CORPORATE GOVERNANCE

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Assignment
Final Term Exam

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Date
30th Jun 2020

DEPARTMENT OF BUSINESS ADMINISTRATION
IQRA NATIONAL UNIVERSITY
Session: 2017-2020

Iqra National University
School of Management and Social Sciences (Dept. of Business administration).

Course Title:	**Corporate Governance**	**Instructor:**	**Mr. Naveed Azeem Khattak**
Course Code:		**Total time:**	**--**
Total Marks	**50**		

Attempt all questions. Each question carries equals marks.

Attempt your paper in MS word format.

Q#1

Committee is one of the important groups structured for the solution of different problems, while considering the concept of committee what are the most important committees that used to be structured in different business.

Q#2

While discussing the internal control of any business activity audit is considered one of the important components that plays vital role in internal control. Keeping in view the concept explains the audit internal and external audit in brief.

Q#3

Whenever as an entrepreneur we consider business activity we are exposed to different uncertainty and that uncertainty is normally considered as risk. As an entrepreneur how we could counter risk, explain its different techniques that one could adopted for the risk management.

Q#4

Corporate social responsibility is very much important factor for any business, while going for any business activity. Explain CSR in detail.

Question 1

Committee is one of the important groups structured for the solution of different problems, while considering the concept of committee what are the most important committees that used to be structured in different business.

Answer

Just as each board is unique, so is the structure of each board committee. Most of the boards in the last few years have maintained the same structure of the committee which the committee has been doing very carefully or is still related to. As a result, committees have clear goals, committee meetings often end without results, and committee members get bored or frustrated.
At the other end of the spectrum is a zero-sum committee structure in which the board reviews its work plan annually and then only forms committees. Like a zero-day budget, it frees the board from doing the same thing every year. Of course, this only works if the association really considers what is needed for the council's work this year and only forms the necessary committees.

There are generally two types of board committees:

1. Standing committees (also called operating committees) are those committees that a board uses on a continual basis. They can be set forth in the association's bylaws or in its board operations and policy manual, or they may be established by custom.
2. Ad hoc committees are formed for a limited period of time to address a specific need. When the work of the ad hoc committee is completed, the committee is dissolved. An ad hoc committee may exist for less than a year or for a year or more depending on the extent of the work assigned to it.

1. Standing committees

Executive Committee

Depending on the size of the board, it might be useful to have a small executive committee (three to seven members) authorized to meet between the boards and take action when the full board has a special board. Gathering with the congregation was not practical Board meeting. The Executive Committee can also function as an advisor to the Chief Executive Officer and as a liaison between the CEO and the full board.
The executive committee is usually accused of overseeing the association's chief executive. Although there may be a separate CEO Search Committee or Compensation Committee, the Executive Committee will often employ the CEO and work with the CEO in setting goals, evaluating performance, and setting compensation for the year will do. The Executive Committee reports this activity to the full board

Audit Committee

Something of a rarity a decade ago, the Audit Committee is quickly becoming a standing committee at many associations. It is usually a small committee of three to five members. Its work is often seasonal, tied to the end of the association's fiscal year. The Audit Committee selects the outside auditor, meets with the auditor to receive the audit report and management letter, and discusses the management letter with the full board and the senior staff.
The Audit Committee may also be charged with auditing the expenses of the board and the chief executive officer.
Members of the Audit Committee should be financially literate, and at least one (and preferably more) should be financial professionals. While there may be some overlap in membership with the finance committee, the chair of the finance committee and the treasurer should not be on the Audit

Committee. Likewise, the chair of the board and the CEO should not be on the Audit Committee. These restrictions are intended to provide the committee with the independence it requires to operate effectively.

Governance Committee

The Governance Committee is charged with the care and feeding of the board itself. The responsibilities assigned to this committee vary with each board. As a general rule, the Governance Committee would be responsible for board recruitment, orientation, board and director self-assessment, continuing education, and board management.

Recruitment involves identifying current and projected vacancies on the board, assessing the composition of the current board and identifying gaps in competencies or demographics, and finding and recruiting potential board members. The Governance Committee is charged with developing a position description for board membership to inform prospective candidates of qualifications in terms of their experience and background and what will be expected of them if they join the board. The Governance Committee can also serve as the Nominating Committee for new board members and officers.

Finance Committee

Sometimes called a Budget Committee or a Budget and Finance Committee, this committee oversees staff's preparation of the annual budget and the performance of the association in meeting its budgeted revenues and expenses. The Finance Committee often receives regular reports on the association's performance in meeting its budget and presents that information to the full board.

Membership Committee

If an association has a Membership Committee, that committee may be tasked with developing criteria for membership, credentialing members, overseeing elections, or developing and delivering programs for members. There may be some overlap with the Program Committee and the Governance Committee.

Program Committee

While staff often carries out the day-to-day activities that result in the development and implementation of the association's programs, the Program Committee may be charged with long-range planning and general oversight of programs. Depending on the extent of the association's programs and the size of the board, there could be several committees devoted to programs that may bear other titles (for example, government relations, technology, and education). Each of these committees or subcommittees would be assigned a specific element of programs to oversee.

2. Ad Hoc Committees

By their nature, ad hoc committees are formed when they are needed and dissolved when their work is done. Below are some examples of ad hoc committees.

Bylaws Committee

The Bylaws Committee is charged with reviewing the association's bylaws and current practices to ensure that they are synchronized. Over time, it is not uncommon for an association's practices to evolve so that they no longer follow the bylaws. The Bylaws Committee assesses why this has happened and recommends changes to either the association's practices or the bylaws. This group can also be used to review current best practices and governance trends and make recommendations on those the association should consider adopting.

Capital Campaign Committee

A capital campaign is a coordinated effort to raise significant funds for an identified purpose, such as the construction of a building, the establishment of a scholarship program, or some other "big ticket" item outside of the association's normal day-to-day fundraising activities. A capital campaign will usually last for several years. An association may embark on a capital campaign only once a decade. Therefore, a capital campaign committee is an ideal ad hoc committee.

Strategic Planning Committee

Since it should take less than a year to develop or update an existing strategic plan, this task can be assigned to an ad hoc committee or a task force. Many associations will choose to make it an ad hoc committee. Members of the Strategic Planning Committee are responsible for developing or updating an existing strategic plan for the full board's approval. They may also monitor the implementation of the plan and report on its progress to the full board. This ad hoc committee may work closely with the Finance Committee, the Membership Committee, and the Program Committee.

Question 2

While discussing the internal control of any business activity audit is considered one of the important components that plays vital role in internal control. Keeping in view the concept explains the audit internal and external audit in brief.

Answer

1. Internal Audit

By Internal Audit, we mean that an unbiased and systematic appraisal function, performed within the business organization, with the purpose of reviewing the day to day activities of the business and providing necessary suggestions for the improvement.

Internal audit performs a wide spectrum of activities such as:

1. Evaluating the accounting and internal control system.
2. Examining the routine operational activities.
3. Physical verification of inventory at regular intervals.
4. Analyzing financial and non-financial information of the organization.
5. Detection of frauds and errors.

The main aim of the internal audit is to increase the value of an organization's operation and to monitor the internal control, internal check and risk management system of the entity. An Internal audit is conducted by the internal auditors who are the employees of the organization. It is a separate department, within the organization where a continuous audit is performed throughout the year.

Purpose

Reporting to the University's Audit Committee, the Internal Audit function provides independent assurance of the University's financial and operational activities. The University's Internal Audit function is currently outsourced to an external firm.

Among the internal auditors' main areas of audit are:

- key financial issues
- risk management
- value for money

- internal controls
- governance

Annual internal audit plan

Each year, an Annual Audit Plan is drawn up, linked to the key risk areas identified in the University's Risk Register, and assesses the internal controls and accounting systems in place in the University. The annual internal audit plan includes:

- specific themed audits which are agreed by the Audit Committee; and
- an online Departmental Assurance Survey which is completed by all institutions

The objective of the internal audit:

The best answer to the question about what is the objective of internal audit is why does this department exist in the entity?

In general, there are two main reasons why it exists. First, for some entity, it is required by law or regulation where the entity operating in. Second, it is part of the risks entity risks managements.

Setting up the internal audit department is some time to meet the requirement of local law. For example, most of the listed companies are required to set up internal audit department to review and assess internal control both operation and internal control over financial reporting.

This internal audit must be independent and people who manage this department must be qualified. In some country, recruitment of the head of internal audit department or chief of internal audit needs to get some approval from certain local authority or body to ensure that the quality of this department is meet the requirement.

Existing of some internal audit departments are sometimes part of the board of directors as the result of risks management. This is not required by law.
In this case, the objective and scope of the internal audit department are set by the board of directors or that charge with the government. This department is normally under the control of the audit committee. In most case, the objectives of internal audit are determined and defined in The Internal Audit Charter.

In summary, the main objective of internal is to help the organization to assess and manage risks through its independence and objectivity with highly disciplined and systematic work.

2. External Audit

The periodic, systematic and independent examination of the financial statements of the company conducted by a third party for specific purposes, as required by statute is known as External Audit. The main aim of external audit to publicly express an opinion on:

The truthfulness and fairness of the financial statement of the company
The accounting records are complete in all respects and prepared as per the policies outlined by GAAP (Generally Accepted Accounting Principles) or not.

All material facts are disclosed in the annual accounts.
For carrying out an external audit, the auditor is appointed by the members of the company. He should be independent, i.e. he should not be connected to the organization in any way so that he can work in an impartial way without any influence. The auditor has the right to access books of accounts to

obtain necessary information and provide his opinion to the members by way of the audit report. The report is of two types:

- Unmodified
- Modified
    - Qualified
    - Adverse
    - Disclaimer

If the report is modified, the auditor has to give reasons for the same.

External Audit department visits

To establish an opinion on the University's financial statements, the external auditor will undertake audit work in both departments and the central Finance Division. This audit process will involve several departmental audits each year

The objective of external audit:

The main objective of external auditors or financial audit is to let auditors be able to perform their audit on financial statements independence and objectively and let them issued opinion whether:

- Financial Statements that prepare by managements are true and fair view in all material respects in all material respect, and
- Whether those financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

And to meet this objective, external audits are required to strictly follow the guideline from IFAC and another related professional body. Sometimes, the external auditor also needs to follow local professional body which is established by the governments.
Internal policies and internal manual that prepare by their own firm also could help to make sure that all audit assignments are performed at the required quality.

In most case, the form is required to have them and more importunately, follow them. The audit standard that related to the objective of audit on financial statements is ISA 200.
The objective of the audit on financial statements can be found in the audit engagement letter. This letter plays as contract and it contains much important information include audit objective, the scope of the audit, timing, audit fee, auditor right and obligation, management right and obligation, etc.

It is good to note that the external audit that mentions above refer to the audit professional audit form that authorized by the authority and run by CPA member. Big four audit firms are the best example of an external audit.

Question 3

Whenever as an entrepreneur we consider business activity we are exposed to different uncertainty and that uncertainty is normally considered as risk. As an entrepreneur how we could counter risk, explain its different techniques that one could adopted for the risk management.

Answer

Manage Risk

Every business faces risks that could present threats to its success.
Risk is defined as the probability of an event and its consequences. Risk management is the practice of using processes, methods and tools for managing these risks.
Risk management focuses on identifying what could go wrong, evaluating which risks should be dealt with and implementing strategies to deal with those risks. Businesses that have identified the risks will be better prepared and have a more cost-effective way of dealing with them.
This guide sets out how to identify the risks your business may face. It also looks at how to implement an effective risk management policy and program which can increase your business' chances of success and reduce the possibility of failure.

The risk management process

Businesses face many risks; therefore risk management should be a central part of any business' strategic management. Risk management helps you to identify and address the risks facing your business and in doing so increase the likelihood of successfully achieving your businesses objectives.

A risk management process involves:

1. Identify the risk.
2. Analyze the risk.
3. Evaluate the risk.
4. Treat the risk.
5. Monitor the risk.
6. Avoidance.
7. Reduction.
8. Sharing.

Before determining the most effective risk management strategy for your situation, the first five steps to take in first assess the risk and best solution.

1. **Identify the risk**

Risks include any events that cause problems or benefits. Risk identification begins with the sources of internal problems and benefits or those of competitors. Risks can be internal or external, so software can be used to identify the wide range of risk possibilities.

2. **Analyze the risk**

Once you have identified risks, you can thoroughly analyze the potential effects that each will have on consumer behavior, your company and other current endeavors.

3. **Evaluate the risk**

Now you can assign a ranking quality to the likelihood of each risk's outcomes. This will help paint a picture around how severely a risk threatens a project or new product. You can also determine the magnitude that each risk potentially carries to destroy or support a new tactic. The magnitude is a combination of the risk likelihood and consequence.

4. **Treat the risk**

Since you have a grip on all possible risks and their severity, you can begin to treat the worst risks first. You'll first want to look at the ways you can reduce the probability of a negative risk and then how to increase the probability of a positive opportunity. At this stage of risk assessment, preventative and contingency should be prepared so that there are no surprises as your move forward with action plans.

5. **Monitor the risk**

By now, you know your risks, their likelihood, what will happen if they occur and how to go about defusing any disaster that arises. What next? Monitor the risks by tracking involved variables and proposed possible threats to chain reactions. As your tracking system identifies changes, calmly treat the rising problem to avoid widespread ripple effects and the triggering of a big risk.

This brings us to the next important wave of risk management: treating the risk. There are several ways to treat risk, and they all depend on what types of risks are being treated and how serious those risk's repercussions or opportunities are. Let's take a look at the techniques.

Best strategies for treating the risk:

6. **Avoidance**

Best case scenario, you can avoid risk repercussion altogether. But in forfeiting all activity that carries risk, you also forfeit all associated potential return and opportunity. It is up to you what type of risk activity you want to play with.

7. **Reduction**

Risk reduction implements small changes to reduce the weight of both risk and reward post-event. The reduction will require some process and plan manipulation, but it will save your company from a severe loss in the case of a high-risk manifestation.

8. **Sharing**

Risk sharing or transferring redistributes the burden of loss or gain over multiple parties. This could include company members, an outsourced entity or an insurance policy.

9. **Retention**

Risk retention involves assuming the loss or gain, entirely. This option is best for small risks where the losses can be easily absorbed and made up.

Question 4

Corporate social responsibility is very much important factor for any business, while going for any business activity. Explain CSR in detail.

Answer

What is Corporate Social Responsibility (CSR)?

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhances society and the environment, instead of contributing negatively to them.

There are several definitions of CSR. However, in this chapter we will touch upon only a few definitions of CSR to illustrate its evolving nature and meaning.

Here are some of the most popular ones:

1. The World Business Council for Sustainable Development (WBCSD) defines CSR as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workers and their families as well as of the local community and society at large (WBCSD, 2012). Carroll defines social responsibility of business as encompassing the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Carroll, 1979).

2. The UK Institute of Directors defines CSR as businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent to which they attempt to protect the environment (Ruth Lea, 2002).

3. The European Commission on CSR defines CSR as “the responsibility of enterprises for their impacts on society”. Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of: maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large, and identifying, preventing, and mitigating their possible adverse impacts (European Commission, 2011).

Understanding Corporate Social Responsibility (CSR)

Corporate social responsibility is a broad concept that can take many forms depending on the company and industry. Through CSR programs, philanthropy, and volunteer efforts, businesses can benefit society while boosting their brands.

As important as CSR is for the community, it is equally valuable for a company. CSR activities can help forge a stronger bond between employees and corporations; boost morale; and help both employees and employers feel more connected with the world around them.

For a company to be socially responsible, it first needs to be accountable to itself and its shareholders. Often, companies that adopt CSR programs have grown their business to the point where they can give back to society. Thus, CSR is primarily a strategy of large corporations. Also, the more visible and successful a corporation is, the more responsibility it has to set standards of ethical behavior for its peers, competition, and industry.

It is part of a company's approach to corporate governance and often touches every part of the business operations, human resources, manufacturing, supply chain, health and safety, and more.

CSR activities may include:

1. Company policies that insist on working with partners who follow ethical business practices
2. Reinvesting profits in health and safety or environmental programs
3. Supporting charitable organizations in the communities where a company operates
4. Promoting equal opportunities for men and women at the executive level

Some aspects of CSR may be required by law. For example, banks and hospitals are legally required to protect people's private information. Others are voluntary.

The benefits of CSR are many. Companies establish good reputations, attract positive attention, save money through operational efficiency, minimize environmental impacts, attract top talent and inspire innovation. Public companies often report on their CSR performance in their annual reports.

The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons. this model is more sustainable because:

- Social responsibility becomes an integral part of the wealth creation process which if managed properly should enhance the competitiveness of business and maximize the value of wealth creation to society.
- When times get hard, there is the incentive to practice CSR more and better if it is a philanthropic exercise which is peripheral to the main business, it will always be the first thing to go when push comes to shove.

Corporate social initiatives

Corporate social responsibility includes six types of corporate social initiatives:

1. Corporate philanthropy: company donations to charity, including cash, goods, and services, sometimes via a corporate foundation
2. Community volunteering: company-organized volunteer activities, sometimes while an employee receives pay for pro-bono work on behalf of a non-profit organization
3. Socially-responsible business practices: ethically produced products which appeal to a customer segment
4. Cause promotions and activism: company-funded advocacy campaigns
5. Cause-related marketing: donations to charity based on product sales
6. Corporate social marketing: company-funded behavior-change campaigns

All six of the corporate initiatives are forms of corporate citizenship. However, only some of these CSR activities rise to the level of cause marketing, defined as "a type of corporate social responsibility (CSR) in which a company's promotional campaign has the dual purpose of increasing profitability while bettering society."

Companies generally do not have a profit motive when participating in corporate philanthropy and community volunteering. On the other hand, the remaining corporate social initiatives can be examples of cause marketing, in which there is both a societal interest and profit motive.

Economic Responsibility of Business

While understanding the perspective of the consumer and meeting their needs and demand to earn a profit is the economic responsibility of a business. When a business earns a profit, it also means that the employees earn the profit in terms of incentives. The economic growth of a business is not restricted to itself but affects the society as a whole.

Legal Responsibility

Legal responsibilities are not only liable to the individuals in the society but also to the businesses in the society. As business is an entity itself, it must also follow laws and rules. Every business has a responsibility to operate within the boundaries set by the various commissions and agencies at every level of the government. These rules and regulations are set for maintaining balance and the greater good of the society.

A law-abiding enterprise is a socially responsible enterprise as well. The business is free to do business however it wants but only within the boundaries of regulations of various laws such as labour law, environmental law and criminal law. For example, it’s a business’s duty to pay taxes to the government and keep its account books clean as it helps the government to track the economic state of the company.

Ethical Responsibility

Ethical responsibilities include the behavior of the firm that is expected by the society but not codified in law. The factors of ethical responsibility include that the business must be environmentally friendly. The business should always be aware of its activities and how do they affect the environment. It is the moral and ethical responsibility of every human and every business.

Discretionary Responsibility

Business is one the most important pillar of the society. And therefore it should support and improve the society whenever it can. If a business is making significant profits it is the business responsibility that it should be philanthropic towards the society by donating funds or its goods and services.

It’s the philanthropic responsibility of the business to help different groups of the society. It should also work towards providing free education by opening educational institutes and training institutes or helping the people affected by natural calamities such as floods and earthquakes. It is the responsibility of the company management to safeguard the capital investment by avoiding speculative activity and undertaking only healthy business ventures which give good returns on investment.

Human resources

A CSR program can be an aid to recruitment and retention. Particularly within the competitive graduate student market. Potential recruits often consider a firm's CSR policy. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering. CSR has been credited with encouraging customer orientation among customer-facing employees.

Risk management

Managing risk is an important executive responsibility. Reputations that take decades to build up can be ruined in hours through corruption scandals or environmental accidents. These draw unwanted attention from regulators, courts, governments and media. CSR can limit these risks.

Reduced scrutiny

Corporations are keen to avoid interference in their business through taxation or regulations. A CSR program can persuade governments and the public that a company takes health and safety, diversity and the environment seriously, reducing the likelihood that company practices will be closely monitored.

Crisis management

CSR strategy or behaviors related to CSR was discussed by many scholars in terms of crisis management like responses to boycott in an international context and found that relationship building through providing additional services rather than price cutting is what businesses in Asia feel more comfortable with as a strategy during an economic crisis. Regarding direct research about strategies in cross-cultural crisis management, scholars found that CSR strategies could make effects through empirical case studies of involving multinational businesses in China. They found that meeting local stakeholders' social expectations can mitigate the risk of crises. The strategy utilized by Arla Foods works and has helped the company in regaining the most of its lost market share among many countries in the Middle East. Arla Foods founded a funding for children with cancer and they donated ambulances to refugees in Lebanon. As what Arla Foods did, they tried to contribute to solve social problems of children's access to health care which were local priorities. Other researchers analyzed the case of multinational enterprise strategies under the context of conflicts between Lebanon and Israel. During the conflict, many companies stressed seeking to help the local community. In the post-conflict stage, managers highlighted their philanthropic programs and contributions, in terms of monetary in-kind donations to the refugees or businesses that were directly affected. For example, Citibank has provided monetary assistance to some local businesses affected by the war. Another activity did by a Lebanon company was a fund-raising campaign.

Nature of business

Milton Friedman and others argued that a corporation's purpose is to maximize returns to its shareholders and that obeying the laws of the jurisdictions within which it operates constitutes socially responsible behavior.

While some CSR supporters claim that companies practicing CSR, especially in developing countries, are less likely to exploit workers and communities, critics claim that CSR itself imposes outside values on local communities with unpredictable outcomes.

Socially responsible investing

Shareholders and investors, through socially responsible investing (SRI), are using their capital to encourage behavior they consider responsible. However, definitions of what constitutes ethical behavior vary. For example, some religious investors in the US have withdrawn investment from companies that violate their religious views, while secular investors divest from companies that they see as imposing religious views on workers or customers.

Public policies

Some national governments promote socially and environmentally responsible corporate practices. The heightened role of government in CSR has facilitated the development of numerous CSR programs and policies. Various European governments have pushed companies to develop sustainable corporate practices. CSR critics such as Robert Reich argued that governments should set the agenda for social responsibility with laws and regulation that describe how to conduct business responsibly.

Laws

In the 1800s, the US government could take away a firm's license if it acted irresponsibly. Corporations were viewed as "creatures of the state" under the law. In 1819, the United States Supreme Court in Dartmouth College vs. Woodward established a corporation as a legal person in specific contexts. This ruling allowed corporations to be protected under the Constitution and prevented states from regulating firms. Recently countries included CSR policies in government agendas

On 16 December 2008, the Danish parliament adopted a bill making it mandatory for the 1100 largest Danish companies, investors and state-owned companies to include CSR information in their financial reports. The reporting requirements became effective on 1 January 2009. The required information included:

1. CSR/SRI policies
2. How such policies are implemented in practice
3. Results and management expectations

CSR/SRI is voluntary in Denmark, but if a company has no policy on this it must state its positioning on CSR in financial reports.

End Paper