

Chapter # 2 Approaches
to Corporate
Governance

Chapter # 3 CG Practice
and Reporting

PART B - Internal Control
and Risk

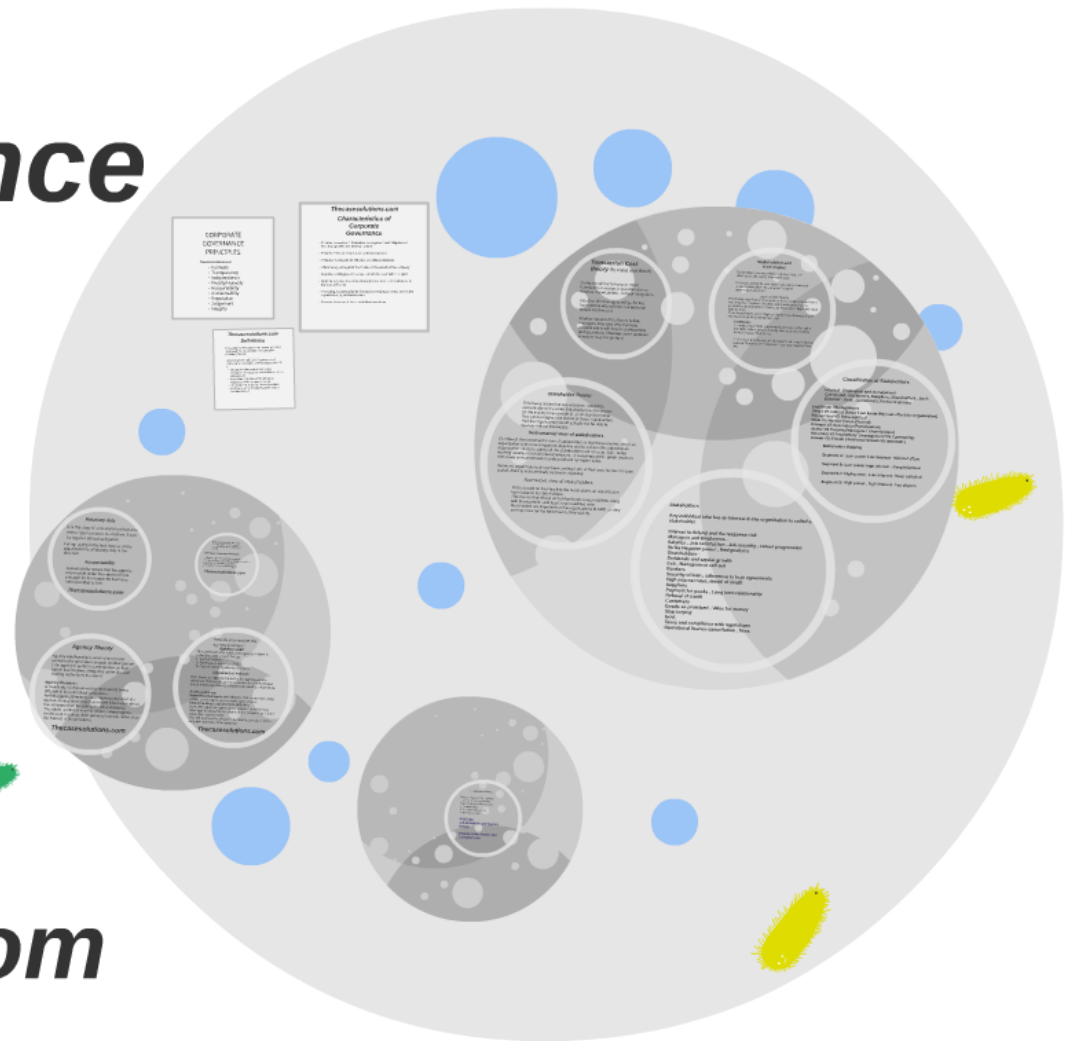
Chapter # 4 Internal
Control Systems

Strategic and Operational
risk
Market Risk
Health and Safety risks
Liquidity risk
Chapter 7 Risk Responses

Ways to assess risk:
- Sensitivity analysis
- Expected Values and
probabilities
- Rating
- Likelihood and
Consequence Matrix
- ALARP Principle

Chapter # 10
Professional Ethics

Thecasesolutions.com



- Fairness
- Transparency
- Independence
- Probity/Honesty
- Responsibility
- Accountability
- Reputation
- Judgement
- Integrity

Characteristics of Corporate Governance

- Ensures Assessment, Evaluation management and Mitigation of Risk through effective Internal controls
- Provides Effective Supervision and Management
- Provides Framework for effective and ethical decisions
- Offers safeguard against the misuse of the assets of the company
- Requires a willingness to be applied with the best faith and spirit
- Helps Attract new investment through more trust and confidence in the Capital Market
- Promoting Accountability for the decision making at every level in the organization, by all stakeholders
- Protects the value of the shareholder investment

Thecasesolutions.com

Definitions

Corporate Governance is the system by which organizations are directed and controlled
(Cadbury Report)

According to the OECD (Organization of Economic Co-operation and Development) CG is:

- the set of relationship between the company`s directors its shareholders and Its stakeholders
- It provides a structure through which objectives of the company are set
- the means of achieving those objectives
- And, the ways of monitoring performance are determined

Fiduciary duty

It is the duty of care and trust that one entity / person owes to another. It can be legal or ethical obligation

For eg. acting in the best interest of the organization is a fiduciary duty of the directors

Accountability

Accountability means that the agent is answerable under the contract to his principle for the resources that have been provided to him.

Thecasesolutions.com

Note: Keep in mind that Agency concept is general concept and can be used in other relationships as well

Other types of agency relationship

- 1- Shareholder VS Auditor relationship
- 2- Public sector organizations - Political leaders / taxpayers VS Elected managers
- 3- Charities- Donors VS Managers

Thecasesolutions.com

Agency Theory

Agency Relationship is when one or more persons (the principles) engage another person (the agent) to perform some service on their behalf that involves delegating some decision making authority to the agent

Agency Problem :

Is mainly due to the ownership and control being different in the joint stock companies.

And as agents (directors) have more control over the operations and since they have more information about the company than the principles (shareholders).

Therefore, conflict of interest arises , where agents would want to pursue their personal interest rather than the interest of the principles.

Thecasesolutions.com

How do you resolve the agency problem?

Agency cost:

The cost incurred to reduce the agency problem is called the agency cost. For eg:

- 1- Cost of Auditors
- 2- Purchase of expert analysis
- 3- Cost of enforcing director contracts

Alignment of interest:

This means to align the interest of the agents and the principles. This means to use techniques like Profit related pay or incentives that are related to the profit or share price.

Profit related pay

Rewarding Managers with shares : Pvt. companies going public, so managers are awarded some shares.

Executive Share Option Plans (ESOPs)

Some Managers are given share options, for which they have right to subscribe for shares in the company at a fixed price after a certain date.

This will motivate the directors to take the decisions in the long term interest of the company.

Thecasesolutions.com