

Company directors must be vigilant

Company directors must regard the report of the HIH Royal Commissioner, Neville Owen, as a reminder to be vigilant and ask the right questions, a leading adviser on corporate governance issues said yesterday.

Corporate governance adviser and author Ann-Maree Moodie told The Age the report into the collapse of the general insurer – released by the Federal Government last week – was an indictment of those board members who fail to probe the issues facing a company in more detail.

Justice Owen's report states that there was little evidence the board of HIH considered corporate strategy and the risks the company faced in the myriad of complex transactions it undertook.

"At board level, there was little, if any, analysis of the future strategy of the company. Indeed, the company's strategy was not documented and it is quite apparent to me that a member of the board would have had difficulty identifying any grand design," the HIH report states.

"If the HIH board discussed strategy at all, it was in the context of an annual budget meeting."

Ms Moodie said the most disturbing thing emerging from the report was that Justice Owen felt the need to spell out the truism that a director should understand the company's strategic direction.

A post as a director of a company needed to be viewed as a job and one of the aspects of that role was to ensure tough questions are asked when warranted, said Ms Moodie, the author of a recent study on the education and training of company directors published by KPMG.

"If you're not asking the right questions then what are you doing there? The fact His Honour felt he even needed to make that comment is an indictment on all boards and a wake up call to all directors to make sure that is what they're doing."

Ms Moodie also said there was a greater need for company boards to ensure all members are involved actively in debate on decisions with less reliance placed on dominant individuals irrespective of their position or subject matter expertise.

"I think in the case of any board including HIH there is a tendency for board members to yield to group pressure. When that happens in a group the members tend to agree with those they think are the subject matter experts," said Ms Moodie.

"If they are doing this it is a very short step to conceding decision making to that expert individual without asking the right questions."

This article was supplied by Tom Ravlic. Tom is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.