

# INSTITUTE OF INTERNAL AUDITORS FIJI 2013 ANNUAL CONFERENCE

## “STRONG CORPORATE GOVERNANCE- IN BANKS ”

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# INTRODUCTION AND OVERVIEW

1. Corporate Governance is a set of relationship between a company's management, its board, its shareholders, and other stakeholders;

*[Source: Organization for Economic Co-operation and Development OECD (1999)]*

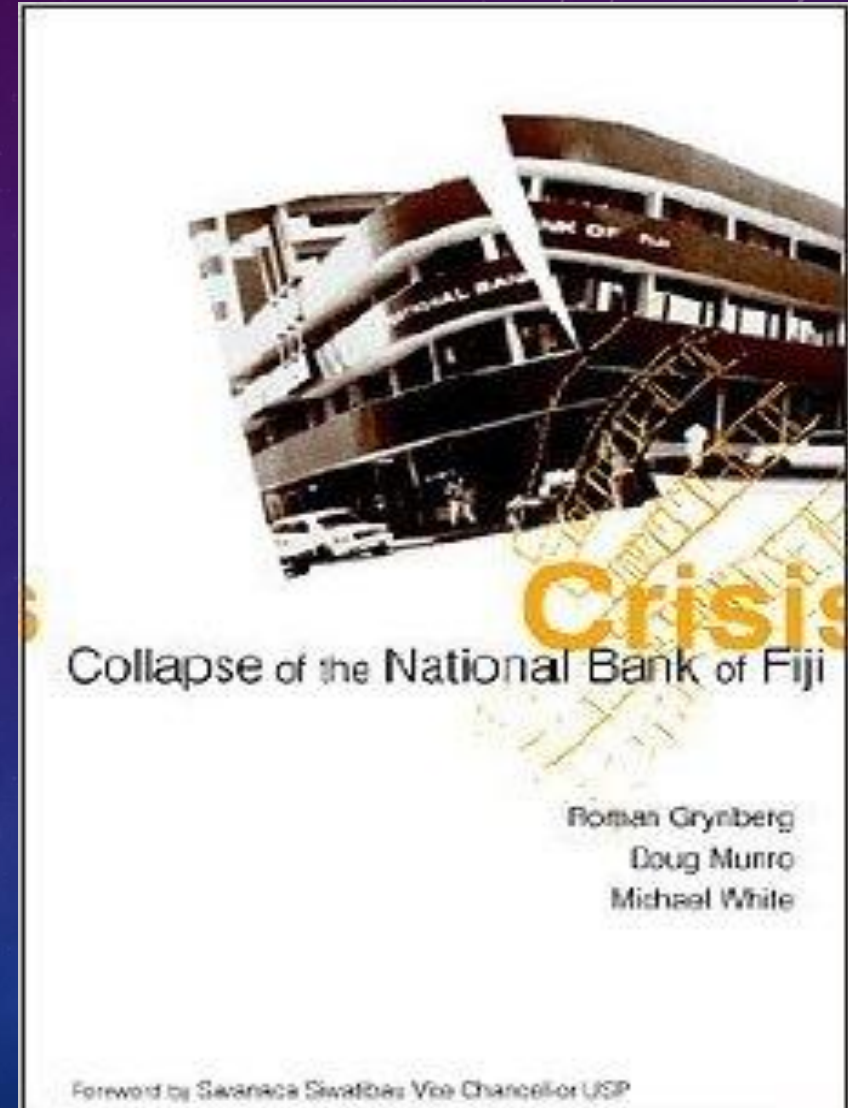
2. Good Governance is essential to achieve and maintain public (stakeholder) trust and confidence;
3. Poor corporate governance can contribute to failures; and
4. Failures cost pose significant public costs (case of NBF ... \$220m).



# IS IT POOR GOVERNANCE ?



The US government has partially closed after Congress failed to agree a budget



# INTERNATIONAL STANDARDS OF CORPORATE GOVERNANCE FOR BANKS (BIS)

- 1999-Basle committee on Banking Supervision published guidance to assist banking supervisors in adoption of sound CG practices;
- Guidance drew from principles of CG published by OECD;
- OCED principles assist Govts. in effort to evaluate and improve their framework for CG ;and
- Provide guidance for financial market regulators and participants in financial market.



# TRANSFORMATION OF INTERNATIONAL STANDARD 1999

In 1999, Sound corporate governance practices broad-based (7) points highlighted were:

1. Establishing strategic objectives and a set of corporate values;
2. Setting and enforcing responsibility and accountability;
3. Board members are qualified, clear understanding of their role in corporate governance and are not subject to undue influence from management;

**Banking Governance  
Framework**






# TRANSFORMATION OF INTERNATIONAL STANDARD 1999

4. Appropriate oversight by senior management;
5. Effectively utilising the work conducted by internal and external auditors;
6. Compensation are consistent with banks ethical values, objectives, strategy and control environment; and
7. Conducting corporate governance in a transparent manner

**Banking Governance  
Framework**



# TRANSFORMATION OF INTERNATIONAL STANDARD 2006

1. Board members should be qualified, have a clear understanding corporate governance and exercise sound judgement about the affairs of the bank **[Risk Policy and Risk Management];**
2. Board of directors approve and oversee the banks strategic objectives; **[Conflict of Interest, Material Concerns through Independent means];**
3. Board of directors should set and enforce clear lines of responsibility and accountability throughout the organisations; **[Parent Company should be aware of material risk/oversight];**

Banking Governance  
Framework





# TRANSFORMATION OF INTERNATIONAL STANDARD 2006

4. Board should ensure that there is appropriate oversight by senior management consistent with board policy;

5. Board and senior management effectively utilise the work external auditors and internal control functions;  
**[Effective Internal & External Auditors, Code of Conduct, Rotation of External Auditors/Partners];**

6. The board ensure that compensation and practices are consistent with corporate culture, long term objectives and strategy and control environment  
**[Remuneration Policies and Decisions by Independent Board Sub-committee];**

Banking Governance  
Framework



# TRANSFORMATION OF INTERNATIONAL STANDARD 2006

7. The bank should be governed in a transparent manner; and **[Ownership structure, timely reporting, Disclosures, Code of Code, Ethics]; and**
8. The board and senior management should understand the banks operational structure. **[Laws and regulations, Transparency, Disclosures].**

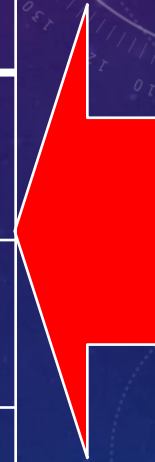
**Banking Governance  
Framework**



# INTERNATIONAL STANDARDS OF CORPORATE GOVERNANCE FOR BANKS

Revised 14 principles in 2010

Banking  
Governance  
Framework

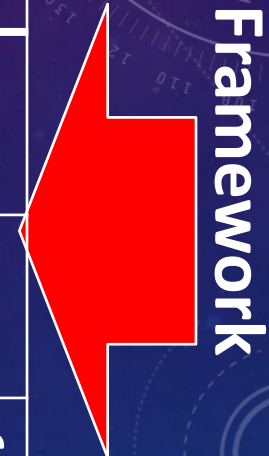


1	Boards' overall responsibility for the Bank
2	Board members qualified, including through training, for their position
3	Board define appropriate governance practices for its own work
4	In a group structure, the board of the parent company adequate corporate governance across the group
5	Under the direction of the board, senior management ensures that activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the board

# INTERNATIONAL STANDARDS OF CORPORATE GOVERNANCE FOR BANKS

Revised 14 principles in 2010

6	<b>The firm has an independent risk management function</b>
7	<b>Risks are identified and monitored on an ongoing firm-wide and individual entity basis</b>
8	<b>Effective risk management has robust internal communication within the firm about risk,</b>
9	Do the board and senior management effectively utilize the work conducted by internal audit functions, external auditors and internal control functions?
10	Does the board actively oversee the compensation system's design and operation, and monitor and review the compensation system to ensure that it operates as intended






# INTERNATIONAL STANDARDS OF CORPORATE GOVERNANCE FOR BANKS

Revised 14 principles in 2010

11	Are employee compensations effectively aligned with prudent risk taking,
12	Do the board and senior management know and understand the firm's operational structure and the risks that it poses? (i.e. "know-your-structure")
13	Does the board and senior management understand the purpose, structure and unique risks of the firms operations jurisdictions that impede transparency
14	Is the governance of the firm adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants?

**Banking Governance Framework**



# CORPORATE GOVERNANCE OF BANKS IN FIJI

## RBF Supervision policy 10 Fit and Proper Requirements

- (i) to safeguard the interests of depositors and stakeholders by ensuring that LFIs are soundly and prudently managed and directed;
- (ii) to set out a minimum framework which can be used by LFIs when determining whether a responsible person is fit and proper;
- (iii) to address the risk of mismanagement of, and inadequate or inappropriate control or influence over, LFIs; and
- (iv) to facilitate consultation and the exchange of information between the Reserve Bank of Fiji and all Directors and employees of the LFI,



# CORPORATE GOVERNANCE OF BANKS IN FIJI

## RBF Supervision policy 11 Minimum Requirements for Corporate Governance

- i. Each LFI must establish and implement an in-house “Corporate Governance Policy”, approved by the Board in the case of a locally incorporated institution or Senior Management in the case of a branch operation;
- ii. Clearly defined authorities and responsibilities for the Board of Directors for locally incorporated institutions;
- iii. Clearly defined authorities and responsibilities for the Senior Management for locally and foreign incorporated institutions;
- iv. Appointment of the internal and external auditors of the institution.

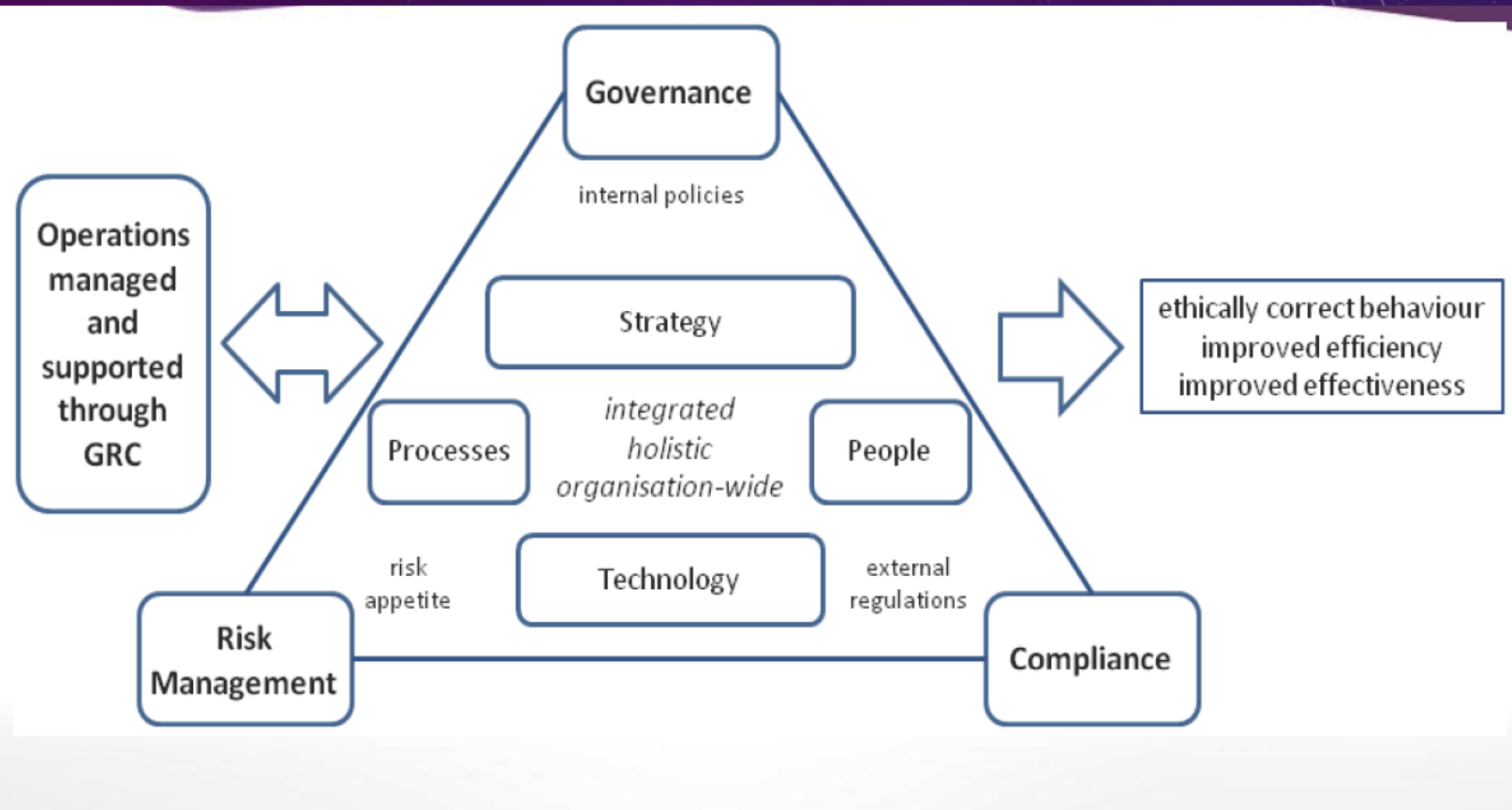


# CORPORATE GOVERNANCE FRAMEWORK





# INTERNAL DYNAMICS OF GRC



# CONCLUSION

## Constitution of The Republic of Fiji (Promulgation) Decree 24 of 2013 Section 149 ... supports Governance

### CHAPTER 8—ACCOUNTABILITY

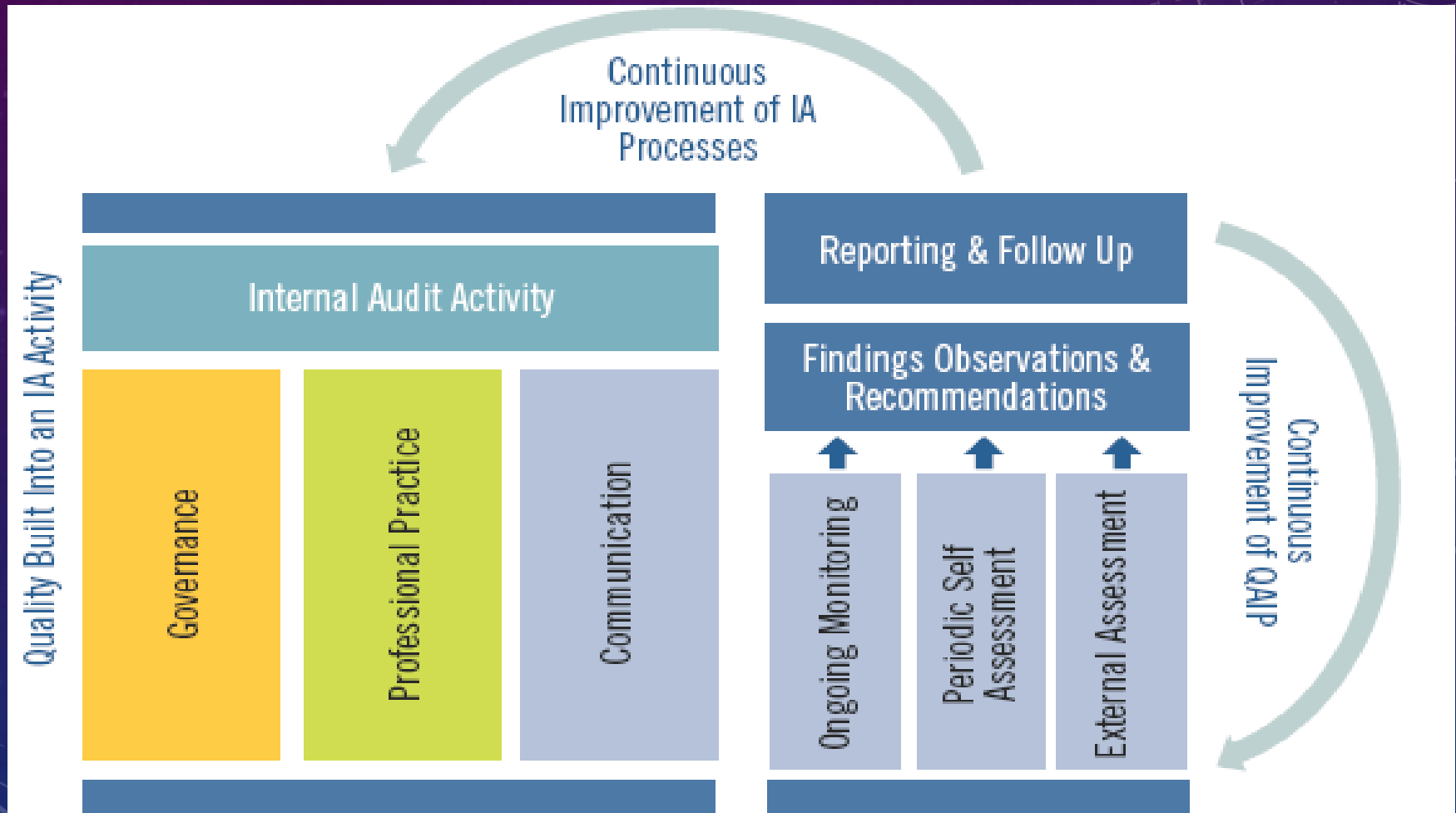
#### Part A—CODE OF CONDUCT

##### *Code of Conduct*

149. A written law shall—

- (a) establish a code of conduct which shall be applicable to the President, Speaker, Deputy Speaker, Prime Minister, Ministers, members of Parliament, holders of offices established by or continued in existence under this Constitution or under any written law, members of commissions, permanent secretaries, ambassadors or other principal representatives of the State, and persons who hold statutory appointments or governing or executive positions in statutory authorities, and to such other offices (including public offices) as may be prescribed under the written law;
- (b) establish rules, processes and procedures for the implementation of the code of conduct by the Accountability and Transparency Commission;
- (c) provide for the monitoring by the Accountability and Transparency Commission of compliance with the code of conduct by the officers mentioned in paragraph (a);

# CONCLUSION



# CONCLUSION

1. Tone at the top with Board oversight to be strong and effective with “duty of care” and “duty of loyalty”;
2. Enhancement of supervisory roles where required (changing Regulations and Laws) Company’s Act, Crime Decree) and consistency of the policies;
3. Policy environment to be robust (strategic direction, group, organisation structure, technological channels (safety net), systemic risk profiles and policies);
4. More training and awareness programs in corporate governance and risk management for Board, Management and Staff; and
5. Simple, consistent and accurate reporting standards.



# Thank You Very Much and Vinaka Vakalevu !

The views and expressions made in this presentation are that of the presenters (with sources acknowledged) and not necessarily of their employer, HFC.

Would like to thank our employer HFC (CEO) and IIA Fiji- President

