

LEA Global

# Practical guide on how to apply Corporate Governance

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INTERNATIONAL ACCOUNTING BULLETIN

# Practical guide on how to apply corporate governance

## “Bank Pilot Project”



# I. Definition of Corporate Governance

- Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled.
- It encompasses the relationships among stakeholders such as shareholders, the board of directors, executive management, employees, customers, suppliers, and the community.
- The primary aim of corporate governance is to ensure transparency, accountability, fairness, and ethical behavior in decision-making processes, by safeguarding shareholders' & stakeholders' interests.

## II. Importance of CG in Modern Organizations

- CG is crucial for fostering trust and confidence among stakeholders.
- It helps mitigate unethical behavior risks, fraud, and financial mismanagement, by safeguarding the long-term organization's sustainability.
- Effective CG enhances organizational performance & promotes transparency, accountability, & ethical decision-making, so attract investment & fostering growth.
- In today's complex and dynamic business environment, strong CG practices maintain competitiveness, manage regulatory compliance, and adapt to market conditions.
- Aligns stakeholder's interests and promote best business practices,. So CG contributes to building a positive corporate reputation and enhancing shareholder value.

# III. Why Corporate Governance

## 1- Ensures Accountability and Responsibility:

- Establishes mechanisms to hold decision-makers accountable for their actions, reducing the likelihood of misconduct or unethical behavior.
- Encourages transparency in decision-making processes, fostering trust among stakeholders.

## 2- Builds Trust with Stakeholders:

- Demonstrates the organization's commitment to ethical conduct and responsible management of resources.
- Enhances credibility and reputation, attracting investors, customers, and talent

## Cont. **Why Corporate Governance Matters**

### **3- Safeguards Shareholder Interests:**

- Protects shareholders' rights and interests by providing mechanisms for fair treatment and equitable access to information.
- Enhances shareholder value by promoting long-term sustainability and strategic decision-making.

### **4- Enhances Organizational Reputation:**

- Improves public perception and brand image by showcasing a commitment to integrity, fairness, and transparency.
- Reduces the risk of reputational damage and legal liabilities associated with governance failures.



# IV. Key Principles of Corporate Governance

## 1- Transparency and Disclosure:

- Ensure open and honest communication with stakeholders, including financial performance, risks, and governance practices.
- Promote transparency in decision-making processes to build trust and credibility.

## 2- Accountability and Responsibility:

- Holding individuals & entities' actions & decisions accountable, including executives, board members, & other stakeholders.
- Establishing mechanisms for oversight and reporting to ensure compliance with laws, regulations, and ethical standards

## Cont. Key Principles of Corporate Governance

### 3- Fairness and Equity:

- Treating all stakeholders fairly and equitably, regardless of their position or influence.
- Upholding principles of fairness in decision-making processes, such as allocation of resources, opportunities, and benefits.

### 4- Integrity and Ethical Behavior:

- Promoting ethical conduct & integrity in business activities, including interactions with stakeholders, competitors, & community.
- Establishing a culture of integrity and ethical behavior through leadership, policies, and organizational values.



# V. Pillars of Effective Corporate Governance

**1- Board of Directors:** Provides strategic guidance and oversight.

- Establishes policies and objectives.
- Ensures compliance with regulations.

**2- Executive Management:** Implements board directives.

- Manages day-to-day operations.
- Develops and executes strategies.

**3- Shareholders:** Exercise voting rights.

- Monitor management performance.
- Provide input on key decisions

# Cont. Pillars of Effective Corporate Governance

## 4- Stakeholder Engagement:

- Engages with stakeholders.
- Considers their interests.
- Communicates effectively.

## 5- Roles and Responsibilities:

- Clearly defined roles for each stakeholder.
- Aligned with organizational goals.
- Includes accountability measures.

## VI. Best Practices in Corporate Governance

- Board Composition: Diversity, Independence, Skills & Expertise
- Board Committees: Audit, Risk, Nomination & remuneration, compliance, & governance.

A- Disclosure and Transparency: Financial Reporting, Communication with Stakeholders

B- Risk Management and Compliance: Identification and Mitigation of Risks, Compliance with Legal and Regulatory Requirements.

# VII. Challenges and Risks

- **1. Board Diversity and Composition:**

- **Challenge:**

- Ensuring diversity in board composition, including gender, ethnicity, and expertise, can be challenging.

- **Risk:**

- Lack of diversity may lead to groupthink, where critical perspectives are overlooked, and decision-making becomes less effective.

- **2. Executive Compensation and Incentives:**

- **Challenge:**

- Designing executive compensation packages that balance rewarding performance & aligning with shareholders' interests can be complex.

- **Risk:**

- Incentives that focus solely on short-term financial performance may encourage risky behavior or undermine long-term sustainability

# Cont. Challenges and Risks

## 3. Shareholder Activism and Proxy Battles:

- **Challenge:**
- Responding to activist shareholders and proxy battles can divert management's attention and resources.
- **Risk:**
- Disputes with shareholders can disrupt governance processes, damage reputation, and undermine shareholder value.

## 4. Regulatory Compliance and Legal Risks:

- **Challenge:**
- Keeping pace with evolving regulatory requirements and legal obligations can be demanding.
- **Risk:**
- Non-compliance with laws and regulations may result in fines, litigation, reputational damage, and loss of investor confidence.

## VIII. Governance Questionnaire Evaluation

- A- Board of Directors Evaluation
- B- Shareholders
- C- Audit Committee
- D- Risk Committee
- E- Remuneration Committee
- **F- Compliance Committee**
- **G- Governance Committee**



# A- Board of Directors Evaluation

	Questions	Yes	No
1-	Is there a balance between Independent and non-executive members of the Board of Directors?		
2-	If yes, is there gender diversity among the Board members so that the percentage of females is not less than 20% of the Board?		
3-	Are there any indicators to measure the Bank's Board of directors' success?		
4-	If yes, where indicators applied to improve the Board success?		
5-	Are there any monitoring tools to measure the Board members duty of care and loyalty?		
6-	If yes, were these tools applied to improve Board members' duty of care and loyalty?		
7-	Do Board Members get informed regularly on developments in the financial markets, the prevailing trends, and significant amendments issued by the regulatory authorities?		

# A- Cont. Board of Directors Evaluation

8-	<b>Does the Board of Directors regularly review the Bank's structure, considering the possibility of future adjustments to achieve the short and long-term objectives?</b>		
9-	If yes, does the Board measure the organizational performance through indicators?		
10-	Did the Board conduct its plan and develop for succession?		
11-	Did the Board discuss the strategic plan and brainstorm the Bank's expected objectives?		
12-	If yes, is the plan adequate for the current time?		
13-	Is the Board of Directors involved in developing the Bank's strategic plan?		
14-	Did the Board members consider the Bank's long-term objectives and compatibility with the Annual Plan?		
15-	If yes, did the Board make decisions to help achieve those objectives?		

# A- Cont. Board of Directors Evaluation

<b>16-</b>	<b>Has the Board of Directors implemented the Strategic Plan monitoring indicators?</b>		
<b>17-</b>	If yes, was the strategic plan modified and corrected according to Results and Indicators?		
<b>18-</b>	If yes, have the new indicators and factors affecting the Bank's strategic plan been studied?		
<b>19-</b>	If yes, was it discussed with executive management?		
<b>20-</b>	If yes, was the balanced matrix used to monitor the plan's implementation?		
<b>21-</b>	If yes, did the Board discuss the matrix analysis?		
<b>22-</b>	If yes, is the improvement in the Bank's share measured?		
<b>23-</b>	If yes, is the depositors' satisfaction level measured?		

# A- Cont. Board of Directors Evaluation

24-	Does the Bank use indicators to measure its performance success?		
25-	If yes, has the Board reviewed and agreed on the performance success indicators?		
26-	Is the Bank routinely exposed to unexpected events due to delays in conveying accurate information to the Board?		
27-	If yes, were measures taken to secure conveying accurate information promptly?		
28-	Do Board members face pressure to speed up and approve decisions already taken?		
29-	Has the Board of Directors chosen and appointed the Bank's executive directors?		
30-	If yes, has the Board approved the engagements of the Bank's executive directors?		
31-	If yes, was accountability Aligned with responsibility		
32-	Has the Board verified the Human Resources Development program's appropriateness with the Bank's objectives?		
33-	If yes, did it benefit from technological advances?		
34-	If yes, do employees consider that they are becoming an essential part of corporate governance as capital resources?		
35-	If yes, do the employees function at the level of investment in the Bank's capital?		
36-	If yes, does it cover their retirement plans?		

# A- Cont. Board of Directors Evaluation

37-	<b>Did the Board measurably define the executive management deliverables in ways that can be measured?</b>		
38-	Have Board Members discussed the Executive Management performance constructively and through sessions involving Brainstorming?		
39-	Has the Board of Directors received reports showing the Executive Directors' performance and efficiency in achieving the Bank's Strategy according to the expected dates?		
40-	Has the Board of Directors developed a set of Key Performance Indicators (KPIs) to measure management performance in achieving the Bank's goals associated with the Strategy?		
41-	If yes, does the Board ensure the prudent management of resources?		
42-	Did the Board encourage internal reporting of code of ethics violations with the promise of no retaliation for such reporting?		

# A- Cont. Board of Directors Evaluation

43-	Is there an implemented and suitable whistle-blowing framework?		
44-	If yes, Did the Board receive any whistle-blow from the Bank executives or stakeholders?		
45-	If yes, was the issue investigated professionally and discretely?		
46-	If yes, did they deal with the raised breaches?		
47-	If yes, were the internal controls improved to avoid future breaches?		
48-	If yes, was the whistleblower protected?		
49-	Did the Board reward high-quality and ethical employee performance?		
50-	Does the Board of Directors periodically evaluate the CEO's performance and executive managers in light of the actual results achieved compared to the specific plans and budgets for the comparative period?		



# B- Shareholders

	Questions	Yes	No
1-	Did the applied Governance system successfully balance power-sharing among shareholders, Board members, and executive management to enhance shareholder value and protect the other stakeholders' interests?		
2-	Did the applied governance system enable Shareholders to monitor the Bank's operations and express their concerns openly?		
3-	Did the Board set an appropriate "tone at the top" in promoting personal integrity and professional accountability?		
4-	Did the Board Chairperson stress maintaining information and discretion among BOD and its committees?		
5-	Has the confidential/strategic information been kept by BOD members discreetly and restricted to trading only following "legal requirements"?		
6-	Did any of the Board members use confidential information for personal purposes or to benefit him/her or others?		
7-	If yes, were measures taken to expel such members outside the Board of Directors?		

# B- Cont. Shareholders

8-	<b>Did the Chairperson authorize board members before disclosing confidential information, after explaining why and to whom they can share it?</b>		
9-	Do board Members drive the meeting agenda according to the Bank's needs?		
10-	If yes, When in session, are members engaged and disciplined formally?		
11-	Do Board members meet outside the bank premises yearly to discuss the Bank's Strategy and future goals through a brainstorming session?		
12-	Was corporate accountability ensured by adopting the present governance system?		
13-	Did it enhance the reliability of the published financial information?		
14-	If yes, did it improve its integrity?		
15-	If yes, did it lead to the issue of high-quality financial information?		
16-	Are there any applied programs to increase accountability?		
17-	If yes, are there for the Board of Directors members?		
18-	If yes, are there for the Board Committees?		
19-	If yes, are there for the Executive Committees?		
20-	If yes, are there for Senior Executive staff?		

## B- Cont. Shareholders

21	Do board members need to develop their skills related to the following:		
	a. Banking risks.		
	b. Acceptable risks.		
	c. Governance.		
	d. Capital planning.		
	e. Best practices in banking.		
	Is the Board satisfied with applying the principles of Governance to increase the effectiveness of the Board's performance?		
22	Does the Board exercise its role seriously in the following:		
	a. Risk management.		
	b. Anti-money laundering.		
	c. Concepts of Good Governance.		
	d. Internal Audit Department.		
	e. Nominations and Rewards.		
	f. Analysis of financial operations.		
	g. Strategic planning.		

## B- Cont. Shareholders

23-	<b>Do the bank management and board consider compliance to be a check box?</b>		
24-	If yes, are there any plans to change this mentality?		
25-	If yes, is the Bank creating an ethical culture to encourage all corporate governance participants?		
26-	If yes, does the Bank integrate the best practices suggested by investor activists and professional organizations into the Bank's corporate governance structure?		
27-	If yes, does the ethical culture explain how such culture is vital for the Bank's continuity, sustainability, and financial performance?		
28-	If yes, does it include Board directors?		
29-	If yes, does it include Officers?		
30-	If yes, does it include auditors?		
31-	If yes, does it include financial advisors?		
32-	If yes, does it include employees?		

## B- Cont. Shareholders

<b>33</b> -	<b>Do investors exercise their right to elect directors?</b>		
<b>34</b> -	Did the investors raise concerns about the Bank's governance by selling their shares?		
<b>35</b> -	If yes, were these concerns discussed with investors?		
<b>36</b> -	If yes, Were the investors' concerns dealt with to satisfy them?		
<b>37</b> -	If yes, did the investors change their position in selling their shares?		
<b>38</b> -	Did investors transmit private information to the supervisory monetary authorities to improve efficiency and transparency?		
<b>39</b> -	Do investors possess the resources and expertise to oversight the Bank's functions?		
<b>40</b> -	Does the Bank's management facilitate conveying information to investors?		

# C- Audit Committee

	Questions	Yes	No
1-	Did the Audit Committee establish and approve its Charter?		
2-	If yes, has it updated the charter during the current year?		
3-	Was the audit committee charter discussed and approved by the committee members?		
4-	If yes, has the Board of Directors approved the charter?		
5-	If yes, does the charter include the following:		
	– Risk-Based Audit Program		
	– Audit plan preparation responsibility		
	– Audit reports preparation responsibility		
	– Audit reports preparation timetable		
6-	If yes, did the audit committee review the internal controls every quarter?		
7-	If yes, did it review its effectiveness in financial reporting and related management assessment?		
8-	Does the audit committee comply with its charter		
9-	Is the audit committee meetings allocated time sufficient with the subject agenda and the required discussions?		
10-	When in session, do members have enough time to discuss agenda topics and provide insightful time to discuss the business and make the right decisions?		



# C- Cont. Audit Committee

11-	Are the Committee's reports sufficient to highlight significant discussions and decisions at Board meetings?		
12-	Is the audit Committee adding value to the Bank's goals?		
13-	If yes, was the added value measured?		
14-	If yes, is there any space for improvement in the added value?		
15-	Does the audit committee coordinate directly with the bank's internal audit department?		
16-	Has the audit committee confirmed that the applied internal audit procedures are on a risk-based audit?		
17-	Did the audit committee discuss the annual internal audit plan?		
18-	If yes, was the audit committee informed of the implementation schedule of the internal audit plan?		
19-	If yes, has the audit committee ensured that the internal audit department's resources are sufficient?		
20-	Did the audit committee ensure that the internal audit head met with the department to discuss the quarterly report before presenting it to the committee?		

## C- Cont. Audit Committee

<b>21-</b>	<b>Does the audit committee receive quarterly reports from the internal audit department?</b>		
<b>22-</b>	If yes, did the audit committee discuss the report's content with the internal audit department?		
<b>23-</b>	Does the quarterly report include the following:		
	- Summary of tasks completed		
	- Identified Vulnerabilities		
	- Suggested recommendations for improvement		
	- Management's commitment to addressing weaknesses in the auditors' reports		
	- Management's commitment to addressing observations contained in the Banking Control Commission report		
	- Management's commitment to addressing the observations mentioned in the Anti-Money Laundering Commission report		
<b>24-</b>	Did the audit committee prepare a detailed report on discovered cases and operations that are not in compliance with applied laws?		

## C- Cont. Audit Committee

<b>25-</b>	<b>Has the Audit Committee ensured that the Internal Audit Department undertakes continuous development to enhance the control program?</b>		
<b>26-</b>	Does the head of the audit committee discuss the committee's agenda with the members before the meeting?		
<b>27-</b>	Does the internal audit department head participate in the audit committee meetings?		
<b>28-</b>	Does the audit committee confirm the ability of the head of the internal audit department to communicate directly with the committee and the board of directors?		
<b>29-</b>	Have ways of improving the audit committee's tasks been identified?		
<b>30</b>	Does the audit committee meeting minutes reflect the discussions and decisions taken during the meeting?		

# D- Risk Committee

	Questions	Yes	No
1-	Did the risk committee approve its Charter?		
2-	If yes, did the Board approve the risk appetite?		
3-	If yes, does the Risk committee reports classify and analyze High-Risk operations and other risk issues?		
4-	If yes, were they addressed and dealt with by the executive management?		
5-	If yes, were High-Risk Open Issues managed by the Bank?		
6-	Does the committee comply with their charter		
7-	When in session, do members have enough time to discuss agenda topics and provide insightful time to discuss the business and make the right decisions?		
8-	Are the Committee's reports sufficient to highlight significant discussions and decisions at Board meetings?		
9-	Are the Board Committees adding value to the Bank's goals?		
10-	If yes, was the added value measured?		
11-	Was there any risk assessment performed during the year?		

# D- Cont. Risk Committee

<b>12-</b>	<b>Are the appointed external auditors independent and competent?</b>		
<b>13-</b>	If yes, can they provide high level assurance for reliability?		
<b>14-</b>	If yes, are they known for providing quality and transparent financial reports?		
<b>15-</b>	Is the chosen legal Counsel objective and competent?		
<b>16-</b>	If yes, do they provide a legal perspective encompassing more than technical compliance with applicable laws, regulations, rules, and standards?		
<b>17-</b>	If yes, were implemented controls self-govern the activities in monitoring compliance with all applicable laws and regulations?		
<b>18-</b>	If yes, were the advice and information provided relevant and valuable to the board of directors?		
<b>19-</b>	If yes, were they valuable to the committees in accomplishing their duties?		
<b>20-</b>	If yes, were they valuable to officers and employees while performing their responsibilities?		
<b>21-</b>	Was the legal counsel critical in building a culture of compliance and transparency?		
<b>22-</b>	If yes, did they bring legal compliance issues to the attention of appropriate authorities?		

## D- Cont. Risk Committee

23-	Were the chosen financial advisors and investment bankers objective and competent?		
24-	If yes, do they provide legitimate business affairs and transactions with valid economic purposes?		
25-	Did the Bank use the IT functions to enable other corporate governance functions operate in real time?		

# E- Remuneration Committee

	Questions	Yes	No
1-	Did the remuneration committee approve its Charter?		
2-	Does the committee comply with their charter		
3-	When in session, do members have enough time to discuss agenda topics and provide insightful time to discuss the business and make the right decisions?		
4-	Are the Committee's reports sufficient to highlight significant discussions and decisions at Board meetings?		
5-	Are the Board Committees adding value to the Bank's goals?		
6-	If yes, was the added value measured?		
7-	Does the meetings minutes accurately reflect the committee's discussions and decisions?		
8-	Has the committee made adequate recommendations to change the board's skills after reviewing the current Board members?		
9-	Has the committee made recommendations on key performance indicators and components for the reappointment of the Bank's Executive Directors?		
10-	Does the committee follow up with the ongoing learning and development program for Board members and their commitment to comply?		

## E- Cont. Remuneration Committee

11-	<b>Does the committee review the succession planning policies and criteria of the Governing Board and the Executive Management and submit them to the Board of Directors for approval?</b>		
12-	Is there a professional interaction between the Nomination and Remuneration Committee and the Board Risk Committee in the Board of Directors?		
13-	Is there a professional interaction between the Nomination and Remuneration Committee, and the Audit Committee?		
14-	Have the ways of improving the functions of the Nominations and Remuneration Committee been identified?		



## E- Cont. Remuneration Committee

	<b>In the context of linking compensation paid to senior management with performance success and in the developed strategy implementation</b>		
<b>1-</b>	Has the information issued by the executive management been linked to the published data?		
<b>2-</b>	Has the bank linked specific shares to a stock option for senior executives on the condition that they abandon those shares when they exit their position?		

	<b>Compensation and Remuneration policies and their role in accelerating or impeding the achievement of the bank's objectives</b>		
<b>1-</b>	Were the following factors considered in the Compensation and Remuneration Plan "Remuneration"?		
<b>2-</b>	From a Financial Perspective:		

# E- Cont. Remuneration Committee

	From the Customers Perspective :		
1-	The bank's share of the market		
2-	Objective to be achieved		

	From the development and Evaluation Perspective:		
1-	Employee satisfaction		
2-	Rate of Staff Objection		

	From the Internal Systems Perspective :		
1-	Development in the delivery of products and services		
2-	Number of internal systems		

- **F- Compliance Committee**
- **G- Governance Committee**

# Q & A



