Response to the Basel Committee's Consultative Document "Guidelines: Corporate Governance Principles For Banks"

Marianne Ojo[1]

Corporate governance structures which comprise a supervisory board performing executive functions, and shareholder representatives involved in non executive functions, appears to be a growing trend - as well as one in the right direction.

The Committee's recognition of the following, as reflected in the consultative document,[2] is also further indication of the importance of having shareholder representatives within corporate governance structures.

- The importance of shareholder rights and of responsible shareholder engagement.
- The importance of exercise of shareholder rights, particularly when certain shareholders have the right to have a representative on the board.

Principles highlighted in the Consultative Document are as follows:

Principle 1: Board's overall responsibilities
Principle 2: Board qualifications and composition
Principle 3: Board's own structure and practices
Principle 4: Senior management
Principle 5: Governance of group structures
Principle 6: Risk management
Principle 7: Risk identification, monitoring and controlling
Principle 8: Risk communication
Principle 9: Compliance
Principle 10: Internal audit
Principle 11: Compensation
Principle 12: Disclosure and transparency.

[1] Professor, Faculty of Commerce and Administration, North-West University Email: marianneojo@hotmail.com
[2] See Basel Committee on Banking Supervision, "The Basel Committee's Consultative Document "Guidelines: Corporate Governance Principles For Banks" October 2014 page 6

Principle 13: The role of supervisors

Communication Between External Auditor, Board and Audit Committees

The importance of such communication, as well as that of external auditors, within corporate governance is highlighted thus:

ISA 260, Communication with those Charged with Governance, paragraph 12, states: "If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body."[3]

External auditor's role in identifying and responding to risks related to material misstatements, as well as the role of internal controls, should also feature more prominently within corporate governance principles for banks.

[3] "The existence of both a board of directors and an audit committee does not impede the external auditor from reporting at two levels, both to the board of directors and to the audit committee, should the external auditor determine that it is necessary to do so for the purposes of complying with the requirements of internationally accepted auditing standards in relation to the specific tasks and responsibilities charged to the audit committee by the board of directors." See Basel Committee on Banking Supervision, "Basel Committee Final Document External Audits of Banks" March 2014 at page 8
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