

# Board Process Report

## The Role of Boards in Risk Management

Date: September 2006

This report is intended for Company Secretaries, Board Chairmen and Chief Risk & Compliance Officers responsible for the work of public listed company boards, and the ongoing improvement of board process.

The purpose of the report is to monitor trends and variations in board process in order to understand how different factors contribute to overall board performance. The report analyses:

- The board's role in risk management and internal control.
- Models of delegation and monitoring with respect to risk management.
- The division of responsibility between boards and executive management on reputational risk issues.

Four key findings are offered based on analysis of leading UK, US and Australian companies:

- Board delegations to audit committees, and the existence of group wide-operational risk committees, forms the foundation for risk management reporting and monitoring activities in the peer group. Management level risk committees appear to mirror bodies established at board level.
- Monitoring and reporting techniques such as 'letters of assurance' are used by a minority of companies to ensure that effective risk controls are maintained.
- In general, these techniques have not yet been applied to cover reputational and other non-financial risk items.
- Clear division of authority is regarded as the single most important contributory factor in successful risk management programmes. The board's responsibility for setting policy in connection with strategic issues is its most important contribution to the effective functioning of risk controls.

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