



THE ROLE OF THE BOARD AND MANAGEMENT IN PRUDENT FINANCIAL STEWARDSHIP AND ACCOUNTABILITY

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Structure



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Who Am I?



- **Student of Accounting**
- **Professional Banker**
- **Governance, Risk & Compliance Professional**
- **Business & Financial Consultant**
- **Entrepreneur**
- **Philanthropist - Youth Empowerment**

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Stewardship & Accountability



Stewardship – Dictionary.com

- The responsible overseeing and protection of something considered worth caring for and preserving
- The position and duties of a steward, a person who acts as the surrogate of another or others, especially by managing property, financial affairs, an estate, etc.
- Fiduciary Responsibility/ Trusteeship

Accountability – Dictionary.com

the state of being accountable, liable, or answerable.

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Role of the Board and Management



Doing the right things

Vs

Doing things right

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Role of the Board and Management



- **Leadership is Doing the Right Things (setting organizational priorities, allocating financial & Human resources to fulfil the corporate vision)**
- **Management is Doing Things Right (Improving operational performance, maximizing revenues, reducing costs, etc)**
- Before you worry about doing things better, faster, cheaper, you should worry about whether you are actually doing the right things.
- Why worry about doing things right, if you aren't even doing the right things.
- Once you are doing the right things, then you can worry about doing things right.
- **FISH STARTS TO ROT FROM THE HEAD!!**

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Corporate Governance - ICAEW



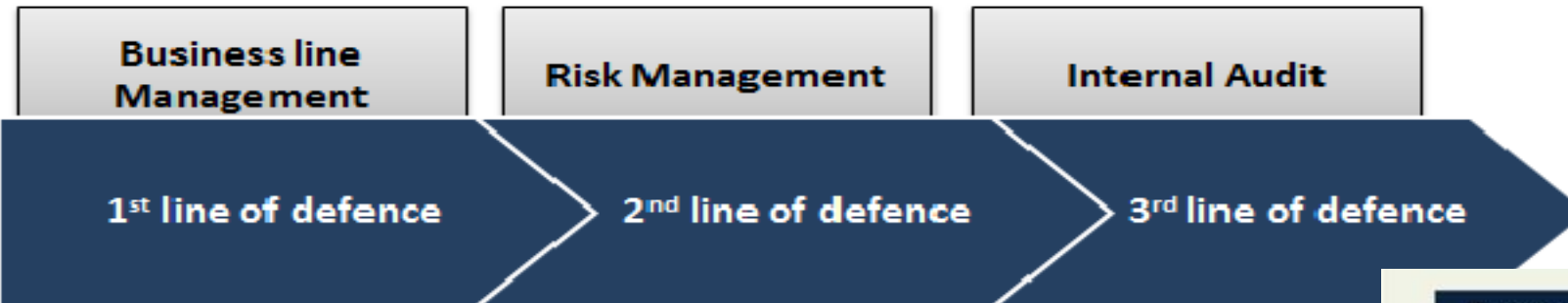
- Corporate governance is the system by which companies are directed and controlled.
- **Boards of directors are responsible for the governance of their companies.**
- The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.
- The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and **reporting to shareholders on their stewardship.**
- **Corporate governance is therefore about what the board of a company does and how it sets the values of the company**, and it is to be distinguished from the day-to-day operational management of the company by full-time executives (Management).

Risk & Risk Management – ISO 31000



- **Risk is the effect of Uncertainty on objectives**
- **Risk Management is the co-ordinated activities to direct and control an organization in order to achieve its objectives**
- **Risk Management refers to the architecture i.e principles, framework and process for managing risk effectively;**
- **Applying the principles, framework and process of Risk Management will therefore help Boards and Management achieve their objectives (to the Shareholders and to the Board respectively).**

1. Effective Risk Governance



Business line management are primarily responsible for managing its own process

Responsible for identifying and controlling risks by using business control frameworks, implement internal processes and adequate controls

Risk Management function is responsible for setting Enterprise Risk Management frameworks

Independent reporting to management board and audit committee

Advisor / consultant to 1st line

Internal Audit provides assurance about design and effectiveness of 1st and 2nd line

Reporting line to management and audit committee

Advisory role to improve processes

Recommended best practices in Risk Governance

- Risk governance structure
- Risk management framework
- Qualifications and experience
- Training and capacity building programs
- Board evaluation

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2. Board Composition & Constitution



2.1 Board Size:

- Ensure an optimal number of members to conduct effective oversight – not too few, not too many.
- Maintain an odd number for voting purposes
- Ensure a balance of skills as well (Finance, Technology, Risk, etc)
- Too few members may not be resourceful; overly large board may result in **groupthink**

2.2 Director Independence

- Directors doing business with the company?
- Conflict of interest policy?
- Independent directors to facilitate objective, unbiased decisions in the best interest of the organization

2. Board Composition & Constitution



2.3 Board Financial Literacy

- Not necessary to be a financial whizzkid!!
- Board members with Finance/Business skills to be internal consultants
- Enough financial literacy and numeracy skills to ask the right questions – budgets/strategy; realism of cashflows; financial & Risk policies, etc
- Enough capacity to probe and recognize warning signs

2.4 Board Committees

- Board committees help to drill down on matters before being presented to the full board
- Ensure governance structure supporting segregation of duties from top to bottom
- Board Audit and Risk Committee

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3. Board Oversight Responsibilities



3.1 Establish Financial Controls :

- **Segregation of duties:** Maker/checker (4-eye principle);
- **Authority Limits** – Limits based on a matrix of risk and transaction size
- Management of Office Accounts/Internal Accounts - Suspense accounts, etc

3.2 Good Governance Policies:

- **Conflict of interest policy:** Guard against self-dealing
- **Document retention policy**– guard against loss/destruction of documents
- **Code of ethics** – to establish conduct guidelines for board, management + Staff
- Whistle-blowing policy – protect staff and volunteers who report unethical/unlawful practices

3. Board Oversight Responsibilities



3.3 Ensure Compliance with policies and procedures

- Regular review of reports to ascertain
- Reports from Risk Management and Internal Audit + Annual Management Letter
- Regular reviews of Policies and procedures to align with emerging realities

3.4 Approval of Annual Budgets

- Management prepares and board approves
- In line with strategy
- Are assumptions Realistic?
- Also review actual Vs Planned and interrogate variances

4. Embed a Positive Risk Culture



Getting it wrong can be painful...



Leading the risk profession



The Arthur Andersen partner was on his cell phone when he said,

"Ship the Enron documents to the feds,"

but his Secretary heard,

"Rip the Enron documents to shreds."

It turns out that it was all just a case of bad cellular.



Sprint PCS The clear alternative to cellular SM

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4. Embed a Positive Risk Culture



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4. Embed a Positive Risk Culture



Risk Competence
The risk management competence of the bank

Organization
How the environment is structured and what is valued



Motivation
The reasons why people manage risk the way that they do

Relationships
How people in the bank interact with others

Recommended best practices in Risk Culture

- Common Values
- Tone at the top
- Common risk language
- Application of risk management principles
- Timely, transparent and honest risk communications
- Risk management responsibilities
- Challenging discussions on risk management
- Risk reporting and whistle-blowing

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5.Compensation Management



- Board HR/Compensation's Committee
- Board approves compensation for CEO and Senior Management
- Board ensures “mark-to-market” to avoid overpaying
- Performance-based pay

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Questions

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