

**Part Two – Chartered Governance Qualifying Programme**

# **Risk Management**

**Time allowed:** 3 hours (plus 15 minutes reading time)

**You must not take this paper out of the examination workspace.**

The examination paper contains **6** questions of which you must attempt **4**. You must attempt **3 questions** in Section A and **1 question** in Section B. The questions in Section A are based on the pre-released case study whereas the questions in Section B are not based on the pre-released case study.

Each question is allocated 25 marks. There are **100 marks** available in total for the paper.

**Note:** Unless otherwise specified, you should assume that an Act or an organisation referred to in the question is a UK Act or organisation.

# Pre-released case study

## Background

RichGold is a gold mining company which was established in June 2022 following the merger of Richard Mining (Rich) and GoldenMining (Gold).

Rich was mainly operated out of South Africa and Europe with their headquarters in London, England, whereas Gold's main operations were in North America with their headquarters in Denver, Colorado, USA.

The mining industry is one of the most heavily regulated and capital-intensive industries in the world, also facing particular challenges lately due to the heightened environmental awareness amongst the public and regulators. Mining companies are large risk-laden industrial enterprises that are managed through many difficult situations, including industry commodity price cycles, declining mineral reserves, and usually operations in different jurisdictions often with poorly developed infrastructures.

In recent years, the mining industry has changed dramatically to improve processes, operations, working conditions and health, safety, and environmental measures – at least for many enterprises. Mining can be a labour-intensive and unsafe occupation, although innovative techniques and equipment are now being applied in various areas of the industry to bring about improvements.

In addition, mining companies are being forced to modernise themselves to remain attuned to rapidly changing demands and expectations of their stakeholders. For example, the requirement to become sustainable by taking into consideration the planet, people, and prosperity rather than just pure profit, whilst at the same time managing the bottom-line costs and delivering the above market average return to their investors. Rich had been slow in responding to these changes, not recognising their strategic value, as they had always made, what they felt was, a reasonable profit.

The merger between Rich and Gold allowed both companies to gain access to greater regional growth, economies of scale and also to build upon their strengths in health and safety (Gold) and project management (Rich).

The merged entity's corporate headquarters is located in London, England. RichGold was listed on the main market of the London Stock Exchange in February 2022, quickly being promoted the FTSE 100 index six months later. The first year of operating as a merged company produced a revenue of GBP 4.6billion and a profit of GBP 1.1billion. The profit was less than the combined profits of Rich and Gold in the previous year, but it did include the one-off merger related costs.

The new, combined workforce at RichGold is highly fragmented, driven by the different activities they undertake, their languages and geographies, the employment legislation, and practices they comply with and their different corporate cultures. Some of the merger-related changes being undertaken have affected production targets and led to top talent being lost to competitors.

To further capitalise on the merger and in a bid to better reflect and respond to expectations from its stakeholders, the Board of RichGold want to improve their operational targets and business practices, including governance and risk management.

## **Governance**

The former Chief Executive Officer (CEO) of Gold, was a risk averse individual, (unusual for his industry), with a low-risk appetite. He was opposed to the merger with Rich, considering the company to be too risk seeking, stating it would be 'Taking a risk too far'. He resigned as soon as the merger papers were signed.

In order to implement the merger and to achieve the merger's targeted market and improvement opportunities, RichGold hired a new CEO from a similar sized mining organisation, although with experience in the primary extraction of copper and silver rather than gold.

In fact, the CEO's brief specified that RichGold needed to be 'pulled into shape', using the merger as a chance to move forward and seize more opportunities in the growing market for gold.

The new Board of RichGold consists of two of the previous board members from Rich, two of the previous board members from Gold, and three new independent non-executive directors (iNed), one of whom is the new Chair of the Board.

There have also been major structural changes in the Executive Committee (ExCo), including the former CEO of Rich now being the deputy Chief Operating Officer (COO).

RichGold's current Board structure is shown below:

- Five Executive Directors:
  - Chief Executive Officer (CEO) - Alistair Gordon
  - Chief Financial Officer (CFO)
  - Chief Legal Officer (CLO)
  - Chief Operating Officer (COO) - Sanjay Busa
  - Chief People Officer (CPO) (appointed in March 2023) - Suchitra Abang
  
- Seven iNeds (appointed in January 2022 unless otherwise stated)
  - Chair of the Board and the Nominations Committee (new) - Katie Birchwood
  - Senior iNed (Gold) - Luke Sutcliffe
  - Chair of the Remuneration Committee (Rich)
  - Chair of the Audit and Risk Committee (new - appointed in December 2022) - Louis Mbappe
  - Three further iNeds: one new; one from Gold, and one from Rich

The (ExCo) also includes the Health and Safety Director, the Development Director, and the Technical Director.

To facilitate the transition of the newly merged entity, Board meetings take place every six weeks, preceded, and informed by Board Committee meetings (Nominations, Remuneration, and Audit and Risk) and two weekly ExCo meetings. The meeting intervals are expected to become less frequent in 2024.

You are the new Company Secretary at RichGold, moving from the same role in an Oil and Gas extractive company at the time of the merger.

## **Risk and control**

Alistair and Sanjay are keen to move RichGold forward and develop initiatives to bring about the improvements outlined by the Board. As such, a new Chief Risk Officer (CRO) was hired in February 2022, who reports directly to Alistair.

During the due diligence exercise, it was discovered that Gold had focused their risk management approach entirely on the UK health and safety requirements (UK Health and Safety at Work Act). This approach was mirrored in the risk averse nature of the previous CEO of Gold.

Conversely, it was found that Rich was using its project risk management process to support decision making at strategic and business level. Although project risk management encouraged Rich to identify and manage both threats and opportunities, this approach no longer suits the business and governance requirements of the merged organisation.

Unfortunately, these focused approaches to risk management (health and safety and project management) have led to a lack of acknowledgement and management of some key strategic risks facing the organisation. Both companies managed to survive and be successful in this volatile industry, but the narrow focus of both approaches, and the low-risk appetite in Gold led to missed opportunities.

These missed opportunities impacted the development and expansion in the industry of both organisations. In addition, their focus meant that they did not recognise potential improvements in their internal governance, control and risk management approaches that would be considered best practice.

Following a recent audit at two of the operating sites, one in North America and another in South Africa, Louis has become concerned about the strength of the risk and control environment being implemented across the organisation. His concern centres not so much on the lack of controls in certain areas, but rather that he felt significant risks were not being identified or appropriately escalated and that some, more insignificant, risks were being over controlled. As such, he felt that there was an imbalance between the correct identification and prioritisation of risks and the associated controls applied.

Louis raised these concerns at the last Board meeting. He also expressed his worry that the Board were not constructively challenging the findings of audit reports or questioning the ExCo on whether RichGold was effectively identifying, managing, and controlling its risks.

The board members from the original companies, Rich, and Gold, did not receive these concerns well, considering the matters raised as a personal attack. They asked for it to be minuted that they did not appreciate being told that they were not doing their job effectively or that they were, in some way, negligent in their duties.

In the same meeting, Suchitra raised a significant concern about the negative impact the merger and various change management initiatives are having on the organisational human capital.

Again, some of the board members argued that a lot of planning had been done to consider the effect of these changes on the workforce to ensure staff remained engaged, reassured, and motivated. It was noted that they had seen no evidence of any issues with RichGold's human capital, with Luke throwing up his hands and asking, 'What's your problem?!'.

At that point, Katie intervened to soothe the discontent in the meeting, and, in support of Louis, explained that as a newly merged organisation there were bound to be areas to be reviewed and that all the board members needed to grow and learn together to achieve the objectives of RichGold.

Katie suggested that they close the meeting at that point, and reserve time at the next Board 'off-site' session to consider these matters further when more research had been undertaken.

Suchitra had a brief discussion with you and Katie following the meeting, pointing out that she had found evidence of issues with the workforce, but did not have time to explain it at the board meeting. She noted the increasing turbulence in the staff turnover, highlighting problems in both recruiting and retaining key talent for the organisation.

In addition, Suchitra had found that workplace and management training has not been consistent or embedded across the organisation, nor have there been any staff surveys undertaken since the merger. Finally, personnel and skills-based analysis has not progressed further than the initial plan undertaken in September 2022.

Following the Board meeting and these brief discussions, you have some ideas on topics to include in the next 'off-site' Board session, not least of which will be the output of a review of the governance and risk management arrangements across the organisation, which Louis has asked you and the new CRO to undertake.

## Section A

Answer **three** questions in this section. Questions 1 to 4 are related to the pre-released case study.

### Question 1

Gold had been implementing the UK's health and safety approach and Rich had been using a project approach to risk management across their separate businesses. As such, RichGold is now facing a lack of consistency in its implementation of risk management and a potential lack of understanding of the key risks in both its strategy development and execution.

As a result, the CRO wants RichGold to implement ISO 31000 as the consistent approach to enterprise risk management for the newly merged entity.

#### REQUIRED:

You have been asked to write a report to the Board, evaluating at least **THREE (3)** high-level differences between health and safety, project, and enterprise risk management and why enterprise risk management would be more appropriate for RichGold.

As part of the evaluation, focus on the **THREE (3)** key parts of the ISO 31000 standard in creating and protecting value, and, in particular, the steps of the risk management process itself.

**[Total for Question 1 = 25 marks]**

## **Question 2**

It is clear that there is a lack of understanding of risk management, and corporate governance at all levels within RichGold. With the previous approaches being aligned to health and safety or project risk management, there has been more of a compliance or 'tick-box' attitude which has tended to be overly bureaucratic.

The new CRO, supported by Katie, Louis, Alistair, and Sanjay, is keen to ensure that risk management is linked more to the development of strategy and acting on opportunities, as opposed to just mitigating threats and firefighting.

### **REQUIRED:**

In your capacity as the Company Secretary, assess the relationship between risk management and corporate governance as part of the 'good' management of the company. Include in your assessment, an overview of the UK Corporate Governance Code, the link between risk management and strategy and the role of the Board in relation to strategy, risk management and corporate governance.

**[Total for Question 2 = 25 marks]**

### **Question 3**

The previous CEO of Gold had a low-risk appetite, looking to mitigate all threats at almost any cost with his cautious approach to risk management. While this has provided a very safe working environment, it has led to a number of business and work practice opportunities being overlooked.

There is a new remit from the Board to look for opportunities, with Alistair wanting to ensure the Board and ExCo understand 'how much risk is too much risk' - RichGold's risk appetite.

#### **REQUIRED:**

To support Alistair in introducing the concept of risk appetite at the next Board 'off-site' session, prepare a report which assesses risk appetite and risk tolerance in supporting risk-based decision making. As part of this report, include:

- the difference between risk appetite, risk tolerance and risk capacity,
- how risk appetite can be used to support decision making and the maintenance of appropriate corporate governance,
- how the Board might determine their risk appetite,
- the Board's role in determining risk appetite.

**[Total for Question 3 = 25 marks]**

#### Question 4

There have been large scale changes in the mining industry, from increases in the use of automation and innovative technologies through to the need to stay in step with the rapidly changing demands and expectations of society.

These structural changes have had an impact on RichGold which has not yet been fully recognised or understood in relation to its human capital. Suchitra is also concerned about the impact of the merger and the change management initiatives that are being undertaken.

Due to the problems with the board members originally from Rich and Gold, Suchitra has asked you to introduce the subject at the next Board meeting.

#### REQUIRED:

Prepare a paper for the Board, evaluating the risks around human capital and changing knowledge and skills that are relevant to RichGold. The paper should include:

- at least **THREE (3)** further examples of structural changes in the workplace affecting human capital,
- at least **THREE (3)** examples of the problems in sourcing talent,
- the training and management of talent from the perspective of controls for managing human capital risks,
- the Board's role in managing talent risks to ensure they have the right workforce for the future.

**[Total for Question 4 = 25 marks]**

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**TOTAL FOR SECTION A = 75 MARKS**

## Section B

Answer **one** question only. Questions 5 and 6 do not relate to the pre-released case study.

### Question 5

As the Company Secretary of a large retail organisation, you decided to progress your professional development and gain accreditation with the Chartered Governance Institute (CGIUKI). You successfully achieved Associate membership in 2019, and to maintain your professional status you became a visiting lecturer at a local university to share your knowledge with students through the University's Business School.

With your background in retail, you have been asked to provide lectures to students from the retail sector who are part of the Degree Apprenticeship Scheme. As such, you will be educating mature students, some of whom have been in the industry for a number of years.

In your own role, you have witnessed a lack of formal knowledge of risk management by managers who come into your organisation, sometimes at senior levels. You have therefore asked if you can share your academic knowledge and practical experience in both risk identification and risk control, two areas that you believe have been insufficiently understood in your industry.

#### REQUIRED:

- (a) To support your upcoming lecture on risk identification, write a paper assessing risk identification. Include in the assessment the purpose of risk identification and provide at least **THREE (3)** non-analytical risk identification techniques, providing at least **ONE (1)** example risk to the retail industry that might be identified using each of those techniques.

**(15 marks)**

- (b) To support your lecture on risk control, write a paper assessing the reasons for risk control and the **FIVE (5)** common strategies for risk control (not risk treatment techniques), with **ONE (1)** example of controls relevant to retail risks that might be considered for each of the five options.

**(10 marks)**

**[Total for Question 5 = 25 marks]**

PILOT PAPER

## Question 6

Craster Electrical (Craster) is a large private sub-contractor in the construction industry, with 720 employees, an annual turnover of approximately £300m and a profit of £22 million. While the turnover has been consistent over the last three years, the profit levels have reduced from 11% to the current level of just over 7%.

In an effort to understand the reduction in profit level this year, the Board, through the Audit Committee, requested an external audit of their three key projects. Findings from the audit report showed that some key controls are not working effectively and that in a number of areas are showing non-compliance.

### REQUIRED:

To support a business case being put forward by the CRO to introduce more consistent and value adding compliance management, assess compliance management frameworks for Craster

Include the following points in the assessment:

- Why compliance management should be important to Craster, including the Board's responsibility and at least **SIX (6)** examples of the consequences of non-compliance.
- What **TWO (2)** types of compliance standards organisations are usually tested against, with **ONE (1)** example standard for each type of compliance standard relevant to a supplier or the construction industry, and
- The key components of developing a compliance management framework.

**[Total for Question 6 = 25 marks]**

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**TOTAL FOR SECTION B = 25 MARKS**

**TOTAL FOR PAPER = 100 MARKS**

*The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.*

**END**