



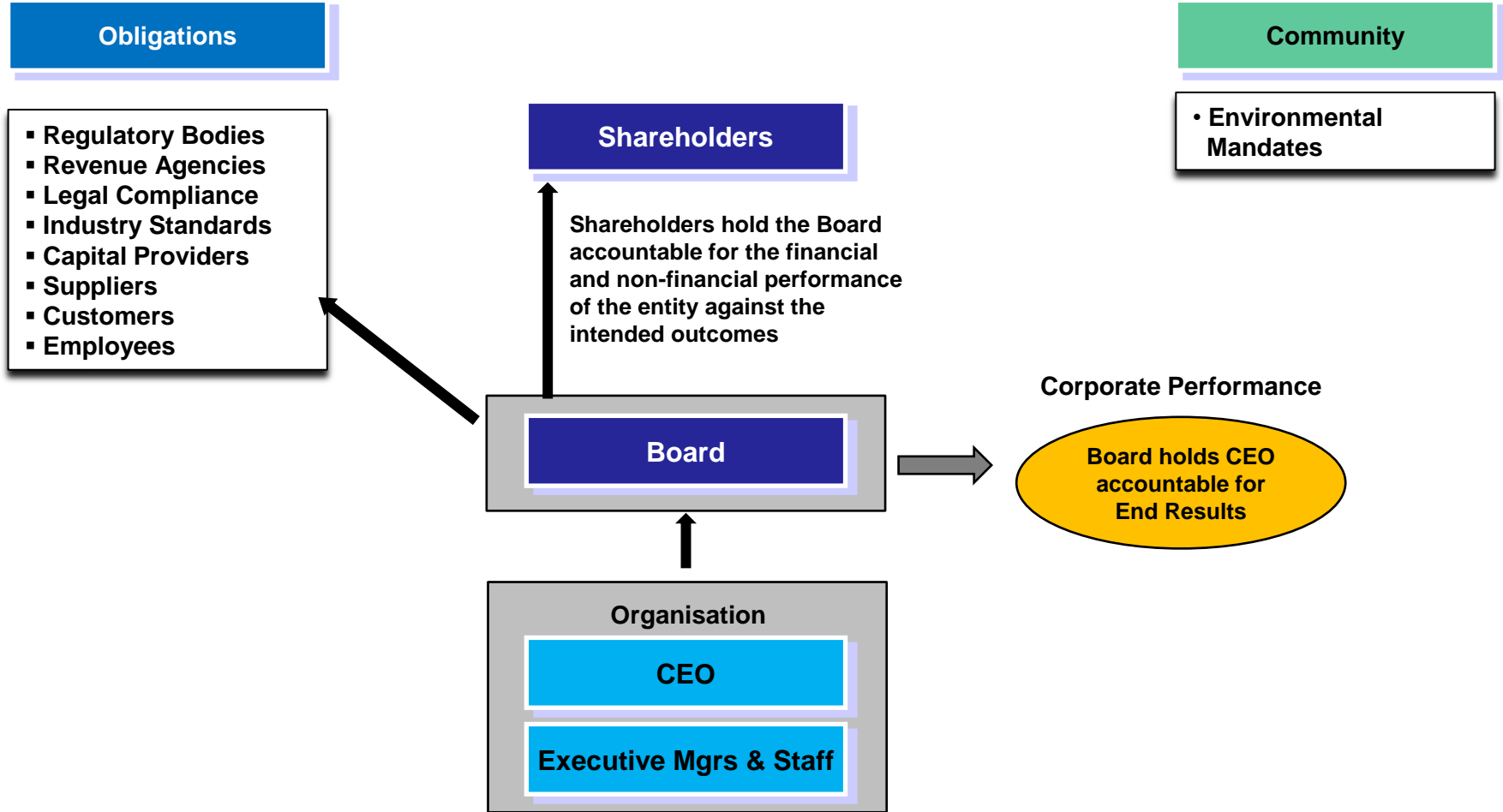
The Governing Role of Directors of State Enterprises

Identifying the performance drivers of Good Governance

THE ROLE OF THE BOARD OF DIRECTORS

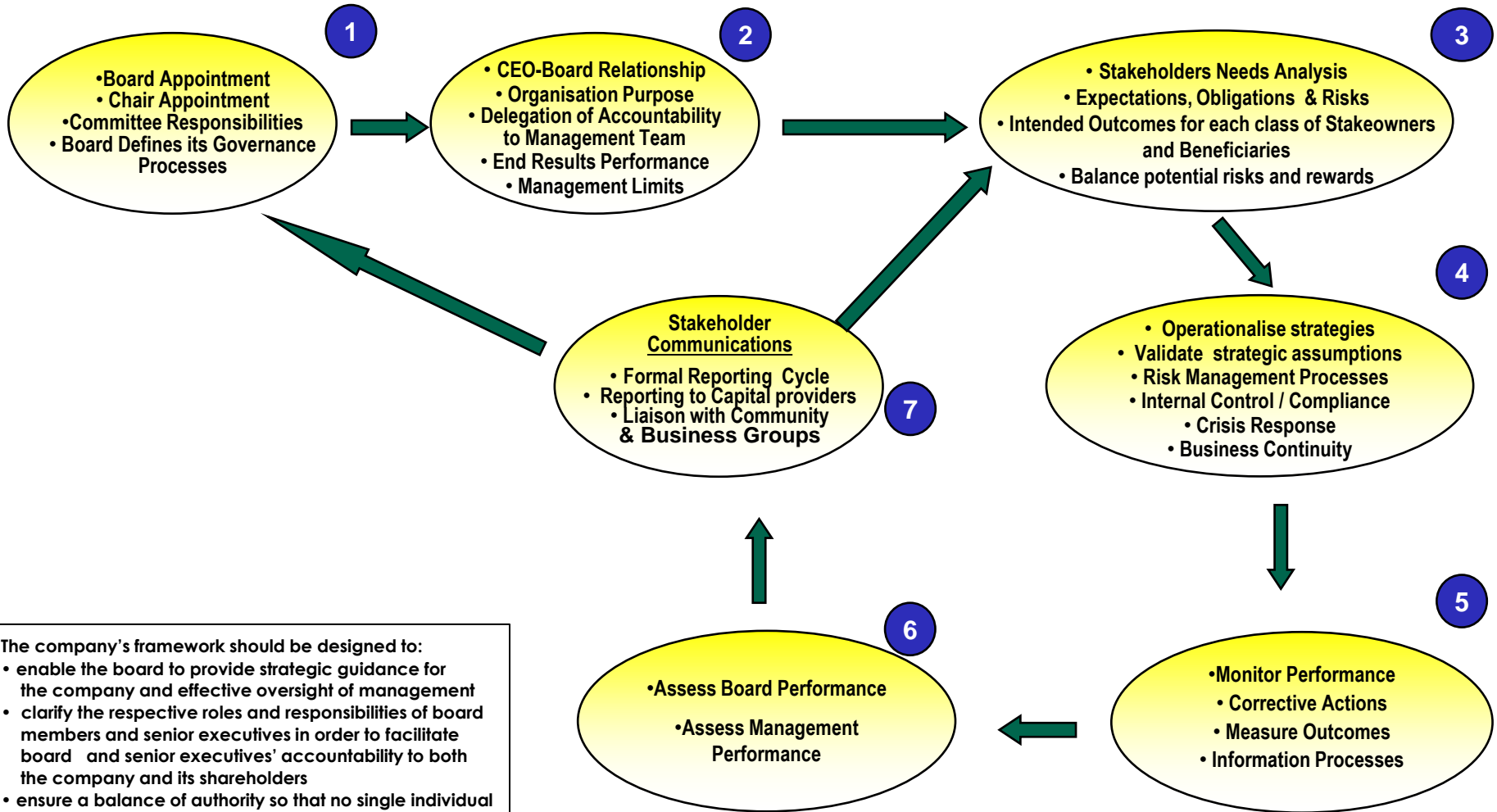
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Structure and Accountability



Transparency and accountability is paramount, whereby the Board must ensure that the organisation has the capability and capacity to meet the performance expectations and its obligations of its various stakeholder constituencies.

High Level Governance Process Flow



The company's framework should be designed to:

- enable the board to provide strategic guidance for the company and effective oversight of management
- clarify the respective roles and responsibilities of board members and senior executives in order to facilitate board and senior executives' accountability to both the company and its shareholders
- ensure a balance of authority so that no single individual has unfettered powers.

Expectations of the Role of Directors and their Responsibilities

Usually the Board will be responsible for

- **overseeing the company, including its control and accountability systems**
- **evaluating the chief executive officer and organisational performance**
- **where appropriate, ratifying the appointment (or removal) of senior executives**
- **providing input into and final approval of management's development of corporate strategy and performance objectives**
- **reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct, and legal compliance**
- **monitoring senior executives' performance and implementation of strategy**
- **ensuring appropriate resources are available to senior executives**
- **approving and monitoring the progress of major capital expenditure, capital management**
- **approving and monitoring financial and other reporting.**

A State Enterprise board...

- **Validates and maintains oversight of the enterprise's strategic direction**
- **Exercises the enterprise's powers and functions itself, or through delegation, empowering the CEO and others to implement the board's policies**
- **Oversees performance of the CEO**
- **Ensures the enterprise's functions are performed efficiently and effectively**
- **Manages risk and ensures compliance**
- **Provides assurance of fiscal responsibility**
- **Maintains appropriate relationships with key stakeholders**

Collectively, boards are expected to...

- **Act consistently with the enterprise's objectives and functions**
- **Ensure that the state enterprise performs its functions efficiently and effectively, and in a manner consistent with the spirit of service to the public**
- **Ensure that the state enterprise operates in a financially responsible manner, by prudently managing its assets and liabilities and endeavouring to ensure long-term financial viability**
- **Ensure the state enterprise complies with its obligations in relation to the Companies Act and other applicable legislation or statutory provisions**

In terms of performance assurance...

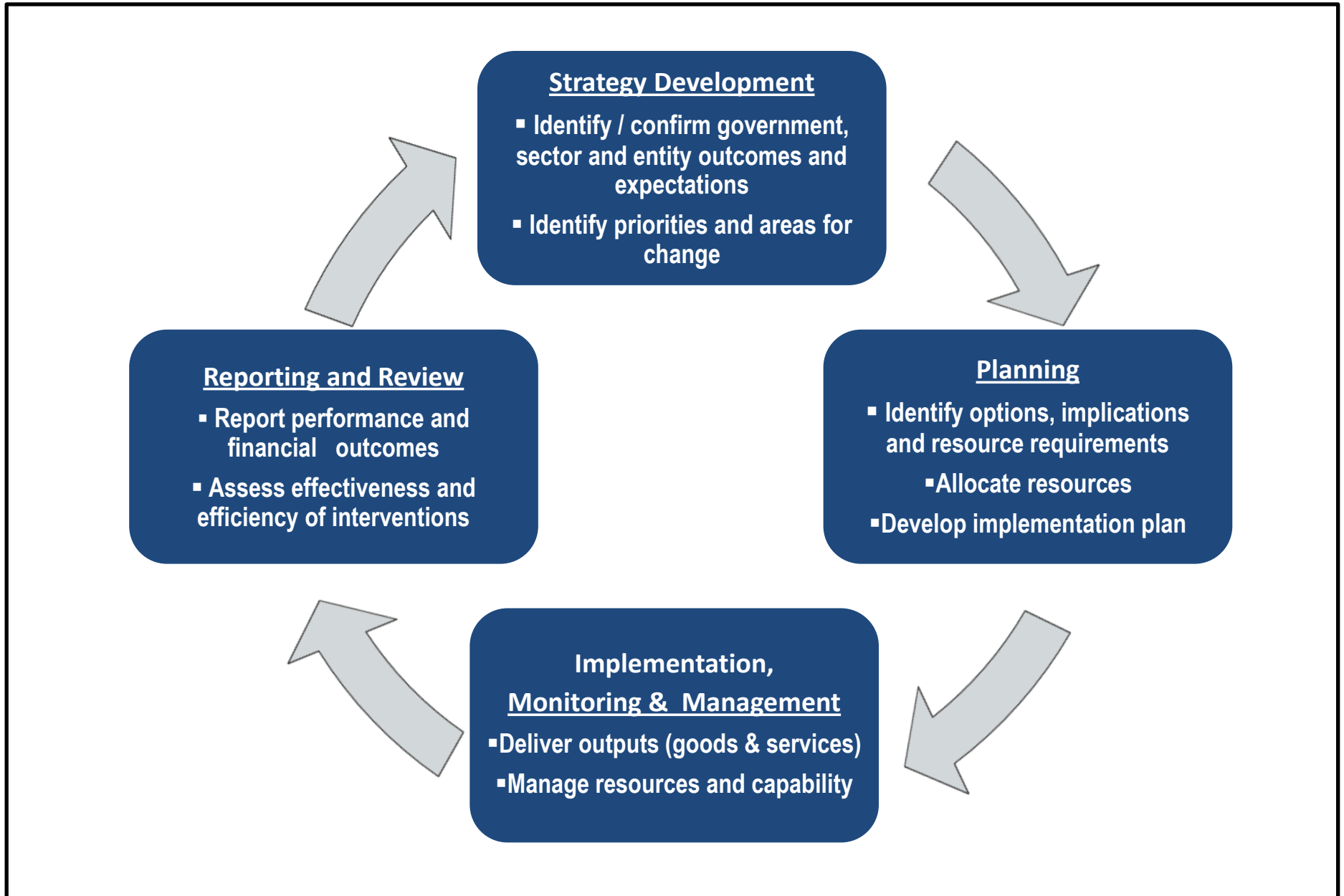
- **Boards have the primary responsibility for monitoring and reporting on a State Enterprise's performance – they must know what is happening in their organisation.**
- **Ministers have both a need and a right to know - boards should provide information on which valid judgments can be made about an enterprise's performance**
- **Boards are expected to work constructively with Ministers and monitoring departments to identify the performance measures and standards that will support accurate and appropriate judgments about the State Enterprise's performance and progress**

Individually, board members are expected to...

- **Comply with the Companies Act , their enterprise's enabling Act and other relevant industry specific legislation**
- **Act with honesty and integrity**
- **Act in good faith and not at the expense of the enterprise's interests**
- **Act with reasonable care, diligence and skill (as a 'reasonable person' would in the same circumstances)**
- **Avoid disclosing information obtained in their capacity as a member, unless in specified circumstances**

Ensure that the Board's key governance processes are aligned to the strategic direction and goals of the enterprise.

Performance Model



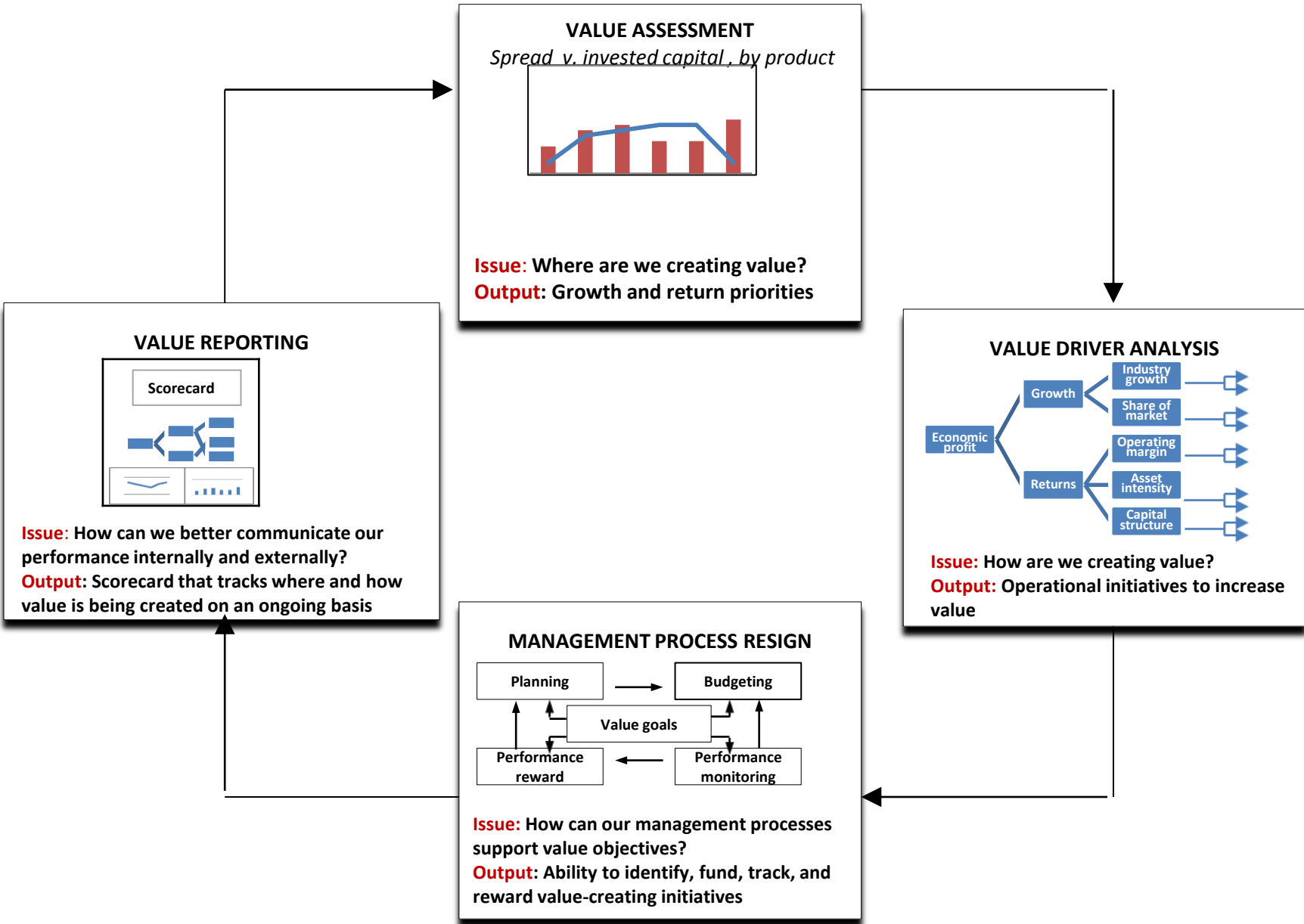
ROLE OF THE BOARD/MANAGEMENT - REVIEW AND APPROVAL PROCESS - STRATEGIC DECISION-MAKING

Strategic Thinking	Role of the Board	Role Of Management
Collecting, analyzing, and discussing information about the environment of the organisation, the nature of competition, and broad strategy design alternatives – different views of customer value proposition, scope, competitive advantage, and source of profit.	<ul style="list-style-type: none"> • Be an active participant in the strategic thinking process. • Bring an outside perspective • Test the consistency of management’s thinking. • Collaborate with management. 	<ul style="list-style-type: none"> • Initiate the process of strategic thinking. • Set the agenda- pose the questions and issues. • Provide meaningful information. • Actively participate with the Board in the discussions. • Summarize the output of Board and management working together.

Strategic Decision-making	Role of the Board	Role Of Management
Making the fundamental set of decisions about the business portfolio and business strategy design.	<ul style="list-style-type: none"> • Provide input for management’s decision making. • Provide ultimate review and approval on major decisions (resource allocation, initiatives, portfolio changes) 	<ul style="list-style-type: none"> • Make critical decisions • Develop proposals to the Board for critical directional decisions and major resource allocation. • Engage with the Board in its review of decisions.

Strategic Planning	Role of the Board	Role Of Management
Translating the critical strategic decisions into a set of priorities, objectives, and resource allocation actions to execute the strategy.	<ul style="list-style-type: none"> • Review core strategic plans presented by management. • Ensure understanding of the plans and their potential risks & consequences. • Comment and make suggestions on plans, as appropriate. • Approve plans. 	<ul style="list-style-type: none"> • Develop plans, working with staff support and operating management. • Review plans to ensure consistency with corporate objectives and the enterprise-wide risk management process • Present plans to the Board for review.

THE VALUE BASED VIEW OF STRATEGIC MANAGEMENT



Board vs. CEO and Management Roles

Board Role

Approve Strategic Decisions

- Long-term strategy and targets

Oversee Financial Activities

- Finance Policies and Strategy
- Capital expenditure
- Performance review

Counsel the CEO

- Decision support
- Performance advice

Select Motivate Executives

- Executive performance & compensation
- Succession planning oversight

Ensure Compliance

- Regulatory requirements
- Risk management policies
- Stakeholder communication

CEO Role

Define and Communicate Strategy

- Financial targets and non-financial drivers
- Stakeholder communication

Manage Financial Resources

- Finance Policies Forecasting & budgeting
- Capital expenditure
- Strategic Cost Mgmt

Align the Talent

- Workforce acquisition, retention and performance management

Management Executive

- Implement Strategic and Business Plans
- Performance reporting
- Risk management implementation
- Initiative management

The Board Governance Strategy Map clarifies the areas of focus of the Board in contributing to the achievement of the State Enterprise's strategic intent

BOARD GOVERNANCE STRATEGY MAP

Strategic Outcomes

A State Enterprise Sector that maximises the contribution of government interventions to the Government's economic and social priorities

Enterprise Contribution

Increase State Equity

Staff Effectiveness

GORTT Policy Agenda

Increase Profitability & Dividend Cash Flow

Increased Financial Contribution to Shareholder
Reduced Subventions

Talent Retained, Succession, Capabilities Developed

Entity serves as policy Instrument for National Development

Stakeholder Value

Oversight, monitoring, and reporting of strategic Outcome indicators

Financial Reporting Stds & Internal Control Practices approved by Boards for all Business processes

Strengthened staff & management capability & improved performance through motivation

Reputation, Trust, Transparency in Providing Social and Market Stability

Board Governance Processes

Strategy Management

Approve boundaries for strategy/risk options and oversee execution

Establish strategic outcomes and funding for initiatives

Ensure readiness for change

Financial Oversight

Budget allocation based on the enterprise's Value Chain activities

Oversee capital spend, Debt mgmt, operational variances

Clear Accountabilities for Procurement, Compliance & Program Management

Staff Oversight

Evaluate and reward performance

Oversee succession planning for key positions

Ensure teamwork culture and knowledge sharing

Enterprise Risk Mgmt

Institutional Risk, Internal Control and Integrity frameworks

Ensure disclosures on residual risk are clear and reliable

Actively monitor risk and regulatory compliance

Learning & Growth

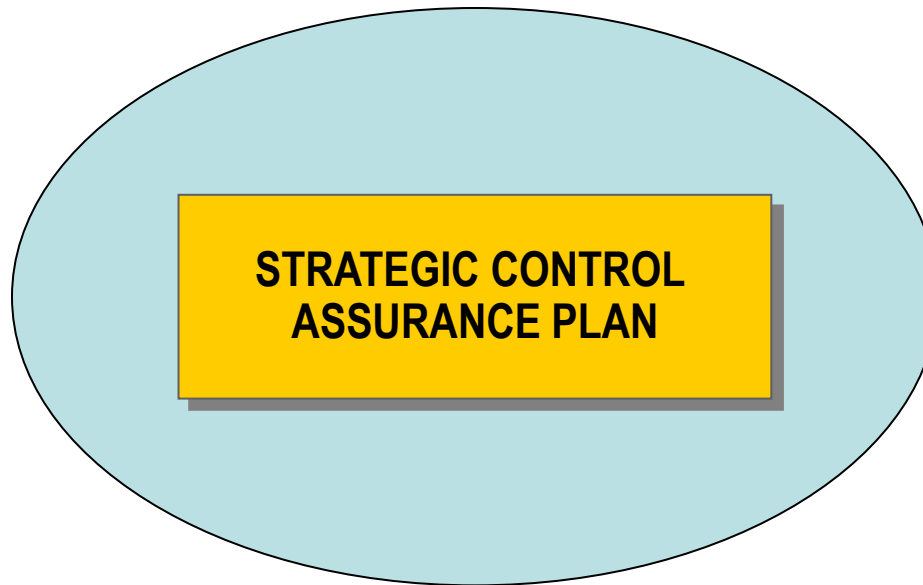
Board knowledge and skills oversee strategic direction and regulatory policy

Ensure Board Committees have access to strategic information and outcome indicators

Foster Board member / top Management dialogue and Teamwork

Risk Management Leadership
Risk Management Structure
Risk Appetite Policy

Strategic Control Assurance Plan

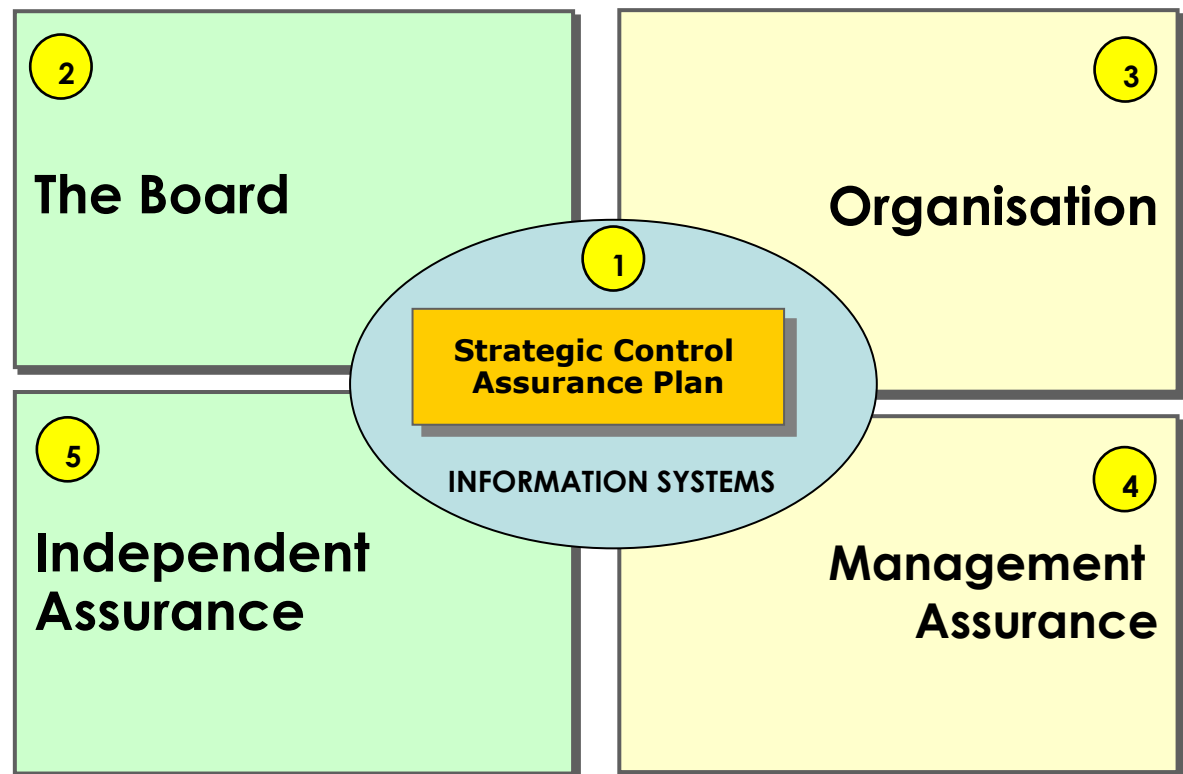


Corporate governance is an organisation's strategic response to risk

The Board is responsible for the organisation's overall control framework that complements the strategic and operational planning process. This responsibility is discharged by setting appropriate risk and control policies, and by seeking regular assurance regarding the effectiveness of the control environment.

Control assurance operates through the five Control Elements as follows

- Planning
- Board
- Organisation
- Management assurance
- Independent assurance



The Strategic Direction Plan is framed by four Control Elements

2 The Board

The Board as the shareholder representative has responsibility and accountability for organisational performance to key stakeholders. As well as its oversight role in ensuring adherence to established policies and the strategic direction it has a tactical role in maintaining a watching brief over the external and internal environments and organisational performance through the Chief Executive Officer , and obtaining balanced assurance over the control environment from management and independent sources.

3 Organisation

The Organisation includes the Chief Executive Officer, senior managers and staff , and delivers organisational outputs in line with the planned corporate outcomes. This control element provides the opportunity to exercise a high degree control through sound HR and ethical practices in an environment of open communication. Monitoring and performance review in this control element make significant contributions to the Board's strategy-management responsibilities .

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STRATEGIC CONTROL
ASSURANCE PLAN

INFORMATION SYSTEMS

5 Independent Assurance

Independent Assurance presents the Board with objective information on the control environment through independent bodies such as external and internal audit, and audit committees. This control element provides a check and balance for the outputs of the Management Assurance control element. When the Board receives positive feedback on the control environment from these independent bodies it can have confidence in the assurance received from Management.

4 Management Assurance

Management Assurance provides the Board with assurance through management monitoring, reviewing and reporting of organisational performance against stated objectives and compliance against laws, regulations, policies, procedures, etc. Management teams or committees may be established to assist in this process.

Goals and objectives–The focus of the Controls Assurance Plan

An understanding of the relationship between corporate governance, risk management, controls and strategies is fundamental to the successful implementation of the proposed Controls Assurance Plan. This relationship may be summarised as follows

- 1 Corporate governance is a guidance system for the achievement of planned objectives–it is an objectives-focused concept.
- 2 Management of risk is part of each objective at all levels of the organisation.
- 3 Risk management develops risk treatment plans that are at the same time the controls and strategies associated with achieving each objective.
- 4 The meaning of control is broader than internal financial control and is expanded to include all planning and strategies put in place after the corporate objectives have been set. Transparency and probity are part of this control environment.
- 5 The control environment provides reasonable assurance to Boards and senior managers that the organisational objectives will be achieved within an acceptable degree of residual risk.
- 6 Corporate governance is an organisation’s strategic response to risk
- 7 Reporting against performance measures for each objective is also a report on the effectiveness of strategies, controls and the risk management process for that objective. Risk management reporting is therefore part of performance reporting and not a separate exercise. Effective risk management is therefore the cornerstone of sound governance.

Risk Management Cycle



**Institutionalising Governance Risk
Compliance (GRC) Processes
within the Context and Culture
of the Enterprise**

Internal Control

Internal control

Internal control is broadly defined as a process, effected by an enterprise's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
 - Reliability of financial reporting.
 - Compliance with applicable laws and regulations.
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- ❑ The first category addresses an enterprise's basic business objectives, including performance and profitability goals and safeguarding of resources.
 - ❑ The second relates to the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly.
 - ❑ The third deals with complying with those laws and regulations to which the entity is subject.
- These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs

Control Assurance Plan - GRC Information Systems

Key Roles and Accountability – Integration of Governance Risk and Compliance Systems

To realize high-performing Governance Risk and Compliance Systems, several key players must be actively involved in the design, implementation, and management of the system.

The Role of the Board

The Board has oversight of the system and ultimately is the primary beneficiary of it, since a strong GRC system enables the flow of accurate information necessary to effective governance. The Board must be an active monitor for shareholder and stakeholder benefit and must :

- Direct the purpose and desired outcomes of the system
- Set a charter for its involvement in the system
- Vet business objectives and ensure they are congruent with values and risks
- Be knowledgeable about the design and operation of the system
- Obtain regular assurance that the system is effective
- Gain reasonable assurance that management's representations are sound
- Operate aspects of the system that require Board perspective and independence
(*eg overseeing senior management's override of control activities*)

Integration of Governance, Risk Management & Compliance (GRC) Processes

Apart from the main **governance, risk, compliance** processes, other functional and process areas, that comprise a holistic governance model include.

- Governance
- Risk Management
- Compliance
- Strategy and Business Performance Management
- Internal Control
- Corporate Security
- Legal
- Information Technology
- Business Ethics
- Quality Management
- Sustainability & Corporate Social Responsibility
- Human Capital and Culture
- Audit and Assurance
- Finance

Within the context of an integrated GRC system, the individual functions share a mutuality of interest, a common need for information and contribution to the organisation's efforts to achieve Principled Performance.

INTERNAL BUSINESS CONTEXT

Understand the existing people, processes, technology, organizational structure, stakeholders and key assets that drive organizational value.

Principles

- 01 Internal context analysis should focus on key aspects that drive organizational value.**
- 02 The organization should design a GRC system that aligns with the internal context.**
- 03 The organization should use the GRC system to identify and change certain aspects of the internal context to better support organizational objectives.**
- 04 Some aspects of the internal context will change despite the organization's best efforts to maintain the status quo, thus the GRC system must identify triggers that will require or cause it to evolve.**

CULTURE

Understand the existing culture including the organizational climate and individual mindsets about integrity, compliance, risk, and approach to management.

Principles

- 01** Leadership should set the tone at the top and provide consistent and repeated commitment to integrity in both words and deeds.
- 02** Individuals must be convinced that leadership is genuine about its commitment to values or they will not have any regard for the established values.
- 03** The governance systems can, and in some instances should, change certain aspects of the culture.
- 04** Some aspects of the culture will change despite the organization's best efforts to maintain the status quo, thus the GRC system must have triggers that will tell it when to evolve to respond to cultural changes.