

MEDIA RELEASE – AUSTRALIAN MEDIA
Lessons for Business in Essendon Scandal

It is often written that there are parables for business in how highly professional sporting organisations operate.

The current supplement scandal consuming the AFL club Essendon provides many such lessons.

Based on the published information alone, it is possible to say that – as it relates to the management of supplement usage – Essendon had deficient or absent internal controls.

Internal control consists of five interrelated components.

Firstly, the control environment.

The Board and senior management establish the **tone from the top** regarding the importance of discipline, process and structure. A strong control environment is one where the organisation holds individuals accountable for their responsibilities in the pursuit of the agreed objectives.

Switkowski's report suggests that accountability in this matter was a concept not embraced by the Essendon football department. "Who was accountable for what is difficult to ascertain".

Secondly, risk assessment. Risk assessment is a dynamic and iterative process and should always be considered through the prism of **whether the action should be taken in the first instance**. Switkowski noted: "Pioneering work with supplements and exotic treatments ... is not an area for risk management but for zero tolerance."

Thirdly, control activities. These are the **policies and procedures** that help ensure that management's directives to mitigate risks in the achievement of objectives are carried out. "A number of management processes broke down, failed or were short-circuited."

Fourthly, information and communication. The question here is whether there is relevant and quality information generated and communicated so as to allow the totality of the organisation to function properly. **It is not possible to be a well functioning organisation if there is poor information management and communication.**

"Normal controls during an abnormal period were insufficient to check the behaviours of some people who may have contravened accepted procedures, and the CEO and the board were not informed."

Finally, monitoring activities. This is the process of **ongoing or targeted evaluations** that ascertain whether the other components of strong internal control are present and functioning.

When all else fails this is the catch all control.

It didn't work at Essendon: "compliance required robust recording and monitoring processes which proved inadequate."

The maintenance of strong internal controls is a never-ending effort and the best performing organisations embedded controls focused behavior into their way of being.

In the corporate sense there is a real and tangible outcome from strong internal controls. Academic studies have suggested that firms that have strong internal controls or firms that remediate quickly identified weaknesses are rewarded with a significantly lower cost of capital.

The downside of poor internal controls are many not least the reputational damage to those involved.

A lesson Essendon – any AFL punishment aside – will not soon forget.

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