

# CurAlea's Governance and Risk Management Framework for Subsidiaries/Small Units

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## Objective

The objective of this review is to study governance, risk management and control breakdowns in large multinational's developing and emerging market subsidiaries and/or small operating units (defined as under € 100mln). In aggregating results, we have provided a simple set of questions to provide a higher standard of care both to existing as well as future subsidiaries/small units (referred to hereafter as 'small units').

## Why Small Units?

**These often are financially significant** beyond their current financial results either because they are in developing economies or are recent acquisitions. As a result, they are often your future growth **platforms** closely watched by the investment community (i.e. the reputation risk can outweigh financial consequences).

## Root Causes of Governance/Control Breakdowns

1. Most serious audit matters stem from breakdowns in the following 3 key areas of supervisory control:
  - i. Lack of clear reporting lines within the organization (executive responsibility is not defined and/or understood)
  - ii. Non aligned / integrated business plans/targets (no co-dependence between parent/unit, including business continuity criteria)
  - iii. Unclear day-to-day support (no Finance/HR back office integration, inactive National Management, no head office financial resource support).
2. Though we found good examples of both stand-alone and fully integrated units, the units with the fewest serious deficiencies had integrated back offices (e.g. centralised transactional processing in finance).
3. 60% of the serious matters have been in recently created/acquired Units. In a number of Small Units tested, we found a lack of clear ownership and adequate plans for merger integration into the parent and insufficient training for people coming into the new company. With respect to training, the majority of serious audit issues arose from people not well versed in the new companies' ethical policies/procedures.

## Good Practice Supervisory Control Checklist

To support your small units in your organization, ask these 8 simple questions of small unit and regional and/or parent company management.



## Good Practice Supervisory Control Checklist

### Supervisory Guidelines

### Warning Signs ( based on audit findings)

<p><b>Are Executive Responsibilities Clear</b></p> <ol style="list-style-type: none"> <li>1. Are there clear reporting lines within the Business Group and is the unit clearly provided for in the Operating Framework of the Parent OpCo.</li> <li>2. Are the persons accountable for company reputation viz the small unit clearly identified</li> </ol>	<ul style="list-style-type: none"> <li>• No clear governance (eg, operating framework), organizational charts, tables of authority.</li> <li>• Board responsibility is blurred between Divisions ( dual rept, multiple dotted lines)</li> <li>• New unit or acquisition with unclear 'fit' within Business Group.</li> <li>• National Management does not actively support units( eg ethics cascade)</li> </ul>
<p><b>Are the Parent OpCo/Small Unit Objective Aligned</b></p> <ol style="list-style-type: none"> <li>3. Do Board Members of the Parent OpCo actively engage with subsidiary Board and/or vice versa</li> <li>4. Are the business plans and objectives of the Small Unit and Parent integrated and are the P&amp;L responsibilities clear</li> <li>5. Does the Small Unit have what it needs to execute the plan (e.g., HR commitment to needs of small unit)</li> </ol>	<ul style="list-style-type: none"> <li>• No evidence of active participation in Parent board meetings and/or vice versa. No evidence that Parent Board actively recognizes ( visits, etc) small unit</li> <li>• No shared target and/or P&amp;L co-responsibility</li> <li>• No Small Unit profitability requirements( e.g. break even in Year 3) exist</li> <li>• No shared service level agreements in place</li> <li>• No parent Functional Support/cross Regional Support</li> </ul>
<p><b>Is the day to day support for the Unit clear</b></p> <ol style="list-style-type: none"> <li>6. Are the transactional processes, systems leveraged within its cluster</li> <li>7. Are there clear responsibilities for reputation and financial health at both the Parent OpCo and Small Unit ( Ethics, policies, SOx, ERM,etc)</li> <li>8. Are integration requirements for the Unit clear, if applicable, and are they being completed</li> </ol>	<ul style="list-style-type: none"> <li>• No service level agreement in place, IT support minimal</li> <li>• Many Small Country Units with full scope of stand alone business activities</li> <li>• National Management support non-existent or unclear (eg, no SOx/ERM support from Parent)</li> <li>• No person responsible for the merger integration and no persons assigned to that Small Unit to aid integration</li> <li>• Is there clear must comply policies for the Unit and a schedule detailing how they will be phased-in</li> </ul>