



The Navis Group

Strategic Risk Management

CORPORATE GOVERNANCE

Directors' Oversight: Responsibilities & Controls

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Directors' Oversight: Responsibilities & Controls

Introduction:

As we have worked with financial institutions in a project management role on FDICIA and Sarbanes-Oxley related compliance, and have delved into a detailed analysis of corporate governance and board functions, an analytical process focused on director responsibilities has evolved. We have found that the control structure envisioned as part of a FDICIA/SOX compliance effort lends itself to the development of a control audit checklist that allows for the examination of Board roles and responsibilities. This focus has become “best-practice” in our industry, and regulators are increasingly examining the roles, responsibilities and qualifications of our Boards of directors.

In response, we have created an audit work-program aimed at capturing the extent of the Board's duties with respect to corporate governance, compliance and financial industry best practices. We believe that directors tasked with fiduciary oversight of “everything” need to understand and be able to track this ambiguous and amorphous “everything”.

Corporate governance review – Directors' Oversight: Responsibilities & Controls

Our proposed approach is based on a comprehensive and dynamic checklist of Board roles, duties, responsibilities, and periodic tasks for the purpose of giving the director of a financial institution a level of comfort that his/her duties are being met. This is not to impugn the trust that directors place in the executive management of the institution, but rather strives to provide an independent assessment of the thoroughness and timeliness of Board oversight.

Directors' Oversight: Responsibilities & Controls

Approach—A 10-Point Check-up:

Our approach provides review findings in a tracking document codified for ease of use, update and reference. Our 10-point check-up (with highlights) includes:

- 1** Elements of corporate governance - infrastructure, regulatory filings, strategic & succession planning, enterprise risk, board logistics
- 2** Audit review & response protocols – annual, regulatory, internal, targeted
- 3** Policies – (our checklist looks for more than 40 specific policy statements)
- 4** Annual election of function-specific bank officers, ex. BSA officer, CRA officer
- 5** Business continuity & disaster recovery plans, procedures, test documentation
- 6** Information technology & security reports, Board training requirements
- 7** Financial reporting effectiveness—(analytics, dashboards, narratives)
- 8** FDICIA and/or Sarbanes-Oxley 404 compliance (if applicable)
- 9** Compliance reporting – BSA, AML, CRA, Flood Insurance requirements
- 10** Vendor management risk/reporting

Assessment scope:

It is important to note that this review looks to identify any deficiencies with respect to Board responsibilities, rather than assess the quality of particular policies, plans or other documents. Our approach and scope will entail review of board minutes and relevant documentation. We will also interview management and if appropriate, the Board (or a subset thereof) to ascertain the existence and timeliness of each of the elements contained in our work-program.

Directors' Oversight: Responsibilities & Controls

Suggested Timing:

We would suggest that the year-end planning period and/or board retreat events would represent an opportunity in which the presentation of assessment results would be valuable.

Deliverable:

The deliverable resulting from this assessment will be a detailed written report and a direct presentation to the institution's board allowing for questions and comments.

Fees – A corporate governance review program, not a one-time snapshot:

Our fee structure is designed to provide a fixed price over a three-year period, recognizing that this effort is an ongoing program of improvement, but that future years will entail less institution-specific customization . Our fees include ample on-site time for analysis (2-3 days), as well as report writing and presentation time, and are structured as follows:

Year 1 : \$8,000

Year 2 : \$5,000

Year 3 : \$5,000

Fees are payable 50% at the beginning of each year's engagement, and 50% upon completion, exclusive of reasonable expenses, which include travel and lodging, if applicable.

One-year engagements are accepted, but are billed at \$10,000 per annum under like terms.

Please visit our website at www.navis-group.com to learn more about the professionals available to conduct this newly-designed review focused on director responsibilities.