stakeholders) of the company.

Role of Corporate Governance

- Corporate governance is heavily relied on in Stock Exchanges where 'public companies' (whose stock are traded in the exchange) are run by senior management on behalf of shareholders.

- There is a need to ensure that these senior management do not act in a manner that benefit themselves at the expense of the **public good**. (Enron scandal, 2001)

- Board of directors are appointed to ensure accountability and also to define the objectives of the organization.

- For private or non-public companies, corporate governance help to ensure that the company is run according to the expectations of the stakeholders, especially its owners.

- In governmental agencies, a board of directors are appointed to ensure the organization achieves its stated objectives (as defined by the government.

Need for Governance

- Governance is needed to ensure an enterprise is doing the 'right thing'.

- The 'right thing' is to achieve the aims of its owners while ensuring that the interests of its stakeholders are kept intact.

- Key questions :
  - What is the 'right thing'?
  - Who are the owners and stakeholders?
  - How to ensure the 'right thing' is done?

Corporate Governance:
OECD Principles
(Organisation of Economic Co-operation & Development)

I. Ensuring the basis for an effective corporate governance framework

- *The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.*

II. The rights of shareholders and key ownership functions

- *The corporate governance framework should protect and facilitate the exercise of shareholders' rights.*

III. The equitable treatment of shareholders

- *The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.*

Corporate Governance:
OECD Principles
(Organisation of Economic Co-operation & Development)

IV. The role of stakeholders in corporate governance

- *The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.*

V. Disclosure and transparency

- *The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.*

VI. The responsibilities of the board

- *The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders*

Elements of Governance

- Who are the owners?
  - People/organizations which own the enterprise.
  - In a publicly-traded company, the owners are those who own the shares.

- Who are the stakeholders?
  - Those whose interests affect or are effected by the activities of the enterprise.
  - Owners are definitely one of the stakeholders.
  - Governments, the community, other organizations or persons who are not owners can be stakeholders.

IT Governance

- According to Microsoft :
  - Governance is the set of policies, roles, responsibilities, and processes that you establish in an enterprise to guide, direct, and control how the organization uses technologies to accomplish business goals.
  - Effective governance anticipates the needs and goals of both your organization's IT teams and its business divisions. Governance also provides policies and guidelines that make the deployment of products and technologies such as Microsoft Office SharePoint Server 2007 both manageable for IT and also effective as a business tool.
  - Governance can help protect your enterprise from security threats or non-compliance liability. It can also help ensure the best return on your investment in technologies, such as by enforcing best practices in content management or information architecture.
  - Ref :http://technet.microsoft.com/en-us/library/cc263356(v=office.12).aspx

Corporate vs IT Governance

- Role of IT
  - To support the operations of the company in its pursuit of its vision and goals.

- Effective IT governance provides effective and efficient support of corporate goals.

- Therefore, IT governance is often an important aspect towards achieving corporate governance, given the role of IT in today's environment.

- On the other hand, corporate governance is a pre-requisite for IT governance. That is, IT governance is irrelevant without corporate governance.

- Note that the relevance of IT Governance hinges on whether IT is a strategic function of the organization's mission.

Importance of IT Governance

- With increased dependency of companies on IT, failure of IT Governance may mean business disruption or worse, failure.

- In mild cases, no IT Governance may mean ineffective use of IT, which leads to wastage and lost opportunities.

- However, lack of IT Governance may not mean business failure or loss.

- Digitalization today drives the increasing importance of IT governance.

Governance of Enterprise IT

- Known as GEIT by ISACA, Governance of Enterprise IT leverages technology to support and optimize enterprise needs.

- GEIT helps senior managers address common pain points such as applicable laws, regulations and compliance.

- GEIT helps enterprises satisfy internal and external stakeholder needs. IT governance empowers organizations and helps establish and monitor accountability for IT activities to ensure that IT-enabled investments support enterprise objectives.

- GEIT can uncover underlying issues that have existed for years. These issues can result in unidentified risk such as revenue loss and services that seldom create value for the business.

IT Governance: Critiques

- Too theoretical in approach;

- Largely for management and not for the real world "tech pros";

- Insufficient details to work with – no specific processes and or controls : for example – whether to turn off certain services in a server due to high level "flowery" language used in the models

Conclusion

- Corporate Governance is borne out of a need for better management of organizations, with the aim of helping them to become effective and successful.

- IT Governance extends that need with the enablement of business processes by IT.

- Digitalization in today's world means that IT Governance is important in today's digital-enabled world.