



The Guardrisk Update

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Incorporating AidsGuard Update

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64% of respondents in the latest KPMG fraud and misconduct survey considered fraud – which includes all dishonest behaviour – a major problem (*Business Times*, 2 Oct). It is an expensive one, too. A third of respondents had lost between R100 000 and R999 999 to fraud and another 30% had lost R1-million or more.

TWO of the key findings of Deloitte's 2005 corporate risk management survey are: risk management is often seen as a grudge purchase to comply with regulatory imperatives; and it is also seen as a separate discipline, instead of as a fundamental part of a corporate governance framework or strategic planning process (*Business Day*, 5 Oct).

THE auditing profession has called for amendments to proposed legislation to limit its responsibility for reporting corporate irregularities uncovered during its work (*Business Day*, 17 Oct). Three of SA's largest auditing firms have appealed for lowering of the legal obligations placed on auditors by the Auditing Profession Bill. They also objected to the prohibition the bill would place on non-audit specialists becoming partners of audit firms.

TAX is no longer the domain of a CEO or a tax department, but requires the full voice of a boardroom as it is a corporate governance issue (*Business Day*, 13 Oct). Directors and executives need to take responsibility by drawing up a company tax policy. Corporate governance includes fair and reasonable reporting, which is impossible without controlling tax costs.

MORE than 100 000 SA workers have been caught doctoring their CVs to secure promotion or employment and getting rid of them has cost employers more than R200-million (*Business Report* 17 Oct).

Compliance costs aplenty and it's not getting cheaper

No one would argue that much good has come from corporate regulation in the wake of scandals like Enron and WorldCom. But, the financial cost of compliance has been extremely high, and there's no sign of any respite.

In South Africa, compliance, as a formal board meeting agenda item, is still in relative infancy. We've still got some way to go to conform to international standards and, if international trends are anything to go by, it's going to be an expensive journey.

A study by US-based AMR Research predicts that the cost of compliance over the next five years will reach the \$80-billion mark. In 2005, organizations in the US will spend close to \$15.5-billion on compliance-related activities; with the average company spending around \$500,000.

In the US, Sarbanes-Oxley is the most expensive compliance initiative, accounting for 39% of all compliance spending. In 2004 companies spent \$5.5-billion to meet Sarbanes-Oxley requirements and in 2005 this figure is expected to rise to over \$6-billion.

But there is the proverbial silver lining in the compliance cloud: according to John Hagerty, vice president of research at AMR Research, "compliance is an all-encompassing set of activities that cross business and IT groups. Companies that see the big picture will put these mandates to work for them and use them as a catalyst to improve or even rethink many parts of their organizations".

"Compliance is forcing businesses to look at what contributes to financial success, not just how to report financial performance. Through compliance mandates, companies are streamlining processes and reducing exposure to financial risk," says Hagerty.

Compliance is becoming more structured and in 2005 over 80% of companies expect to have an executive level compliance officer.

Best practices for compliance include:

Adopting a holistic approach

According to AMR Research companies that unite diverse requirements – including financial, operational and IT needs – to meet compliance goals will benefit most.

Know who, what and how

Identify which internal and external constituents play key roles in any directive (who). Determine the major functional capabilities required to address compliance regulations (what). Prepare the IT infrastructure and supporting services required to sustain these roles and capabilities (how).

Plan in order to mitigate costs

Lax enforcement of compliance could result in financial penalties and market repercussions, such as reduced share price or increased cost of capital.

Put governance and risk management first

Compliance doesn't work well without clear governance and strong risk management practices.



Risk Barometer

THE growing frequency and intensity of hurricanes and other weather-related calamities is expected to drive up premiums for natural catastrophe insurance anywhere from 50% to 70% in the coming years (*Business Insurance*, 31 Oct).

THE key issue for the global reinsurance industry is to reduce the cost of capital (*Insurance Day*, 24 Oct). Reinsurers need to differentiate themselves in today's increasingly commoditised market; two key ways in which they can do this is by proving financial strength and reducing their cost of capital.

THE amount of time spent by boards on risk management has increased four-fold in the last three years (*Insurance Day*, 17 Oct). Recent research showed one in three companies suffered significant damage last year as a result of the failure to manage risk.

THE catastrophe bond market, which has experienced slow but steady growth over the years, may get a boost in the wake of hurricanes Katrina and Rita (*Business Insurance*, 24 Oct). At the same time, a cat bond may be triggered for the first time as a result of the hurricane losses.

MANY firms are still not taking enough steps to prepare for disasters that cause massive fatalities despite the increase in catastrophic events in recent years (*Insurance Day*, 18 Oct). A new study warns that mass fatality events have twice the impact on a firm's shareholder value compared with other corporate disasters such as fraud.

DIRECTORS' and officers' insurers are still dropping premium rates despite warnings that claims are on the increase (*Insurance Day*, 11 Oct). This exposure is being taken seriously by businesses, with 55% of companies surveyed purchasing cover at board level.

A revised "managed competition" approach to providing health care coverage is starting to take root in some parts of the US (*Business Insurance*, 10 Oct). Under the managed competition model, employers offer employees a choice of multiple plan options from several different health insurers.

AidsGuard Update

Aids Barometer

LOCAL organisations have welcomed the United Nations' campaign to focus attention on children affected and infected by HIV and Aids (*The Star*, 26 Oct). It is appropriate for such a body to draw attention to the plight of millions of children; South African statistics indicate that there will be 2-million children left vulnerable and orphaned by 2015 due to HIV and Aids.

ABOUT 800 000 of the more than 6-million HIV-positive South Africans need treatment says the United Nations special envoy to Africa on HIV/Aids (*Business Day*, 26 Oct). But government figures showed by end-August only 78 000 were getting Aids drugs in the public sector. Another 60 000–70 000 obtain the drugs privately, experts say.


THE US National Institute of Health has awarded \$4,4m to a consortium of South African and US scientists to study local medicinal plants that are already being used by traditional healers to fight HIV and its associated infections (*Business Day*, 24 Oct).

MILLIONS of Aids orphans in sub-Saharan Africa are forced to drop out of school because there is little intervention by their governments to lessen their burden (*The Star*, 11 Oct). Because of the pandemic, millions of orphans are forced to head families where there are no grandparents to take care of them.

AT least one in three people in Gauteng is infected with HIV – making the province one of the worst affected in the country. This means 34% of the Gauteng population is HIV-positive – a 14% increase since 1998 (*The Star*, 7 Oct). To compound matters, HIV prevention strategies are not as effective as government officials, academics and activists believe they are.


CURRENT statistics estimate that about 5-million South Africans are HIV-positive and that 70% of working-age adult deaths are attributable to HIV/Aids (*Business Day*, 14 Oct). This poses a huge challenge to retirement fund trustees who are grappling with balancing the costs of death and disability benefits against the erosion of retirement benefits.





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