

Good governance of corporate oversight

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On 14 September 2021, the International Organization for Standardization (ISO) published the first international Standard on Good Governance of Organizations, ISO 37000 (the Standard).¹ The Standard was established by more than 70 countries and 24 international organisations, including, for instance, the OAS, OECD and the IIA, and represents state-of-the-art of good organisational governance. ISO 37000 is the first global governance standard and can serve as a generally accepted benchmark for all organisations regarding the maturity of their governance.

The Standard endorses recent international governance trends such as the focus on purpose,² the engagement with stakeholders,³ and the consideration of environmental, social and good governance objectives⁴ (ESG). The goal of the Standard is to outline the fundamental principles of good governance that enable all organisations to achieve their meaningful purpose ethically, sustainably and effectively.

Based on the primary principle of having a meaningful purpose, the foundational principles of value generation, strategy, accountability and oversight form the basis of any organisation's governance. Six enabling principles, including risk governance and social responsibility, enable the achievement of the desired governance outcomes, such as ethical conduct.⁵

The principle oversight outlines how the members of governing bodies should oversee the performance of the organisation and ensure that their intentions for and expectations of the organisation, its ethical behaviour and compliance obligations are met.⁶

The ratio of effective oversight and control by the members of the governing body is to warrant that the organisational purpose and strategic objectives are achieved as intended and specified. Supervision and control are important because the governing body should ensure that delegated responsibilities are fulfilled and that decisions are made within the scope of delegated authority. Through supervision and control the highest body also takes corrective action where necessary to fulfil the organisational purpose.⁷

The governing body ensures effective oversight through four actions:⁸

- 1 Requiring those to whom duties have been delegated to provide timely and accurate reports on all material aspects of the management of the organisation.
- 2 Implementing an internal control system (ICS) that includes a risk management system, a compliance management system and a financial control system.
- 3 Taking corrective action.
- 4 Providing personal assurance on the accuracy of the reporting and the effectiveness of the ICS.

ISO 37000 Governance Principles

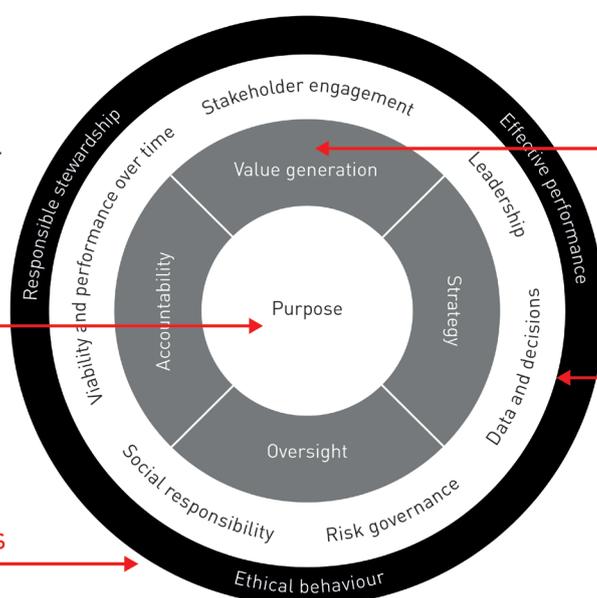
The ISO 37000 standard distills governance into 11 core principles that are at the heart of any successful organization.

1 Primary governance principle

4 Foundational governance principles

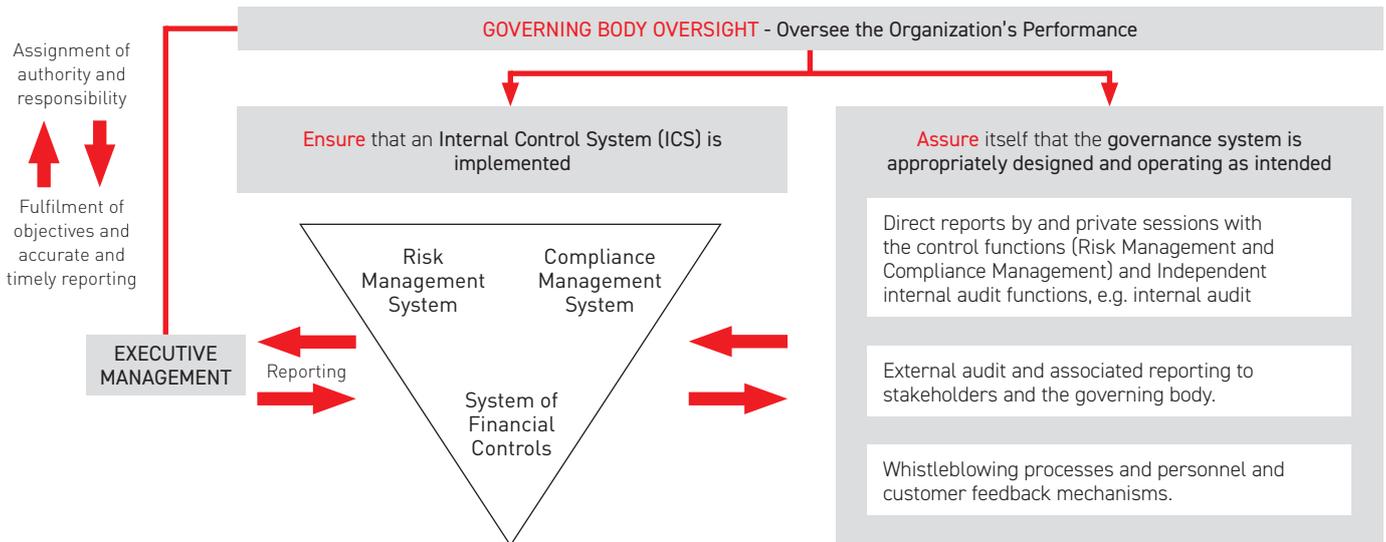
6 Enabling governance principles

Key governance outcomes



Source: ISO 37000:2021(en), Governance of organizations – Guidance

The oversight system – checks and balances



Assurance, which is distinct from the internal control system, is based on the following governing body/board actions and processes:

- 1 Direct verifications by the governing body.
- 2 Direct reporting to and private sessions with the governing body by:
 - a the heads of the two independent control functions Risk Management and Compliance Management; and
 - b by internal audit as an independent assurance function on the effectiveness and performance of governance processes and the ICS;
- 3 External audits and related reporting to stakeholders and top management.
- 4 Whistle-blower processes and employee and customer feedback processes.

The graph above illustrates the ISO 37000 oversight governance framework:⁹

Through the clear description of the oversight role and responsibility of the governing body, the definition of the ICS and the assurance processes, the Standard closes the governance gap that has existed since Sir Adrian Cadbury’s famous Governance Report of 1992 (the Cadbury Report):¹⁰ ‘Since an effective internal control system is a key aspect of the efficient management of a company, we recommend that the directors should make a statement in the report and accounts on the effectiveness of their system of internal control and that the auditors should report thereon.’¹¹

Essentially, ISO 37000 presents a modern, clear and conceptually well framed oversight governance framework in the context of the first global standard on good governance. The Standard represents state-of-the-art of good governance and all organisations should review their current governance model and practices against the Standard, including their internal controls and assurance processes. Many companies still operate control frameworks that conceptually date back

to the Cadbury Report or even before and 30-year-old engines deserve a [major] overhaul.

Notes

- 1 <https://www.iso.org/standard/65036.html>.
- 2 World Economic Forum, Davos Manifesto 2020, <https://www.weforum.org/the-davos-manifesto> (visited on 20 January 2022).
- 3 Business Roundtable, Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans’ of 19 August 2019, <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans> (visited on 20 January 2022).
- 4 Particularly the 17 Sustainable Development Goals by the United States, <https://sdgs.un.org/> (visited on 20 January 2022).
- 5 Governance of organizations – Overview (source: ISO 37001:2021; https://committee.iso.org/ISO_37000_Governance).
- 6 ISO 37000, section 6.4.
- 7 ISO 37000, section 6.4.2.
- 8 ISO 37000, section 6.4.3.1.
- 9 The ‘Oversight System-Checks and Balances taken from ISO 37000’ is reproduced with the permission of the International Organization for Standardization (ISO). This standard can be obtained from any ISO member organisation and from the website of the ISO Central Secretariat at the following address: www.iso.org. Copyright remains with the ISO.
- 10 Report of the Committee on The Financial Aspects of Corporate Governance, 1 December 1992, Gee/Professional Publishing Limited, London.
- 11 Cadbury Report, section 4.32.