

# Factsheet: Corporate Governance

Updated 2020

## What is corporate governance?

Corporate governance is a widely used business term that can mean different things to different people in different organisations. Its overall intention is to promote confidence with stakeholders. There is a lot written about it. But considering how widely the term corporate governance is used, it is surprising there is not more definitive information on holistic frameworks, capability maturity guidance, and the link between governance and assurance.

The governing body of an organisation is ultimately responsible for an organisation's governance. In a company, this will be the board of directors. In the public sector where there is not a board of directors, governance arrangements are implemented by the head of the organisation such as the secretary, director-general or chief executive.

The Institute of Internal Auditors in its 'International Professional Practices Framework' defines corporate governance as:

*The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward achievement of its objectives.*

## Why is an holistic approach to corporate governance needed?

A focus of corporate governance is often on committees. This sets a sound foundation, however corporate governance comprises a much wider focus.

While many corporate governance frameworks include commentary on other governance processes and structures such as internal audit, external audit and compliance, a more holistic approach that clearly defines the universe of corporate governance elements, inter-relationships and owners is needed.

Corporate governance is a key component of successful organisations. This needs to be supported by a strong and cost-effective assurance program.

A well-defined and implemented corporate governance framework can:

- › Help to understand where overall governance accountability resides.
- › Assess governance coverage against key organisation

strategies, risks and assurance requirements.

- › Ensure there is a comprehensive corporate governance process.
- › Minimise duplication of governance effort.
- › Identify governance gaps.
- › Minimise governance cost.
- › Provide comfort to stakeholders about the level of governance.
- › When coupled with an assurance program, provide comfort to stakeholders about governance effectiveness.

## What does a corporate governance model look like?

Reliance on committees is problematic as governance requires individual accountability and committees do not provide this.

The following model seeks to apply a holistic approach to corporate governance. Rather than a one-dimensional approach that relies almost entirely on the board and its sub-committees as the primary governance components, this model seeks to wrap-up organisational activities in a holistic way so there is an inter-connected approach and nothing is missed.

- › **Strategic Management** is development and implementation of a plan by the board of directors and management to help an organisation achieve its long-term objectives. The strategic planning process specifies the organisation's mission, vision and measurable performance objectives, together with plans and projects designed to achieve the objectives, and then allocating resources to implement the plans and projects.
- › **Risk Management** is anticipating and managing risks that may have an impact on the organisation.
- › **Resource Management** is the efficient and effective use of resources when they are needed for an organisation to achieve its objectives.
- › **Information Management** refers to the collection, recording, processing, securing and distribution of information throughout an organisation that is essential for assisting management to make informed decisions.
- › **Compliance and Reporting** – It is important for an organisation to demonstrate compliance with laws if it is to be

seen as ethical and a good organisation for customers and investors. Reporting organisation performance and financial results is important to show transparency.

confidence designed to improve the quality of information to aid informed decision-making.

› **Assurance** - is a position declaration intended to give



## Helpful references

- AICD / AUASB / IIA-Australia - 'Audit Committees – A Guide to Good Practice' 3rd edition
- Standards Australia - Australian Standard AS 8000:2003 'Good Governance Principles'
- Australian Stock Exchange (ASX) - 'Corporate Governance Principles and Recommendations'
- IIA–Australia - Fact Sheet '3 Lines of Defence - Combined Assurance Model'
- IIA–Australia - Fact Sheet 'Audit Committees'
- IIA–Australia - Fact Sheet 'Combined Assurance'
- IIA–Australia - Fact Sheet 'Internal Auditing'
- Audit Office of New South Wales - 'Governance Lighthouse'
- IIA–Australia - 'Internal Audit in Australia'
- IFAC / CIPFA - 'International Framework: Good Governance in the Public Sector'
- IIA–Global - 'International Professional Practices Framework'
- IIA-Australia - The 20 Critical Questions Series 'What Director should ask of Corporate Governance'.