Being Paper Delivered - Dr Ikpefan, O. Ailemen At ReCh Management Centre,

10th June, 2015

Date: 10th June, 2015

Topic: Corporate Reporting and No**n-**Financial Reporting

Session Facilitator: Ikpefan, O. Ailemen Ph.D, FCA, ACIB, FNIM

Objectives

This paper consists of three modules. **Module 1 (1.1 - 1.8)** covers internal control and risk management and includes **corporate reporting** and governance reporting. It aims to bring together elements of best practice for risk management; **Module 2 (2.1 – 2.13)** dwell on the Turnbull guidance and risk management; how boards discharge their responsibilities in relation to the existing and emerging principal risks faced by the company. **Module 3 (3.1 -3.5)** covers **non-financial reporting –** strategic report and Corporate social responsibility and CSR reporting in annual reports and accounts; narrative reporting requirement reflect sound business practice, and concludes on best practices from the practitioners perspective on Non-Financial Reporting. This paper consists of three modules.

Essential Reading:: FRC: Revised Guidance for Directors on the Combined Code October 2005 as amended, London

Pre-reading: Francesco Perrini (2006): The Practitioner's Perspective on Non-Financial reporting.

Further Reading: CAMA 2010 (as amended)**,** BIS: 2006 Companies Act: (Strategic Report and Directors' Report) Regulations 2013 Directors' Pay: Revised remuneration report regulations Large & Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2012

MODULE 1

1.1 Risk Management is enterprise wide and integrated. Its application is targeted at enhancing as well as protecting the unique combination of tangible and intangible assets of an organization. Risk management is integral to the organization's strategy setting process. This is achieved by keeping risk management at the centre of all executive agenda and building a culture in which risk management is embedded and integrated in all organization activities.

1.2 Risk management Philosophy

Risk management philosophy is tailored to achieve the following objectives:

(i) Meet and exceed best practice standards in risk management as defined by local and international regulatory bodies. Banks do this by adhering to the sound practice principles of the Basel 11 Accord for the effective implementation of Enterprise-wide Risk Management (ERM) in the Bank. This involves an on-going risk in a holistic manner.

(ii) Maintain appropriate checks and balances by segregating risk taking functions from risk control functions.

(iii) Automate and innovate by utilizing state-of-the-art enterprise tools and electronic platforms that act as enabler for enterprise risk management.

(iv) Enhance corporate governance by linking ERM and corporate governance. Minimize the organization's risk exposure, liability, related management costs and also ensure compliance in the relevant regulatory environment.

(v) Ensure strong visible commitment from the Board and Senior Management by defining e.g the Bank's risk appetite; establishing a central oversight of bank-wide risk management; designing, approving and implementing policies, guidelines and procedures which are supported by best practice principles and ensuring that management controls and reporting procedures are satisfactory and reliable.

1.3 Risk Governance Structure

The Board of Directors is the highest risk management policy approval body in formal organization and has the ultimate responsibility for the e.g the Bank's credit, market, operational and other risks. Its general roles and responsibilities among others include:

(i) Articulating and ensuring adhering to overall risk management strategy.
(ii) Defining the Bank's risk appetite for the entire spectrum of risk.
(iii) Ensuring that appropriate corporate governance frameworks are established and operative.
(iv) Endorsing and approving the risk management structures, policies, assigning roles and responsibilities and establishing authorization limits.
(v) Approving credits and trading limits beyond the approved authorization limits for individuals and committees.

1.4 The Risk Management Committee of the Board

The Board Risk Management Committee acts on behalf of the Board on risk management matters. It provides overall oversight for the management of cross enterprise risk in organization such as Banks. Decisions and actions of the Risk Management Committee of the Boards are presented to the Board of Directors on a quarterly basis for ratification. Its roles and responsibilities among others include:

(i) Deliberate, approve and review risk management policies frameworks for the management of credit, operational, market and information technology risks in e.g Bank which are subject to effective and comprehensive periodic review audit.

(ii) Periodic review and monitoring of the Bank's risk portfolio to ascertain asset quality, concentration risk and returns.

(iii) Approval of financial products, credit programs and individual/business credits in line with the bank's credit approval authority limits and within the statutory requirements set by the regulatory/supervisory authorities.

(iv) Approval of the risk rating frameworks for industries, products and obligors.

(v) Sponsoring and adoption of strong internal controls and ensuring that management effectively communicates these across the organization.

(vi) Establishing guidelines for pricing credit facilities, a base lending rate and a risk assets pricing model.

1.5 The Components of Risk Management

(i) **Credit Risk Management** - is the risk of suffering financial loss due to obligors' default on contractual obligation obligations to the Bank. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of the Bank's investment in that entity's financial instruments to fall. A bank can implement leading edge credit risk management practices that optimize the Bank's stated risk/return objectives since loans and advances represent a major source of income in the Bank

Credit risk mitigation requires diversification of its portfolio in line with best practice to avoid unnecessary credit risk concentrations. Maximum exposure guidelines have been established and these permit higher exposures to highly rated borrowers than lowly rated ones.

(ii) Market Risk Management – Market risk is the risk of loss in on and off balance sheet positions arising from movement in market prices.The market factors that may result in loss includes interest rates, liquidity rates, currency exchange rates, equity (stock) prices and commodity prices.

Liquidity risk is the potential loss to the bank from either its inability to meet obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses is managed by the Market Risk Management Group

(iii) **Operational Risk Management –** Operational risk is the risk of direct and/or indirect losses resulting from inadequate or failed internal processes, people, systems, human factors, or from external events. Major sources of operational risk: operational processes, information/Communication technology activities, service providers, strategy implementation, mergers and acquisitions, fraud, error, regulatory compliance, staff, social and environmental factors.

Legal risk is the risk of loss arising from the type and nature of the Bank's contractual agreement is included in the Bank's operational risk management framework.

Solution

Organization should develop and implement an efficient Operational Risk Management System which proactively identifies and mitigates losses bank-wide. Investment in technology and people to improve risk sensitivity and enhance operational risk is crucial. Appropriate governance frameworks should be in place, operational risk management policies, providing guidelines regarding the management of operational risk, establishing the Bank's operational risk appetite and ensuring that management controls and reporting procedure are satisfactory and reliable.

(iv) Strategic **Risk Management –** The Head should report to the Chief Executive Officer. Strategic risk is the risk arising from the overall strategy of the Organization e.g Bank**.** This includes the quality of the strategic planning process, the achievability of the strategy, the implications of the strategy, and the track record of successful implementation. It also includes the risk of incurring an economic loss as a result of the adverse impact of internal and external factors on the Bank's earnings and or ability to achieve its strategic objectives.

Internal and external factors that impact the achievement of the organization e.g Bank's strategic objectives include:

(i) Ineffective and/or inadequate corporate/business strategy;
(ii) Improper implementation of corporate/business strategy
(iii) Strategic/performance management systems, regulatory, economic and competitive environments.

1.6 Risk Management Process

An organization should maintain effective governance and control over its entire risk management. Risk Management policies and standards are set for each risk type adopting a standard methodology consisting of five risk management steps:

(i). **Identification –** identify the risks inherent in achieving the organization's goal and objective, establish risk appetite across the entire risk spectrum, establish and communicate risk management frameworks.
(ii). **Assessment** - Build accurate and consistent risk assessments; establish and implement measurement reporting standards/methodologies build a risk profile for the organization.
(iii) **Control –** Establish key control processes, practices and reporting requirements, monitor the effectiveness of controls, ensure all the e.g bank's exposure are adequately identified, measured and managed in accordance with Board approved frameworks, provide early warning signals, ensure risk management practices are adequate and appropriate for managing the Bank's /organizations risks.
(iv). **Report –** Report areas of stress where crystallization of risk is imminent, present remedial actions to reduce and/ or mitigate such risks, report on sensitive and key risk indicators, communicate with relevant parties.
(v). **Manage and Challenge –** review and challenge all aspects of the organization's risk profile, advise on optimizing and improving the e.g Bank's risk profile, review and challenge risk management practices.

1.7 The link between risk management and corporate governance

Every organization should have a clear objective for managing risk before deciding on managing risk. The board should have clear objectives of the risk and returns.

Corporate governance is defined in Collier (2009) as '*the system by which companies are directed and controlled. Board of directors are responsible to their shareholders and have a stewardship function for the governance of the company*'. The Turnbull (2005) has provided a guideline with the combined code of how organizations adopt and implement a risk-based approach with designing, operating and maintaining a sound system of internal.

Corporate governance requires the establishment a board of directors: who are responsible for the governance of the company, the role of the shareholders is to appoint the directors and the auditors and to ensure that the required structure is in place for the effective administration of the organization.

This offers a framework rather than a rule so that each company can adapt to ways which is specific to their circumstance (Pickford, 2001). The board is also accountable to shareholders, (Ikpefan, et al., 2014).

Risk management cannot be the sole responsibility of the risk manager and his team, all the executive directors need to be trained and prepared to act in times of any liquidity issues because they have a greater influence on the volumes and concentration of both assets and liabilities of the firm (Carrel, 2010).

In Torshe et al. (2011), they take a closer look at corporate governance and bank's risk management. The main aim was to determine if corporate governance has an impact on the risk management of banks. The risk associated to banks in Nigeria and all over the world was established: credit risk, operational risk, liquidity risk, business risk and financial risk.

According to Torshe et al. (2011), the financial sector is the central point of any market sector of an economy and it's the most important threat to the financial sector is the improper management to risk.

This cause the investigation into the risk management activities of banks and the role the governance systems put in place by various banking institutions affect the management of risk. With the board of directors being the governing body of banks in Nigeria and indeed all over the world, strategies of the banks are set and implemented by the board of directors, they also oversee the risk management process and strategies adopted by the institutions.

This gives an impression of the influence corporate governance may have on risk management. However result of the research by Torshe et al. (2011), gave a contrary view to the much expected.

They sampled the 23 banks at that time, the variables used were: board size, composition of audit committee and board independence. The result of the analysis showed no influence of corporate governance on the risk management.

Torshe et al. (2011) researched on the dependence of corporate governance on risk management of banks. In Crouhy et al. (2006), the relationship and interdependencies of corporate governance and risk management has also been analysed due to the recent increase in high profile corporate scandals as in the case of Enron in Dembinski (2006) where ethics and corporate governance was ignored giving rise to an increase in risk which caused the collapse of Enron in December 2001.

The increase in risk related to corporate governance is caused either through the provision of misleading information or a breakdown in the process of providing information to the board and shareholders. These disclosures normally involved fraud, no disclosure of financial and economic risks and financial engineering.

These have lead to tighter controls and well managed risk management being established. Crouhy et al. (2006) indicates that the Security and Exchange Commission (SEC) in the United States of American tightened it standards to cover a number of areas that are critical to corporate governance and risk management. This included the composition of the board, the establishment of a corporate governance committee, review of the activities of the audit committee and review of the duties of the compensation committee.

Torshe et al. (2011) did not include a compensation committee and a corporate governance committee because these committees are not applicable in the countries sampled; the other variables were the same.

1.8 Risk management strategies

The strategy an entity adopt to manage its risk is as essential as the going concern itself. Meulbroek (2001) cited in Pickford (2001) suggests that managers must put measures in place to control risk within their organizations. Jeynes (2002) and Ikpefan, et al., (2014) thinks that it is the sole responsibility of management regardless of the size of the firm to take actions to reduce or minimize risk and potential loss to its business and all stakeholders. These assertions seem to be on the same cause, that risk management is the responsibility of corporate directors. This is further discussed in the combined code of Financial Reporting Council (2003). Risk when managed well can reduce the occurrence of financial and reputational losses to the organization, (Agwu, 2014).

Risk management strategies in organizations

Elliott, et al., (2010), argued that gearing is an indication of an entity’s ability to payback its loan. Potential lenders identify the gearing of a company to determine its credit worthiness. For companies to pass this: one approach is to calculate the debt rating that is consistent with its maximization value. Pickford (2001) believes that some companies have lost lots of business opportunities due the low rating.

Companies are better off by eliminating the likelihood of default, this can be done by raising the equity of the organization and keeping the proceeds of liquidated assets, though, this could be expensive.

Companies can also reduce risk by changing the nature and scope of their operations. This can be done through diversification to stabilize their cash-flows, which is the movement of cash in and out of an organization.

This could be costly to the company as the company could be less worthy, (Elliott, et al., 2010).

The use of financial instruments is believed to be a cheaper way of managing risk (Pickford, 2001). Financial instruments includes: swaps, futures, forwards and options, etc, (Financial Reporting Council, 2003). Deleris, et al., (2004) also stressed that companies exposed to foreign exchange risk can used forward contract which is also not risk free.
Torshe, et al., (2011) states that companies such as AngloGold Ashanti formerly known as Ashanti gold fields based in Ghana suffered losses based on the use of financial instruments to manage its risks.

Collier (2001) was more specific in dealing with financial risk; it states that financial risk is the sole responsibility of the treasury function of any organization. This narrows the board down to the treasure function of the board which is headed by a member of the board, whiles Pickford broadly establish risk management as the responsibility of the board.

Collier (2001) states that a procedure would have to be followed: this is the risk management cycle. Once the risk has been identified, the company and the person's responsible for the management of risk would have to decide whether to hedge (a financial instrument that uses the value of an underlying instrument) the exposures.

Several techniques can be used to identify financial risk that a company is exposed to. These include regression analysis, simulation analysis and value at risk.
Once the risk has been identified, the company can decide to do nothing. This normally depends on the risk appetite of the company, (Weber and Hsee, 1998; Agwu et al., 2014).

They can also use internal hedging techniques, as the value offset the value of the underlying instrument.

External hedging technique (derivative) can also be used.
(a). Hedging: this is a strategy used to eliminate or reduce the financial of a transaction or in an organization by passing it on to another person or company. This is normally used by an organization's treasury function and it totally depends on the risk appetite of the organization. An organization may choose whether to hedge its exposure or not.
(b). Forwards: these are useful tools for hedging, can be used for a minimum of three months. Forwards are of two types: forward rate agreements and foreign exchange forward contracts.

Foreign exchange forward contract enables a company to buy and sell a fixed amount of currency at a predetermined rate at a future date.

(c). Forward rate agreement (FRA) is mainly used to hedge interest rate risk. This is done by a company locking its current interest rate for a future transaction. This can lead to either a gain or a loss depending on the interest rate at the time of payment.

(d).Futures: these are similar to forwards, the difference between them is that futures are institutionalized form of forwards and are trades on recognized exchanges. They have the similarities of all locking interest in for a future payment. This is known as interest rate futures. Foreign exchange futures in the same way is similar to foreign exchange forward contract, they are also traded on an exchange, (Ikpefan, et al., 2014).

MODULE 2

2.1 The importance of internal control and risk management

(i). A company's system of internal control has a key role in the management of risks that are significant to the fulfillment of its business objectives. A sound system of internal control contributes to safeguarding the shareholders' investment and the company's assets.

(ii). Internal control facilitates the effectiveness and efficiency of operations; helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations.

(iii). Effective financial controls, including the maintenance of proper accounting records, are an important element of internal control. They help ensure that the company is not unnecessarily exposed to avoidable financial risks and that financial information used within the business and for publication is reliable. They also contribute to the safeguarding of assets, including the prevention and detection of fraud.

(iv).A company's objectives, its internal organization and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the company is exposed. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately rather than to eliminate it.

2.2 Financial Reporting Council provides guidance for internal control and risk management. The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. It contains 11 sections. I will report on four in this presentation.

(The Turnbull guidance) was first issued in 1999. In 2004, the Financial Reporting Council established the Turnbull Review Group to consider the impact of the guidance and the related disclosures and to determine whether the guidance needed to be updated. In reviewing the impact of the guidance, consultations revealed that it has very successfully gone a long way to meeting its original objectives. Boards and investors alike indicated that the guidance has contributed to a marked improvement in the overall standard of risk management and internal control since 1999.One o f their major recommendation include that:

Boards should review whether they can make more of the communication opportunity of the internal control statement in the annual report. Investors consider the board's attitude towards risk management and internal control to be an important factor when making investment decisions about a company. Taken together with the Operating and Financial Review, the internal control statement provides an opportunity for the board to help shareholders understand the risk and control issues facing the company, and to explain how the company maintains a framework of internal controls to address these issues and how the board has reviewed the effectiveness of that framework. It is in this spirit that directors need to exercise their responsibility to review on a continuing basis their application of the revised guidance.

The principles-based approach has required boards to think seriously about control issues and enabled them to apply the principles in a way that appropriately dealt with the circumstances of their business. The evidence also supported the proposition that the companies which have derived most benefit from application of the guidance were those whose boards saw embedded risk management and internal control as an integral part of running the business.

The Review Group strongly endorsed retention of the flexible, principles-based approach of the original guidance and recommended that the establishing of an effective system of internal control is not a one-off exercise. **No such system remains effective unless it develops to take account of new and emerging risks, control failures, market expectations or changes in the company's circumstances or business objectives.** The Review Group reiterates the view of the vast majority of respondents in emphasizing the importance of regular and systematic assessment of the risks facing the business and the value of embedding risk management and internal control systems within business processes. **It is the board's responsibility to make sure this happens**.

2.3 Turnbull Review Group October 2005

Objectives of the guidance

This guidance is intended to: reflect sound business practice whereby internal control is embedded in the business processes by which a company pursues its objectives; remain relevant over time in the continually evolving business environment; and enable each company to apply it in a manner which takes account of its particular circumstances. The guidance requires directors to exercise judgement in reviewing how the company has implemented the requirements of the Combined Code relating to internal control and reporting to shareholders thereon.

2.4 Financial Reporting Council 3

6 The guidance is based on the adoption by a company's board of a risk-based approach to establishing a sound system of internal control and reviewing its effectiveness. This should be incorporated by the company within its normal management and governance processes. It should not be treated as a separate exercise undertaken to meet regulatory requirements.

Internal control requirements of the Combined Code 7

Principle C.2 of the Code states that 'The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets'.

8 Provision C.2.1 states that 'The directors should, at least annually, conduct a review of the effectiveness of the group's system of internal control and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems'.

9 The following items must be included in its annual report and accounts:

• a statement of how the listed company has applied the principles set out in Section 1 of the Combined Code, in a manner that would enable shareholders to evaluate how the principles have been applied;

• a statement as to whether the listed company has: - complied throughout the accounting period with all relevant provisions set out in Section 1 of the Combined Code; or - not complied throughout the accounting period with all relevant provisions set out in Section 1 of the Combined Code and if so, setting out: (i) those provisions, if any, it has not complied with; (ii) in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions; and (iii) the company's reasons for non-compliance.

Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)

10 The Preamble to the Code makes it clear that there is no prescribed form or content for the statement setting out how the various principles in the Code have been applied. The intention is that companies should have a free hand to **explain their governance policies** in the light of the principles, including any special circumstances which have led to them adopting a particular approach.

11 The guidance in this document applies for accounting periods beginning on or after 1 January 2006, and should be followed by boards of listed companies in:

• assessing how the company has applied Code Principle C.2;

• implementing the requirements of Code Provision C.2.1; and

• reporting on these matters to shareholders in the annual report and accounts.

12 For the purposes of this guidance, internal controls considered by the board should include all types of controls including those of an operational and compliance nature, as well as internal financial controls. Groups of companies

13 Throughout this guidance, where reference is made to 'company' it should be taken, where applicable, as referring to the group of which the reporting company is the parent company. For groups of companies, the review of effectiveness of internal control and the report to the shareholders should be from the perspective of the group as a whole.

2.5 Financial Reporting Council 5

Two - Maintaining a sound system of internal control Responsibilities

15 The board of directors is responsible for the company's system of internal control. It should set appropriate policies on internal control and seek regular assurance that will enable it to satisfy itself that the system is functioning effectively. The board must further ensure that the system of internal control is effective in managing those risks in the manner which it has approved.

16 In determining its policies with regard to internal control, and thereby assessing what constitutes a sound system of internal control in the particular circumstances of the company, the board's deliberations should include consideration of the following factors:

• the nature and extent of the risks facing the company;

• the extent and categories of risk which it regards as acceptable for the company to bear;

• the likelihood of the risks concerned materialising;

• the company's ability to reduce the incidence and impact on the business of risks that do materialise; and • the costs of operating particular controls relative to the benefit thereby obtained in managing the related risks.

17 It is the role of management to implement board policies on risk and control. In fulfilling its responsibilities management should identify and evaluate the risks faced by the company for consideration by the board and design, operate and monitor a suitable system of internal control which implements the policies adopted by the board.

18 All employees have some responsibility for internal control as part of their accountability for achieving objectives. They, collectively, should have the necessary knowledge, skills, information, and authority to establish, operate and monitor the system of internal control. This will require an understanding of the company, its objectives, the industries and markets in which it operates, and the risks it faces.

6 Internal Control: Revised Guidance for Directors on the Combined Code (October 2005) Elements of a sound system of internal control

19 An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of a company that, taken together:

• facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed; • help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation;

• help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

20 A company's system of internal control will reflect its control environment which encompasses its organisational structure. The system will include: • control activities; • information and communications processes; and • processes for monitoring the continuing effectiveness of the system of internal control.

21 The system of internal control should:

• be embedded in the operations of the company and form part of its culture;

• be capable of responding quickly to evolving risks to the business arising from factors within the company and to changes in the business environment; and

• include procedures for reporting immediately to appropriate levels of management any significant control failings or weaknesses that are identified together with details of corrective action being undertaken.

22 A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the occurrence of unforeseeable circumstances.

2.6 Financial Reporting Council 7

23 A sound system of internal control therefore provides reasonable, but not absolute, assurance that a company will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against a company failing to meet its business objectives or all material errors, losses, fraud, or breaches of laws or regulations.

8 Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)

Three - Reviewing the effectiveness of internal control Responsibilities

24 Reviewing the effectiveness of internal control is an essential part of the board's responsibilities. The board will need to form its own view on effectiveness based on the information and assurances provided to it, exercising the standard of care generally applicable to directors in the exercise of their duties. **Management is accountable to the board for**

monitoring the system of internal control and for providing assurance to the board that it has done so.

25 The role of board committees in the review process, including that of the audit committee, is for the board to decide and will depend upon factors such as the size and composition of the board; the scale, diversity and complexity of the company's operations; and the nature of the significant risks that the company faces. To the extent that designated board committees carry out, on behalf of the board, tasks that are attributed in this guidance document to the board, the results of the relevant committees' work should be reported to, and considered by, the board. The board takes responsibility for the disclosures on internal control in the annual report and accounts. The process for reviewing effectiveness

26 Effective monitoring on a continuous basis is an essential component of a sound system of internal control. The board cannot, however, rely solely on the embedded monitoring processes within the company to discharge its responsibilities. It should regularly receive and review reports on internal control. In addition, the board should undertake an annual assessment for the purposes of making its public statement on internal control to ensure that it has considered all significant aspects of internal control for the company for the year under review and up to the date of approval of the annual report and accounts.

27 The board should define the process to be adopted for its review of the effectiveness of internal control. This should encompass both the scope and frequency of the reports it receives and reviews during the year, and also the process for its annual assessment, such that it will be provided with sound, appropriately documented, support for its statement on internal control in the company's annual report and accounts.

2.7 Financial Reporting Council 11

Risk assessment

• Does the company have clear objectives and have they been communicated so as to provide effective direction to employees on risk assessment and control issues? For example, do objectives and related plans include measurable performance targets and indicators?

• Are the significant internal and external operational, financial, compliance and other risks identified and assessed on an ongoing basis? These are likely to include the principal risks identified in the Operating and Financial Review.

• Is there a clear understanding by management and others within the company of what risks are acceptable to the board? Control environment and control activities

• Does the board have clear strategies for dealing with the significant risks that have been identified? Is there a policy on how to manage these risks?

• Do the company's culture, code of conduct, human resource policies and performance reward systems support the business objectives and risk management and internal control system?

• Does senior management demonstrate, through its actions as well as it policies, the necessary commitment to competence, integrity and fostering a climate of trust within the company? • Are authority, responsibility and accountability defined clearly such that decisions are made and actions taken by the appropriate people? Are the decisions and actions of different parts of the company appropriately co-ordinated?

2.8 Companies and Allied Matters Act (CAMA) CAP. C20 L.F.N. 2004 (as amended)

Corporate financial reporting in Nigeria is currently guided by CAMA 2004 (as amended). This is the major legislation governing financial reporting of companies in Nigeria. The basic requirement relating to corporate financial reporting is contained in Part XI- Financial Statements and Audit. Sections 331- 356 relate to financial statements while sections 357 to 369 relate to Audit.

Section 331 compels all companies to keep accounting records. Section 332 states that the accounting records should be kept in a registered office or such other places deemed fit by the directors, subject to subsection 2 of this section which is in respect of the disposal of records under winding up rules.

Section 333 deals with penalties for non-compliance with the provisions of sections 331 and 332 of the CAMA. Section 334 requires directors of every company to prepare financial statements in respect of each year of the company. S.334 (2) states that the financial statements should include: (a)statement of accounting policies (b)the balance sheet as at the last date of the year (c) a profit and loss account or, in the case of company not trading for profit, an income and expenditure account for the year (d) notes on the account (e) the auditors' report (f)the directors' report (g)a statement of source and application of funds (now replaced by statement of cash flow since 1997 (h)a value added statement of the year (i) a five-year financial summary; and g)for holding company, a group financial statement.

Sections 340 - 341 deal with the disclosure of loans in favour of directors and connected persons in accordance with Part I and Part II of Schedule 4 of this Act (so far as applicable). Part I of the Schedule 4 is in relating to disclosure of transactions, arrangements and agreements mentioned therein, including loans, quasi loans and other dealing in favour of director. Part II of Schedule 4 is with regards to transactions, arrangements and agreements made by the company or subsidiary of it for persons who at any time during the year were officers of the company but not directors. Section 342 requires every company to prepare in respect to each year a report by the directors in accordance with Schedule 5 of the Act. It also states the penalties for non-compliance.

Corporate financial reporting is a means by which the management achieves their stewardship responsibility to the stakeholders. Corporate financial reporting practice entails the compilation, auditing, publication and presentation of audited annual reports and accounts to the stakeholders at the annual general meeting (AGM). Each of these activities takes time. However, the essence of producing published audited annual reports and account is to produce timely information that could permit economic decision making. Any delay at any of the stages of producing published audited annual reports and accounts would undermine the value relevance of the published information to the stakeholders. The consequences of delays in corporate financial reporting could be very grievous such as loss of public confidence in the contents of delayed audited annual reports and accounts as well as poor corporate image.

2.9. Corporate social responsibility (**CSR**, also called **corporate conscience**, **corporate citizenship** or **responsible business**) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and international **norms.** With some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law." CSR aims to embrace responsibility for corporate actions and to encourage a positive impact on the environment and **stakeholders** including consumers, employees, investors, communities, and others.

The term "corporate social responsibility" became popular in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility more narrowly construed.

Corporate Social Accounting as a concept can be said to evolve in the United Kingdom in the early 1970s. The reporting of the social effect of companies became an issue in the U.K. in the 1970s (Wood and Sangster, 2002).Globalization brought to the fore the realization that companies do not operate in isolation but have marked impact on the environment and people at the local, national and global level and this had led to the increasing awareness of corporate social responsibility (CSR) and the concept of the triple bottom line.

The concept emphasizes that a business’s success should not only be measured based on its financial performance but should include its social impact of its operations (Selvi, 2007). This move assisted and got both diverse organizations both commercial and Non-Governmental organizations address basically environmental, social and economic issues and this has been firmly established as political agenda since the 1980s.

Alexander et al (2003) stated that the Triple Bottom Line (TBL) is a concept whereby companies voluntarily take on board social, environmental and economic issues and report on them.

The **economic aspect** of the report entails creating a parameter that spells out the financial and non-financial information as is currently spelt out in the annual accounts and reports of companies.

• **Environmental:** the environmental aspect spells out the effects of the activities of the organisation on the environment.

• **Social:** spells out the values, ethics and relationship with various stakeholders.

"The Corporate Report" identifies the users of corporate financial reporting and also recommends a general framework for financial reporting. Alexander Britton and Jorrison (2003) concurred to the claims of Davies et al (2007) by stating that in 1975, social accounting was suggested in the U.K. via the corporate report.

Selvi (2007) went further to describe the process of social accounting which is as follows:
(i) Internal data collection and analysis procedure accounting.
(ii). An independent audit of the result (auditing).
(iii). A mechanism for disseminating the outcome more widely (reporting.

Mathew and Perrera (1996) aptly described social accounting as the framework which allows an organization to build on existing documentation and reporting and also develop a process whereby it can account for its social performance, report on that performance through which it can understand its impact on the community and accountable to its stakeholders.).

The general **objectives of social responsibility accounting** as propounded by Muhammad and Jamel 2008, Ramanathan 1987, Gloutier and Underdown are basically-
(i) determine and measure the net social contribution of the organization on a periodic basis. This not only includes the elements of internal costs and specific benefits of the organization, but also includes the elements of cost and external social benefits that influence segments of the community.
(ii). evaluate the social performance of organizations by identifying whether the organization's strategies and objectives are consistent with the social priorities and the organization's ambition to ensure individuals a reasonable percentage of profits. The relationship between the economic performance of business organizations and social welfare lies at the core of social responsibility accounting. This requires an appropriate mechanism to measure social performance.
(iii). disclose the activities that have social influence carried out by the organization. This objective underlines the need for appropriate data on the social performance of the organization and the extent to which it contributes to achieving social objectives. The basic principles of social accounting are completeness, comparability, embedding, external verification, disclosure and continuous improvement, Selvi (2007).

2.10 Valuation Basis for Social Accounting

According to Gloutier and Underdown (1991) in Davies and Okorite (2007) the three main approaches for social accounting are namely descriptive, cost-outlay and cost-benefit approach.

Descriptive Approach: This approach advocate the listing of all corporate activities which may be reported in from of short sections in the annual report to shareholders, or in a separate publication dealing with corporate social responsibility. The disadvantage of this approach is in it not being quantified to enable a good assessment of corporate responsiveness toward social responsibility.

Cost-Outlay Approach: This approach lists corporate expenditure on each social activity undertaken, quantified in money terms. One major advantages of this approach it that it makes comparison of achievements between successive years possible. The disadvantage of this approach is that it does not disclose benefit made and therefore does not comply with the accounting matching concept and secondly it may include inefficient programmes.

Cost-Benefit Approach: This approach matches expenditure incurred on each social activity with the benefits associated with it. The disadvantage of this approach it that it is usually difficult to quantify some elements of benefits as they are qualitative intuitive and subjective.

2. 11 Measurement criteria in Social Accounting

Raymond Buer (1974) has enunciated two measurement criteria for social accounting and reporting and they are: measure of cost efficiency and easure of cost benefit.

• **Measure of cost efficiency:** This criterion involve those that construct an index of suitability, desirability, sufficiency and appropriateness of cost level.

• **Measure of Cost benefit**: This criterion involve those the monetize the welfare function in order to generate time discounted benefits to society and then compare those benefit to costs by several more or less acceptable techniques.

Challenges of measurement - According to Mathew and Perrera (1996), measurement is most difficult because it involves valuation and the assignment of costs to events, which are external to the organization. Example might be damage to the paintwork of neighboring housing areas, destruction of parks and gardens and the creation of health problems. These valuation problems may be difficult to overcome and the value assigned to the effects of pollution will be open to dispute. The discounting to the present value of the cost of future events, such as repairs or replacements or the payment of damages is obviously problematic.

These measurements are made however, in calculating compensation for injury, loss of earnings or death from accident, thus providing some experience to aid the computation of the effect such as externalities. Even if the local pollution measurement and valuation issues can be resolve difficulties will arise more damage is remote from the source in terms of time and distance.

There were also some techniques recommended for giving values to quantitative social responsibility by Dego (1984) in Davies and Okorite (2007) are:

• **Surrogate valuation:** This is the assignment of value of an activity to the social activity in question.

• **Survey method:** This method determines the value of social activity by obtaining information through a survey of those within the community who make the sacrifice.

• **Appraisal:** This method uses the service of experts to carryout independent valuation in order to place value.

• **Court Decision:** Paying for damage as determined by the court. For example in the case of the very recent case of oil spillage in part of Rivers state attributed to Chevron. The community or state may decide to take the company and the court will decide the compensation.
• **Analysis:** This involves the analyses of available economic and statistical data with the aim of placing a value.

2.12 Implications of Social Accounting on Financial Reporting

Raymond Buer 1974 classified the key implications of social accounting on the accounting profession thus-
(i). Social accounting will offer opportunities for accountant to expand their profession and to perform valuable socially responsible services.
(ii).Development of a theoretical base or framework for social accounting. This would certainly create a better conceptual base from when to enter social accounting at some future time and would also maintain a core group of specialist knowledge in that area.
(iii). Social accounting will expand the areas of specialization within the accounting profession.
(iv). Social accounting will also provide more interaction formal and informal with other professions, particularly with social scientists sociologists and statisticians. It would provide more education and professional scholars.
(v).The practice of social accounting there will help to establish defined ethical standards among organizations. It will provide a detailed insight to the public on how management and especially accountants are treating social issues.
(vi). Social accounting will provide the impetus for more research and development in the field of accounting.

2.13 Challenges of Implementing Social Accounting

The challenges towards implementing social accounting in organization according to Selvi (2007) and Martian(2007) are-
(i). Issue of measuring the value additions to resources that is invested in social processes
(ii). Issue of inventing a social book-keeping system
(iii). Issue of establishing a social accounting report format which integrates both narrative as well as financial report which could be independently verified and generally acceptable.
Martin (2007) stated that a full set of social account is likely to include the following:
(i). A report on performance against the stated objectives (how well have we done what we said we would do?).
(ii). As assessment of the impact on the community (can this be measured?). (what do people think?).
(iii).The view of stakeholders on our objectives and values- (are we doing the “right” things? Are we walking our talk”?
(iv).A report on environmental performance (are we “living rightly” and minimizing resource consumption?
(v). A report on how we implement equal opportunities (do we effectively encourage social inclusion?)
(v).A report on compliance with statutory and voluntary quality and procedure standards (Do we do what is expected of us and more?).

Financial Reporting Council 23

Board Responsibilities for Risk Management and Internal Control

24. The board has responsibility for an organisation's overall approach to risk management and internal control. The board's responsibilities are:

- ensuring the design and implementation of appropriate risk management and internal control systems that identify the risks facing the company and enable the board to make a robust assessment of the principal risks;

- determining the nature and extent of the principal risks faced and those risks which the organisation is willing to take in achieving its strategic objectives (determining its "risk appetite");

- ensuring that appropriate culture and reward systems have been embedded throughout the organisation;

- agreeing how the principal risks should be managed or mitigated to reduce the likelihood of their incidence or their impact;

- monitoring and reviewing the risk management and internal control systems, and the management's process of monitoring and reviewing, and satisfying itself that they are functioning effectively and that corrective action is being taken where necessary;

and ensuring sound internal and external information and communication processes and taking responsibility for external communication on risk management and internal control.

25. The board's specific responsibility for determining whether to adopt the going concern basis of accounting and related disclosures of material uncertainties in the financial statements is a sub set of these broader responsibilities. A company that is able to adopt the going concern basis of accounting and does not have related material uncertainties to report, for the purposes of the financial statements, is not necessarily free of risks that would threaten the company's business model, future performance, solvency or liquidity were they do materialise. The board is responsible for ensuring this distinction is understood internally and communicated externally.

26. It is the role of management to implement and take day-to-day responsibility for board policies on risk management and internal control. But the board needs to satisfy itself that management has understood the risks, implemented and monitored appropriate policies and controls, and are providing the board with timely information so that it can discharge its own responsibilities. In turn, management should ensure internal responsibilities and accountabilities are clearly established, understood and embedded at all levels of the organization. Employees should understand their responsibility for behaving according to the culture.

MODULE 3

3.1 Best Practices on Corporate Governance - UK Corporate Governance Code and Other Regulatory Requirements (UK Corporate Governance Code - 2014 edition)

Accountability

Principle C.1: Financial and Business Reporting: The board should present a fair, balanced and understandable assessment of the company's position and prospects.

Provision C.1.3: In annual and half-yearly financial statements, the directors should state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Principle C.2: Risk Management and Internal Control: The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

Provision C.2.1: The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.

Provision C.2.2: Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

Provision C.2.3: The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.

Provision C.3.2 states that it is the responsibility of the audit committee "to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems". Further guidance on the audit committee's responsibilities is set out in the FRC's Guidance on Audit Committees. Other Code provisions are also relevant to the board's consideration of, and reporting on, risk.

For example, **Provision C.1.1** states that the board must make a statement that "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy".

Provision C.1.2 states that "the directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company".

3.2 NARRATIVE REPORTING

Narrative reporting has been the focus of much debate and evolution over the last few years. This has been prompted by several factors including the financial crisis of 2008, the need to ensure investors and shareholders are provided with information they need to assess the company's performance and concerns that the length of annual reports have increased in quantity at the expense of quality.

This briefing considers the most recent developments in narrative reporting.

Strategic Report

Perhaps the most important development has been the finalization of regulations on the narrative reporting framework. Companies will now be required to prepare a Strategic Report, separate from the Directors' Report, the content of which largely mirrors that of the current business review. Some changes have been made to the content including:

- A description of the company's business model and strategy will be required;
- Number of persons of each sex within the company who are directors, senior managers and employees to be shown;
- A consideration of human rights issues as well as social and community issues should be included when providing information necessary for an understanding of the development of the performance of the company's business.

The concept of summary financial statements has being abolished – instead such persons may elect to receive the Strategic Report.

Directors' Report

The requirement to prepare a Directors' Report remains in place. Some items have been removed from the content. These items are information on principal activities, information on charitable donations, disclosure of information on acquisition of own shares (private companies only), information on contractual arrangements which are essential to the business of the company, asset values and creditors' payment policy.

Directors' Remuneration Report

Also coming into effect in October 2013 are new regulations concerning remuneration reporting. Three sections are required in the new report:

- Annual Statement – which consists of a letter from the Chairman of the Remuneration Committee summarizing major decisions during the year and context for these;

- Remuneration Policy – setting out the future 3 year policy for Directors. The Policy report will be subject to a binding shareholder vote at least once every 3 years or sooner if there are any changes;

- Annual Report on Remuneration – covering implementation of the policy and subject to an annual advisory vote.

Auditors' Report

A revised International Standard on Auditing was issued by the FRC in June 2013 which complements changes made to the Code which require further detail from Audit Committees about their work. The revised audit report will need to include information on the scope of the audit, how issues of risk and materiality have been addressed and description of the risks that had greatest impact on overall audit strategy, allocation of resources for the audit and how the concept of materiality in planning and performing the audit has been applied.

Financial Reporting Laboratory

The Financial Reporting Laboratory was set up by the Financial Reporting Council to provide an environment where investors and companies can come together to develop solutions to reporting needs.

Future Direction of Narrative Reporting

The report reiterates the concern that financial reports have become increasingly complex with disjointed disclosures driven by compliance rather than communication.

FRC: Guidance on the Strategic Report

The guidance continues the FRC's themes on improving narrative reporting and clear relevant communication. The objectives of the guidance are given as:

- to ensure that relevant information that meets the needs of shareholders is presented in the Strategic Report;
- to encourage companies to experiment and be innovative in the drafting of their annual reports, presenting narrative information in a way that enables them to best 'tell their story' while remaining within the regulatory framework; and
- to promote greater cohesiveness in the annual report through improved linkage between information within the strategic report and in the rest of the annual report.

Non-financial reporting represents the result of companies' thoughts about what CSR is, about its importance, and about how it can be shared with stakeholders. Additionally, in that financial information is predominantly retrospective and based on a company's past performance, non-financial reports can provide investors and other stakeholders with indications about the future potential of a company.

In other words, non-financial information, such as that about the quality of risk management, corporate governance, strategic direction, quality of management, and social and environmental performance will help stakeholders better understand a company's overall performance, business strategy, and growth perspective.

3.3 How Should Companies Define Non-Financial Reporting

Companies differ in the way they define, prepare, and disseminate nonfinancial reports. From research conducted Five distinctive features represent the common starting point for distinguishing non-financial reports from other documents:

(a). **Complementarity with Annual Economic-Financial Report**

Non-financial reports are published to complete the corporate economic portrait by adding a social and environmental dimension. In other words, CSR reports are based on the information contained within traditional economic and financial reports, but they go further, adding social and environmental perspectives.

Social, environmental, and sustainability reports frequently follow the same time schedule and structure as do annual reports, and they often are updated quarterly. **They usually start with an environmental report, shift to producing a social and environmental report,** and then publish a sustainability report, which integrates social, economic, and environmental issues into a unique document. The last step of the process is enclosing these separate documents within the annual review, formally embedding the triple bottom line approach.

(b). **Qualitative and Quantitative Focus in Monitoring CS -** Non-financial reports tend to give the same weight to the qualitative information and quantitative data contained within them. The quantitative data allow readers to do temporal or spatial comparative assessments, and the qualitative information enhances the communicative potential of numbers. Usually, reports are structured in two main sections: The first one describes qualitatively the firm's programs in the field of CSR; and the second one summarizes programs, activities, and investments from a quantitative point of view. This second section often refers to a list of key CSR performance indicators or to a reporting standard, such as the Global Reporting Initiative.

(b) **Outside Orientation** - These reports usually are produced as a direct result of an accountability process, which is the process of becoming an open and responsive organization that is able to balance the interests of various stakeholders. Therefore, CSR reports are expressly outside-oriented, aimed at sharing information systematically about the exchange relationships between companies and their stakeholders.

Notwithstanding their structure, almost all of the non-financial documents claim in their introduction to be part of a stakeholder-engagement process, the rationale being that each person who reviews the report should be able to immediately recognize her or his role and weight within the company's strategies and operations. In this way, the stakeholders can compare corporate activities and commitments to their own values and orientations. Companies can constantly monitor the changing and multidimensional environment in which they operate, measure stakeholder satisfaction, and better understand what still needs to be done in order to be socially responsible.

Results indicate what has been identified as a movement from a **"trust me"** culture, in which stakeholders had implicit and explicit faith that corporations would act in their best interests, to an "**involve me"** culture, in which companies ask their stakeholders to help them understand the right way to be effectively responsible. Moreover, stakeholder dialogue is used mainly to discuss corporate policies on CSR rather than the content of the non-financial reports.

(c). **Process Dimension -** A further distinctive feature of the non-financial reports we analyzed is the process dimension of their reporting. They tend to focus on ongoing interactions with stakeholders and stress the exchange of ideas that has allowed companies to better understand stakeholders and their interests.

(d). **Expected Outcome** - The last feature non-financial reports share is the explicit identification of their main objectives in reporting. Companies stress that each of these non-financial considerations is clearly capable of having a financial impact, either directly (through operating costs or litigation) or indirectly (by affecting their access to capital, their license to operate, and their retention of quality people).

Many Multinational corporations consider non-financial reports an opportunity to check corporate strategic positioning, redefine their mission and values, evaluate progresses, reorient corporate action, and manage relationships with stakeholders. The second advantage is what we call "the internal reporting aptitude." In this case, reports are strictly tied to organizational objectives, such as redefining responsibilities and tasks across divisions within the company.

3.4 To What Extent and in What Social and Environmental Dimensions Companies Report

From research conduct produce percentage - sample composition sustainability report produce for social, economic and environmental issues 37%, Health Safety and Environmental reports 3%, Environmental report, Social report 10%, Social and Environmental report and CSR report 31%.Previous studies conducted revealed the following **six reporting models for non-financial** reporting **–** (i) sustainability reports, (ii) CSR reports, (iii) social and environmental reports, (iv) environmental reports, (v) social reports, and (vi) health, safety, and environment reports (HSE reports).

"**Stakeholder-based" CSR areas covered in the reports are**: human resources, shareholders, customers, suppliers, government and public authorities, community, and environment.

The Employment Relationship – equality of treatment, Health and safety, turnover, protection of workers' rights, training, staff composition and communication**.**

(a). Implication -Equality of treatment or equal opportunity is the most covered CSR issue, with information on the relationship between female and male personnel widespread among the reports. Most reports also contains a large amount of material on training, while staff composition by age, seniority, geographical origin, nationality, kind of contract, and educational qualification are generally less addressed in the documents.

Human Resources – Industrial relations, personnel’s satisfaction, employees’ benefits, schemes of wages, absence from work, disciplinary measures and litigation and working hours.

Shareholders Relationship – Corporate governance, investors relations, shareholders’ remuneration, capital stock composition, rating, stock price fluctuation, benefits and services for shareholders.

(b). Implication - By disclosing such information, companies show their willingness to highlight methods of governance aimed at increasing the overall participation of shareholders and decreasing discrimination against minorities. Rarely are shareholders’ remuneration, capital stock composition, rating, stock price fluctuation, or benefits described in depth.

The Customer Relationship – promotional policies, ethical and environmental products and services, market development, customer satisfaction and loyalty, privacy protection and general characteristics.

(c). Implication - Companies tended to use these non-financial reports to communicate their commitment to create products or services that protect customers and consumer interests. They also aimed to ensure transparent communication about quality, environmental impact, and product safety.

Suppliers and Government – supplier management policy, procurement conditions, codes of conduct and rules for the compliance with Laws, relations with Local authorities, taxes and duties, contributions, benefits or easy-term financing.

(d). Implication -Companies are anxious to explain that they do not discriminate in any way against minorities in the process of selecting suppliers.

Community and Environment – Active commitment in communities causes, corruption prevention, stakeholder engagement, corporate giving, virtual community, relations with the media, energy consumption, material, and emissions and environmental strategy and relations with the community.

(e). Implication - Reports tend to address the prevention of corruption; they talk about explicit policies and systems to fight corruption and unethical behavior. They also discuss community engagement, meaning the bundle of activities to involve the community at large, including citizens, non-governmental organizations, and the media.

3.5 Discussion and Implications

In general, reports entitled **“CSR Reports” and “Sustainability Reports”** are the most complete and wide-ranging of the types of non-financial reports that exist, expressly integrating the triple bottom line approach and the stakeholder- management model. On the contrary, “environmental reports” and those focused on only health, safety, and the environment tend to give a partial representation of the company’s CSR operations.

They tend to focus exclusively on the environmental impact of their business operations. “Social Reports” and “Social and Environmental Reports” are in the middle in terms of how exhaustive they are in explicating a company’s CSR activities. By drawing on such data and information, a company can evaluate itself and its role within a complex and multidimensional environment. The more knowledge generated about what stakeholders need, the more effectively companies can communicate with them and serve them.

Transparency indicators are often associated with what we call *merit indicators*. This type of indicator focuses most directly on making it possible to express judgment on the level of CSR reached by the company. For example, reading descriptions of employee benefits, a prospective worker could assess *ceteris paribus* different levels of corporate concern about the wellbeing of its human resources.

In the area of stakeholder-based analysis, some general conclusions and managerial implications can be drawn regarding the company’s aptitude in each category.

Connecting with Human Resources through Skill Development and Maximum Safety

The data and information concerning human resources provided in corporate reports illustrate a company’s determination to attract potential workers, show its motivation to provide employment to the surrounding communities, and signal its willingness to be accountable to the current workers and stakeholders for what it has done in terms of human resources performance.

Connecting with Shareholders through Integration

Investments in CSR activities and the ability to manage stakeholders have a direct impact on lenders’ and potential investors’ perceptions of company risk. This can increase a firm’s **access to market capital**. In this way, disclosure can play a fundamental role in the process. The ability of the company to manage multiple stakeholder relationships decreases risk. With the visibility gained through disclosure, shareholders and financial partners can use CSR activities as a “signal of a firm’s successful attempts at satisfying stakeholder groups.”

Connecting with Customers through Quality, Innovation, and Safety

Descriptions of promotional policies provide further proof of a company’s ability to listen and to address key stakeholder concerns. Especially with regard to customer relations, non-financial reports act as “containers” in which to order and prioritize all supportive activities. Without disclosing proprietary information that is being used to guide development of new products and services, managers should encourage reporting on **market development trends and how they might attract new customers.**

Reports on innovations can help customers and stakeholders better understand and assess a corporation's "listening and customizing" aptitude. For example, by appreciating the range of new market initiatives promoted by companies, new customers could be attracted by company dynamism, its renewal capacity, and even its ability to reinvent itself to meet new market trends.

Connecting with Suppliers through Supply Chain Management

There is an opportunity to pay more attention to supplier relationships in non-financial reports. They could especially provide more quantitative data about procurement. Companies, in fact, want to make clear the absence of any unfair policies toward suppliers. This would enhance stakeholders' awareness of their valuing fair play highly. Again, a multi-year view could help the assessment process.

.

Connecting with Government through Compliance and Conformity

To improve their reporting in this area, companies should pay more attention to providing clear information on taxes and duties on the one hand and details about contributions, benefits, and easy-term financing received by the company on the other. In fact, companies can quantitatively demonstrate their commitment to local development by emphasizing how much of their wealth they share with public authorities and governments, such as through taxes and fees.

Connecting with Community through Open Dialogue and Environmental Protection

As stakeholders become more active and able to make a greater contribution to the development and evaluation of company policy, their needs must be given priority. Prevention of corruption is an important one. A socially responsible company, therefore, is that one which adopts all necessary measures to avoid unethical behavior, starting with strict, voluntary, self-regulatory codes and in-house rules. To further this end, more attention in the reports could be paid to a company's relationship with media. Media attention devoted to CSR-conscientious companies can provide the stakeholders and a broader audience with access to new information regarding the human element of business and production/manufacturing methodology.

Conclusion

Non-financial reporting practices have become an integral part of the business operations of most corporations. What matters most in non-financial reporting practices reflects six main priorities of stakeholders: (i) promoting safety at all levels of their operation (from the safety of products and services to working conditions), (ii) product quality and innovation, (iii) environmental protection, (iv) dialogue with communities and stakeholders, (v) attention to skill development, and (vi) responsible citizenship. These represent the most covered themes in non-financial reports. Companies tend to pick specific CSR issues that they consider strategic— for instance, those related to **health, safety, and environment.**.

Companies focus on these to differentiate themselves from other socially responsible competitors in order to increase the sustainability of acquired advantages. Ironically, however, in the case of CSR, the opposite tends to be true: Companies that lead in the area of CSR "invariably encourage their less responsible competitors to emulate their behavior.” Companies should integrate social and environmental responsibilities in their relations with stakeholders, while at the same time looking for strategic diversification in terms of specific modes of exploitation. **The reporting of CSR performance should quickly shift toward the reporting of relevant information that is material to the company’s key stakeholders and decision makers.**

The Reporting Spectrum

Although all non-financial reports share these traits, the documents differ across the five criteria. They can be classified along a continuum.

At one end of this continuum is what we call the **"monitoring view of non-financial reporting**." Companies at this end are those that consider non-financial reporting as an extension of an economic balance sheet, the purpose being to s**ummarize social investment** (i.e., philanthropic activity) in different areas of the community and to formalize the corporate position on CSR, all to provide a further opportunity to assert the company's commitment to good business practices.

At the other end is the **"managerial view of non-financial reporting**." This involves those companies that view non-financial reporting as a **stakeholder-oriented tool,** but one with a managerial function. Reporting exists to provide effective guidance for the progress of the company. **According to the monitoring view, non-financial reports complement economic and financial reporting in that the latter provides information on the size and economic importance of the company as reference against which the relative significance of voluntary contributions to society can be measured**.

The extent to which financial and non-financial reports are integrated is generally low.

On the opposite end of the continuum, those who advocate the managerial view of reporting tend to promote CSR as a strategic priority. They tend to discuss the economic impact of their business from a broader, sustainability perspective.

In other words, the extent to which financial and non-financial reports are integrated is usually high.

In general, companies that promote the managerial perspective are those with a more consolidated "reporting tradition," meaning they adopted non-financial reporting tools earlier. This leads us to postulate that non-financial reporting represents a sort of progressive learning. It does not simply result from a mechanical application of outside-defined principles. Non-financial reports can also be characterized along this continuum by the extent to which they balance quantitative and qualitative dimensions and are outside-oriented.

Those companies that show up on the monitoring side of the spectrum tend to focus mainly on quantitative data; they strictly concern themselves with the measurable environmental impacts of business activities.

They derive the content of the social sections of the reports from standards and accepted guidelines. As a result, the documents often appear to be addressed more to experts in the field than to a broad audience of stakeholders. They are most useful to support internal decision making. Documents on the managerial end of the scale, however, seem to be shaped more by stakeholder consultations and stakeholder feedback. Quantitative data are made readable through qualitative descriptions and explanations of technicalities, all with a clear outside orientation. The process dimension of reporting also varies along the continuum.

On the monitoring side, interactions tend to be inside-oriented, meaning that they occur prevalently within the company boundaries.

On the managerial side, companies are outside-oriented, with interactions focusing prevalently on stakeholder dialogue.

Finally, the reports also can be classified broadly as either “monitoring” or “managerial” depending on their expected uses and outcomes.

The main drivers of those that are monitoring-oriented deal more with internal outcomes consistent with the internal reporting aptitude explained above. This orientation does not exclude the possibility that reporting has also a strategic purpose, even if inside-company directed. There also can still be the goal of improved relationships with company stakeholders, but it comes as a consequence of better monitoring and improvement of inside-company conditions.

On the other end of the spectrum, managerial-style reporting is shaped more by outside-company directed drivers based on the explicit goal of improved relationships with stakeholders. According to this perspective, stakeholder-orientation comes first in determining CSR policies and programs. Between the two extremes of monitoring and managerial, many non-financial reports are more moderate in their style and focus.

CLASS DISCUSSION

Module 1

(1). Participants should give the risk management philosophy of their organization.

(2).The risks facing their organization.

(3).Who takes responsibility for risk management.

(4) Highlight the risk management strategies of your organization.

Module 2

(1).What is the link between internal control, risk management and corporate governance

(2) How do we justify a sound and effective internal control?

(3) Justify how the features of internal control system and benefits of a sound system of internal control system.

(4) Explain the role of board committees in the review process.

(5) What are the guiding principles of risk assessment?

(6). What guide financial reporting in Nigeria – Financial statement and Audit

(7). What should be contained in accounting records and where should accounting records be kept and penalties for non-compliance.

(8). What should be included in financial statements?

(9). While do will need to disclose in our report loans in favour of directors and connected persons.

(9).What is corporate financial reporting and essence of producing published audited annual reports.

(10).What is the consequence of any delay in producing published audited reports and accounts.

(11) Let the class distinguish between CSR and Corporate Social Accounting. What are the general objectives of Social responsibility accounting and how do we measure a business success.

(12) What are the merits and demits of the various valuation basis of social accounting

(13).What is risk appetite? Is a company without material uncertainties free from risk?

Module 3

(1).How does the board of director determine the nature and extent of the principal risk it is willing to take in achieving its strategic objectives.

(2) How does the director take into account the company position and principal risk

(3).What is the relevance of Narrative reporting in corporate reporting.

(4) How does corporate reporting reflect strategic reporting in Nigeria?

(5) Does corporate reporting accommodate financial reporting laboratory?

(6) How do we distinguish non-financial reports from financial reports?

(7)While should a company be socially responsible to its stakeholders.

(8) Discuss the six (6) reporting models for non-financial reporting and their relevance – employee relationship, human resources, shareholders relationship, the customer relationship, suppliers and government and community and environment

Note: 22 Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014)

How does the board satisfy itself that the information it receives is timely, of good quality,• reflects numerous information sources and is fit for purpose?

What are the responsibilities of the board and senior management for crisis management?

How effectively have the company's crisis management planning and systems been tested? To what extent has the company identified risks from joint ventures, third parties and from the way the company's business is organised?

How are these managed? How effectively does the company capture new and emerging risks and opportunities?

How and when does the board consider risk when discussing changes in strategy or approving new transactions, projects, products or other significant commitments?

To what extent has the board considered the cost-benefit aspects of different control options?

How does the board ensure it understands the company's exposure to each principal risk before and after the application of mitigations and controls, what those mitigations and controls are and whether they are operating as expected?

Monitoring and Review

What are the processes by which senior management monitor the effective application of the systems of risk management and internal control?

In what way do the monitoring and review processes take into account the company's ability to re-evaluate the risks and adjust controls effectively in response to changes in its objectives, its business, and its external environment?

How are processes or controls adjusted to reflect new or changing risks, or operational deficiencies? To what extent does the board engage in horizon scanning for emerging risks?

Public reporting

How has the board satisfied itself that the disclosures on risk management and internal• control contribute to the annual report being fair, balanced and understandable, and provide shareholders with the information they need? How has the board satisfied itself that its reporting on going concern and the longer term• viability statement gives a fair, balanced and understandable overview of the company's position and prospects?

Financial Reporting Council 9

28 The reports from management to the board should, in relation to the areas covered by them, provide a balanced assessment of the significant risks and the effectiveness of the system of internal control in managing those risks. Any significant control failings or weaknesses identified should be discussed in the reports, including the impact that they have had, or may have, on the company and the actions being taken to rectify them. It is essential that there be openness of communication by management with the board on matters relating to risk and control.

29 When reviewing reports during the year, the board should:

• consider what are the significant risks and assess how they have been identified, evaluated and managed;

• assess the effectiveness of the related system of internal control in managing the significant risks, having regard in particular to any significant failings or weaknesses in internal control that have been reported;

• consider whether necessary actions are being taken promptly to remedy any significant failings or weaknesses; and • consider whether the findings indicate a need for more extensive monitoring of the system of internal control.

30 Additionally, the board should undertake an annual assessment for the purpose of making its public statement on internal control. The assessment should consider issues dealt with in reports reviewed by it during the year together with any additional information necessary to ensure that the board has taken account of all significant aspects of internal control for the company for the year under review and up to the date of approval of the annual report and accounts.

31 The board's annual assessment should, in particular, consider:

• the changes since the last annual assessment in the nature and extent of significant risks, and the company's ability to respond to changes in its business and the external environment;

• the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and, where applicable, the work of its internal audit function and other providers of assurance;

Financial Reporting Council 10 - Internal Control: Revised Guidance for Directors on the Combined Code (October 2005) • the extent and frequency of the communication of the results of the monitoring to the board (or board committee(s)) which enables it to build up a cumulative assessment of the state of control in the company and the effectiveness with which risk is being managed;

• the incidence of significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the company's financial performance or condition; and

• the effectiveness of the company's public reporting processes. 32 Should the board become aware at any time of a significant failing or weakness in internal control, it should determine how the failing or weakness arose and reassess the effectiveness of management's ongoing processes for designing, operating and monitoring the system of internal control.

Financial Reporting Council

13• Does the company communicate to its employees what is expected of them and the scope of their freedom to act? This may apply to areas such as customer relations; service levels for both internal and outsourced activities; health, safety and environmental protection; security of tangible and intangible assets; business continuity issues; expenditure matters; accounting; and financial and other reporting.

• Do people in the company (and in its providers of outsourced services) have the knowledge, skills and tools to support the achievement of the company's objectives and to manage effectively risks to their achievement?

• How are processes/controls adjusted to reflect new or changing risks, or operational deficiencies? Information and communication

• Do management and the board receive timely, relevant and reliable reports on progress against business objectives and the related risks that provide them with the information, from inside and outside the company, needed for decision-making and management review purposes? This could include performance reports and indicators of change, together with qualitative information such as on customer satisfaction, employee attitudes etc.

• Are information needs and related information systems reassessed as objectives and related risks change or as reporting deficiencies are identified?

• Are periodic reporting procedures, including half-yearly and annual reporting, effective in communicating a balanced and understandable account of the company's position and prospects?
• Are there established channels of communication for individuals to report suspected breaches of law or regulations or other improprieties? Monitoring

• Are there ongoing processes embedded within the company's overall business operations, and addressed by senior management, which monitor the effective application of the policies, processes and activities related to internal control and risk management? (Such processes may include control self-assessment, confirmation by personnel of compliance with policies and codes of conduct, internal audit reviews or other management reviews).

14 Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)

• Do these processes monitor the company's ability to re-evaluate risks and adjust controls effectively in response to changes in its objectives, its business, and its external environment? • Are there effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risk and control assessments?

• Is there appropriate communication to the board (or board committees) on the effectiveness of the ongoing monitoring processes on risk and control matters? This should include reporting any significant failings or weaknesses on a timely basis.

• Are there specific arrangements for management monitoring and reporting to the board on risk and control matters of particular importance? These could include, for example, actual or suspected fraud and other illegal or irregular acts, or matters that could adversely affect the company's reputation or financial position.

Governance

Our Board of Directors has adopted clear governance policies that we believe provide a framework for the operation of the company in line with our shareholders' best interests and legal requirements. Our operational and financial processes are overseen by our internal audit team, which reports regularly to the Board Audit Committee. Full details about our corporate governance processes, policies, and Board committees are available in ur Annual Report and on our Investor Relations website.

Case Study - Risk Management

Message from John T. Chambers (CSR REPORT)

Chairman and CEO

Our approach to Corporate Social Responsibility (CSR) is to use our expertise, technology, and partnerships to create positive impact around the world. CSR has always been one of the pillars of our culture, and I'm extremely proud of the global impact of our programs. Our focus on creating value for society, the environment, and our business is reflected in the breadth of our commitments. From investing in our people to improving labor standards in our supply chain. From improving access to healthcare to reducing our environmental footprint. This is all made possible by the network.

Networking technology connects people in meaningful ways. It has the power to deliver new opportunities and rich experiences, which connect people around the world. Networking technology also grows global economies and increases well-being. At Cisco, one way we see this happening is what we call the "Internet of Everything." In simple terms, the Internet of Everything is the intelligent connection of people, processes, data, and things. This will be the most exciting phase of the Internet yet, and I believe its impact on society will be five to ten times greater than the impact of the Internet to date.

The Internet of Everything offers countries around the world the opportunity to provide better, richer lives for their citizens and to create new ways for companies to do business. Whether it's connected education and healthcare, smarter cities, more efficient government services, or transforming job creation, we believe the societal benefits of the Internet of Everything will impact our lives in ways never imagined. It's not the act of getting connected—or even the number of connections - that creates the value. Rather, it's the outcomes those connections make possible.

With companies, individuals, and governments working together, we can help economies worldwide. Governments alone cannot solve the global challenges we face today. But by bringing together a diverse set of stakeholders, we can tackle many of the inequities in education and employment. For example, our role in the White House Information Technology (IT) Training and Certification program highlights the power of public-private partnerships.
The program provides IT skills training, certification, and career placement to help U.S. military personnel transition into the job market quickly. In FY13, we introduced new 5-year environmental goals designed to focus on the two areas we believe are most critical to Cisco's environmental sustainability over the long term. These are greenhouse gas emissions and energy consumption. Our focus is not only on our customers and partners, but also on society and the environment. Ultimately, the success and impact of the Internet of Everything will be measured by the extent to which we're able to harness its benefits for humanity. With this in mind, I couldn't be more excited to see what the future holds. We are deeply committed to improving lives, communities, etc.

CASE STUDY: CISCO

CSR Management & CSR Governance

Cisco has been a pioneer in networking technologies since our inception in 1984.We continue to evolve and innovate to solve our customers' most important business challenges and to catch market transitions. Our unrelenting focus on innovation has enabled us to maintain our position as a market leader for nearly 30 years. From routing and switching hardware to collaboration, security, and video software, we build the solutions our customers need to succeed. We sell our products and services to businesses of all sizes, governments, and service providers. Through the Internet of Everything, we are creating new capabilities, richer experiences, and unprecedented economic opportunities for individuals, organizations, and countries. We believe that amazing things happen when you connect the unconnected.

Employee Training and Awareness

Our internal ethics website provides training materials and videos such as “Cisco Has a Speak-Up Culture,” links to policies, and an ethics discussion forum for employees. We provide tailored training for specific employee groups to help them manage issues relevant to their roles. Examples include targeted courses for people joining Sales teams, Human Resources professionals, and employees who interact with government officials. Business and regional management can request additional training for their teams.

Anti-corruption training is mandatory for most Legal staff; employees in Sales, Marketing, and Services; channel partners; distributors; and sales-supporting consultants. In addition, live ethics, compliance, and anti-corruption training was provided by experts from Legal, Compliance, and Finance to Sales teams in Russia, China, Japan, Korea, and Thailand.

How to Report a Concern

We encourage employees and other stakeholders to promptly report concerns to us about suspected unethical behavior.

To do this, they can:

- Speak to a manager or Human Resources representative
- Contact members of our Legal or Ethics offices directly
- Contact the Ethics Office by email at ethics@cisco.com or through our anonymous web form
- Call our global Ethics Helpline, available 24 hours a day in more than 150 languages
- Disclose gifts, entertainment, or potential conflicts of interest confidentially to the Ethics Office using relevant tools

No one will face retaliation if they raise a concern in good faith.

Concerns raised mainly relate to conflicts of interest, gifts and entertainment, and Human Resources issues. We investigate all concerns and anyone found to have violated our Code of Business Conduct (COBC) may face disciplinary action, including termination of employment if warranted in certain cases.Find out more on our website

“At Cisco, our approach to business ethics begins with the belief that compliance is everyone’s job and does not reside in any one department or with any one person. We invest heavily in proactive communication, education, and systems to help our 74,000+ employees and 40,000 business partners, operating across 165 countries, understand our ethical standards and their responsibility to live up to them.”

Privacy and Data Security

Mounting public scrutiny means privacy and data security are among the more pressing issues facing the ICT industry. The Internet of Everything (IoE) brings significant benefits to society, but also raises privacy concerns. People can now access and share personal or business information in real time anywhere, at any time, on any device. This makes securing data more difficult and increases the design challenges for technology companies like Cisco. Our privacy policy is based on respect for our customers and a commitment to protect the information that they have shared. We review and improve the policy on a regular basis to adapt to the changing requirements of our customers, the Internet, and global business environments.

We encourage our research and development teams to continually push boundaries, ask difficult questions, and seek new ways to connect the world. This culture of innovation allows us to pursue growth opportunities for our business that connect people and improve lives. But it also makes robust risk management essential as we enter new markets and introduce new products and services. The Board of Directors, acting directly and through its committees, is responsible for overseeing risk management. Under the Board's oversight, Cisco has implemented practices and programs designed to help manage business risks and to align risk taking appropriately with our efforts to increase shareholder value. Working groups from across the business report risks and mitigation strategies directly to the Board's Audit Committee, which oversees our financial and risk management policies. Business resiliency is a core part of our risk management activities. Our strong incident management and business continuity programs allow us to respond quickly to internal and external disruptions or threats as they look to minimize the impact on our employees and our business.

Our CSR program aims to address the sustainability issues that are most relevant to our business and focus on where we can have the biggest impact. We regularly listen to subject matter experts across the business and gather feedback from external stakeholders. Our CSR activities are stewarded by Tae Yoo, Cisco's SVP of Corporate Affairs. Under her leadership, Cisco engages in public-private partnerships that apply our expertise, technology, and relationships for positive social and environmental impact worldwide. She is the author of several articles about the role of technology and collaboration in driving social change.