

## > Risk Management A New Challenge for the Supervisory Board



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The Corporate Law Amendment Act, called URÄG results in more professionalizing of the supervisory board and the risk management system.

Supervision of the risk management system is a continuous task

<sup>1</sup> 467 BgNR XXIII, GP In the meantime the Parliament adopted the resolution (with insignificant modifications made by the Committee for Justice, 494 BgNR XXIII, GP)

<sup>2</sup> Directive of the European Parliament and the Council of Europe from May, 17, 2006 concerning annual audits and consolidated audits to change the directives 78/660/EEC of the Council of Europe and to cancel the directive 84/253/EEC of the Council of Europe, ABI L 157 from June 09, 2006, page 87.

<sup>3</sup> For better understanding, "supervisory board" in the following stands for the examination board of the supervisory board if there is one, instead of mentioning always the two institutions.

<sup>4</sup> Apart from legal instructions for banks and insurances

<sup>5</sup> Edited by "The Committee of Sponsoring Organizations of the Treadway Commission"

### Current and future legal situation

At the end of February 2008, the Council of Ministers passed a government bill to become a Corporate Law Amendment Act 2008<sup>1</sup> which was meant to implement amongst others the European Directive on Statutory Audits of Annual Accounts. This directive assigns to the audit committee of the supervisory board a number of tasks which can, according to the lawmakers, be better fulfilled by a small, professional committee than by a large board. The unanimous view, however, is that all members of the supervisory board have to perform these tasks if there is no audit committee.<sup>3</sup>

The new law is meant to come into effect on June 01, 2008.

One of these special tasks is to supervise the efficiency of risk management. This kind of supervision is without doubt only possible if risk management, which is in most cases only rudimentary, is done following controlled processes providing also the appropriate documentation. A consequence of this supervisory obligation is, that the supervisory board will put pressure on the company's management to improve its risk management putting it onto a professional basis. And the members of the supervisory board themselves will also have to improve their knowledge in risk management in order to be able to make appropriate and professional evaluations.

Though the obligation to implement a functioning and efficient risk management will only be an indirect result of the new legislation, this obligation is much more precise than it was according to the old legislation which only implied for a diligent and faithful

CEO (§ 84 stock corporation law) or managing director (§ 25 limited liability company law) the duty to take care<sup>4</sup>. The obligation to implement an appropriate internal control system is also considered to be a step into this direction (§ 82 stock corporation law, § 22 limited liability company law).

In case of companies which have submitted to rule C of the Austrian Corporate Governance Codex, the auditor already has the function – as an enhancement of the audit assignment – to evaluate the risk management and to report about it.

We should, however, not forget that the auditor in this case refers to a particular point in time whereas the supervisory committee is meant to supervise continuously. The annual report of the auditor about the efficiency of risk management is therefore not sufficient as an exclusive base for supervising, in fact the supervisory board has to act primarily on its own and continuously.

But the supervisory board is only able to supervise if the company is well prepared and can provide informative papers and documents. In order to evaluate the efficiency of the risk management, a criterion is necessary, e.g. if it is a state-of-the-art risk management. For this purpose, the COSO ERM framework<sup>5</sup> is a suitable tool.

### Support due to the professional risk management tools of OBSERVER AG

Experiences of leading industrial enterprises of the last ten years have shown that risk management in big or complex companies without an appropriate tool is not efficient. After intensive examination, we therefore





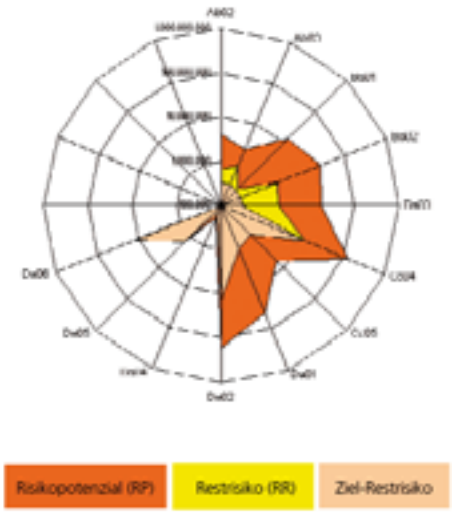
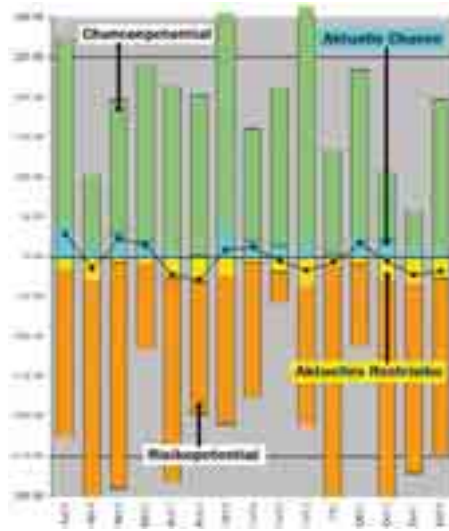
chose last year the risk management tools OBSERVAR of the Swiss company OBSERVAR AG ([www.obervar.ch](http://www.obervar.ch)) with which we can now provide our customers.

We were convinced by the following characteristics of OBSERVAR:

- intuitive use, low learning effort
- available in several languages (German and English completely available)
- comprehensive catalogue of risks
- suitable for any company structure, any company sizes and sectors
- quick creating of clear reports
- consideration of risks AND opportunities
- problem-free handling of assessable and not assessable risks/opportunities
- comprehensive support for objectifying the risk and opportunity evaluation and for defining the top risks/opportunities
- easy consolidation via business units, divisions, regions and within the group
- based on the COSO ERM framework
- compatible with the Deloitte Risk Intelligence approach<sup>6</sup>
- individually adjustable
- pragmatic and scalable method
- continuous development based on customer demands (available since 2001)
- excellent cost/benefit rate

OBSERVAR helps with the identification and evaluation of risks and opportunities pursuing a quantitative approach. Thus, it is possible to identify the most important (top ten) positive and negative factors on a monetary company size (e.g. EBIT), to recognize potentials for improvement or losses and to define and manage suitable measures. Besides the classic Impact/Likelihood model, also the so-called disaster risks, which normally are excluded, are taken into consideration.

On demand, it is possible to implement further refinements, e.g. the classification of a risk according to its frequency. The risk "fire" for example, can be locally limited and fires with



insignificant consequences might be more frequent than those which result in the total loss of a production facility.

The semi-automatically created reports offer a high degree of visualization due to sophisticated diagrams. These pictures make it easier to recognize quickly the essentials and thus meet the needs of the management and the supervisors. OBSERVAR provides the risk managers with continuously updated diagrams regarding the identified risks and opportunities which are integrated into the system.

Besides the documentation concerning the positive and negative divergencies from the medium-term strategy the automated tracking of measures offers the security that the essential points (risks and opportunities) for sustainable success are not only recognized but also changed in a positive way.

Due to its scalability, OBSERVAR is appropriate for easy introduction of risk management as well as for a fully-developed system in more complex environments. Thus the toll can grow together with your company; from a small business unit up to a worldwide group.

OBSERVAR: comprehensive performance, easy to implement

<sup>6</sup>Learn more about risk intelligence and risk intelligent enterprise and visit the website: [www.deloitte.com/riskintelligence](http://www.deloitte.com/riskintelligence)