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'A CHAIRMAN'S PERSPECTIVE ON THE AUDIT & RISK MANAGEMENT COMMITTEE'

By

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WE LIVE IN UNCERTAIN TIMES! RISKS HAVE INCREASED EXPONENTIALLY IN A WORLD WHERE GLOBALISATION HAS DRAMATICALLY INCREASED THE SPEED OF TRANSFER OF INFORMATION AND GEO-POLITICAL EVENTS ADD AN ADDITIONAL DIMENSION TO THE RISK ENVIRONMENT IN WHICH WE ALL OPERATE.

DIRECTORS AND SENIOR MANAGERS ARE REQUIRED TO UNDERSTAND AND EVALUATE RISKS IN AN EVER INCREASINGLY COMPLEX ENVIRONMENT.

49% OF DIRECTORS RECENTLY SURVEY BY KORN FERRY IN THE AMERICAS, TOLD THE STUDY THAT THEY HAD DECLINED BOARD SEATS DUE TO THE RISKS ASSOCIATED WITH BOARD SERVICE. 85% OF AUSTRALIAN RESPONDENTS IDENTIFIED RISK AS THE MAJOR DETERMINING FACTOR FOR TURNING DOWN OPPORTUNITIES TO SERVE ON BOARDS. THE PERCEIVED RISK ASSOCIATED WITH BOARD SEATS IS ALSO COMPLICATED BY THE REGULATORY RISKS AND BURDENS, FOR EXAMPLE, IN THE UNITED STATES - SARBANES-OXLEY (SOX).

THE AUDIT AND RISK MANAGEMENT COMMITTEE ('COMMITTEE'), PARTICULARLY OF LISTED COMPANIES, SHOULD BE MORE THAN A COMPLIANCE MECHANISM OF THE BOARD, AND SHOULD BE A COMMITTEE THAT UNDERSTANDS THE AUDIT AND RISK MANAGEMENT ISSUES CONFRONTING THE CORPORATION.

WHILST THE COMMITTEE EXAMINES AND REPORTS TO THE MAIN BOARD ON RISK AND OTHER ISSUES THAT IT ADDRESSES, NEVERTHELESS, THE MAIN BOARD IS ACCOUNTABLE FOR THE RISK PROFILE OF THE COMPANY. THIS RISK PROFILE IS WITHIN THE FRAMEWORK OF THE CORPORATION'S POLICIES AND THE UNDERSTANDING OF THAT RISK PROFILE AND THE MONITORING OF IT, IN MY VIEW, VERY MUCH LIES WITH THE BOARD OF DIRECTORS. THE IMPORTANCE OF AN EFFECTIVE RISK MANAGEMENT STRATEGY IS NOT IN DISPUTE AND THIS WAS CONFIRMED RECENTLY IN A KPMG STUDY WHERE 85% OF COMPANY DIRECTORS CONTACTED INDICATED THAT THEY BELIEVED THIS TO BE THE CASE.

A CHAIRMAN OF THE BOARD HAS ARGUABLY A HIGHER STANDARD OR RESPONSIBILITIES, THAT ARE 'ABOVE AND BEYOND' THOSE OF OTHER

DIRECTORS². A CHAIRMAN DERIVES CONFIDENCE IN A COMMITTEE WHERE THERE IS QUALITY ANALYSIS AND ROBUST EXAMINATION OF THE RELATED ISSUES AND RISKS RELATED TO THE BUSINESS.

AS CHAIRMAN OF THE BOARD, THE ROLE AND PERFORMANCE OF THE COMMITTEE COULD BE STATED AS FOLLOWS:

- AN AUDIT AND RISK MANAGEMENT CHARTER THAT ALIGNS THE CORPORATION'S VALUE DRIVERS AND STRATEGIES.
- THE COMPANY HAS A CLEAR SET IF ACCOUNTING POLICIES AND PROCEDURES AND A CLEAR SET OF RISK MANAGEMENT OBJECTIVES THAT ARE REVIEWED IN A ROBUST MANNER BY THE INTERNAL AUDIT FUNCTIONS AS MONITORED BY THE COMMITTEE.
- THE SYSTEMS ARE SUITABLE FOR ENSURING CONTROL OVER THE INTEGRITY OF THE FINANCIAL REPORTING OF THE ORGANISATION.
- ENSURING THAT 'OWNERSHIP' OF RISK MANAGEMENT RESIDES WITHIN THE BUSINESS - AND THAT ORGANISATION IS 'RISK AWARE'.
- ENSURES THAT THE AUDIT AND RISK MANAGEMENT PERFORMANCE MEASURES ARE CULTURALLY EMBEDDED IN THE ORGANISATION TO GIVE THE CHAIRMAN AND THE BOARD A LEVEL OF COMFORT THAT THE APPROPRIATE CONTROLS ARE IN PLACE.
- THE ORGANISATION'S RISK MANAGEMENT STRATEGY ALIGN ITSELF TO THE BUSINESS GOALS.
- THE COMPANY AND COMMITTEE REVIEW RISK/RETURN ANALYSIS.

THE RISK ASPECT OF AN ORGANISATION IS BECOMING INCREASINGLY CHALLENGING, GIVEN THE FINANCIAL MARKETS ARE REQUIRING QUARTERLY OR SIX MONTHLY REPORTING. ANALYSTS WHO'S CLIENTS ARE THE INSTITUTIONAL INVESTMENT MANAGERS, ARE SEEKING TO IDENTIFY HIGH ALPHA OPPORTUNITIES AND PRESSING CORPORATES ON EARNINGS GUIDANCE.

IT IS INCREASING PRACTICE THAT A LARGE NUMBER OF INTERNAL AUDIT FUNCTIONS REPORT DIRECTLY TO THE BOARD'S AUDIT COMMITTEE. THIS

² Jeff Lucy AM, Chairman ASIC 17/8/2006 pages 8 -10.

PRACTICE RAISES THE QUESTION AS TO WHETHER THE BOARD AUDIT COMMITTEE SHOULD BE SEPARATE TO THE BOARD RISK COMMITTEE. HOWEVER, A RECENT KPMG STUDY INDICATED THAT 70% OF RESPONDENTS ADVISED THAT THE BOARD RISK COMMITTEES WERE INTEGRATED WITH THE BOARD AUDIT COMMITTEES.

THE VALUE DERIVED FROM THE INTERNAL AUDIT AND THE COMMITTEES REVIEW ENABLES SENIOR CORPORATE MANAGEMENT TO MANAGE BUSINESS RISKS WHILST PROTECTING AND ENHANCING SHAREHOLDER VALUE.

THE COMMITTEE SHOULD BE ADVISING THE BOARD AS TO HOW WELL THE SYSTEMS AND RISKS ARE BEING MANAGED, RATHER THAN MERELY ADVISING THAT THE CONTROLS ON THE SYSTEMS AND THE RISKS ARE ADEQUATE AND EFFECTIVE.

THE RELATIONSHIP BETWEEN THE INTERNAL AUDITOR AND/OR EXTERNAL AUDITOR AND THE COMMITTEE CHAIRMAN IS CRUCIAL.

THE CHAIRMAN SEEKS TO ENSURE THAT THE COMMITTEE HAS CERTAIN CHARACTERISTICS TO GIVE THEM THE NECESSARY COMFORT VIZ. THE COMMITTEE'S FUNCTION VIA THE AUDIT AND RISK MANAGEMENT CHARTERS, WHICH SHOULD BE ALIGNED TO THE CORPORATION'S VALUE DRIVERS AND STRATEGIES, ENSURING AN EFFECTIVE CONTROL AND RISK MANAGEMENT FRAMEWORK.

THE REGULATORY INDUSTRY IS A GROWTH ONE! OF RECENT TIMES, REGULATORY OVERSIGHT OF CORPORATIONS, PARTICULARLY THOSE IN THE FINANCIAL SERVICES AREA, HAS INCREASED EXPONENTIALLY. COMPLIANCE TO THE REGULATORY FRAMEWORK THAT AFFECTS MOST CORPORATIONS IS BOTH COMPLEX AND COSTLY AND AT TIMES CAN BE CONTRADICTIONARY! IT IS TIMELY, AND INDEED THERE IS A VIEW, THAT WE SHOULD EITHER 'ROLL BACK' SOME OF THESE REGULATORY REQUIREMENTS, AND/OR THAT WE SIMPLIFY THE REGULATORY AND COMPLIANCE REQUIREMENTS. IT IS SUGGESTED THAT THE CURRENT FAD OF 'PUBLIC TO PRIVATE' TRANSACTIONS IS, IN PART, RELATED TO

THE COMPLIANCE COSTS THAT PUBLIC COMPANIES AND THEIR ONGOING BUSINESSES HAVE TO INCUR.

POLICY MAKERS NEED TO GIVE SOME CONSIDERATION TO STREAMLINING REGULATORY REGIMES SUCH AS THE CORPORATIONS CODE OR STATE ACTS, SUCH AS, FOR EXAMPLE, COMPLIANCE WITH ENVIRONMENTAL ACTS.

HOWEVER, IT IS NECESSARY FOR CORPORATIONS TO ENSURE THAT IT HAS THE APPROPRIATE PROCESSES TO ADHERE TO THE COMPLIANCE FRAMEWORK TO WHICH IT IS SUBJECTED. OFTEN THE COMPLIANCE REVIEW FUNCTION OF THE BOARD RESTS WITH THE AUDIT AND RISK MANAGEMENT COMMITTEE, AGAIN THE CHAIRMAN LOOKS TO THAT COMMITTEE TO REVIEW THE COMPLIANCE PROCESSES TO ENSURE THAT THE CORPORATION IS DISCHARGING ITS DUTIES IN ACCORDANCE WITH ITS REGULATORY AND OTHER OBLIGATIONS.

THE CHAIRMAN NEEDS TO HAVE COMFORT THAT, AT ALL LEVELS IN THE ORGANISATION, THERE IS AN UNDERSTANDING OF THE INTERNAL AUDIT AND RISK MANAGEMENT FUNCTIONS WITHIN THE FRAMEWORK OF EACH BUSINESS WITHIN THE ORGANISATION'S GOALS AND OBJECTIVES. THERE SHOULD BE STRONG COMMUNICATION BETWEEN INTERNAL AUDIT AND RISK MANAGERS, REINFORCING THE IMPORTANCE OF THESE ROLES; AND THAT THE SKILL SETS WITHIN THE INTERNAL AUDIT AND RISK MANAGEMENT GROUPS ARE OF SUFFICIENT QUALITY.

THANK YOU.