

ISCA-KPMG risk management study

Towards better risk governance

a study of Singapore listed companies 2013

Agenda

9.00 – 10.00 am

Presentation

- About the study
- Highlights of study findings
- Key considerations

10.00 – 11.30 am

Panel discussion



About the study



Aim

To allow organisations to take stock of their risk management capabilities and disclosures to identify where enhancements could be made.

Survey background

ISCA and KPMG conducted a joint study on the state of risk management capabilities and disclosures for Singapore listed companies in first half of 2013 (based on annual reports as at 31 December 2012)

Objectives:

- Assess current state of disclosure
- Raise awareness of requirements

Hypothesis:

- Disconnect between disclosures and practices
- Regulation drives compliance
- Basis of opinion for adequacy and effectiveness not well established

Details of participating organisations

by market capitalisation

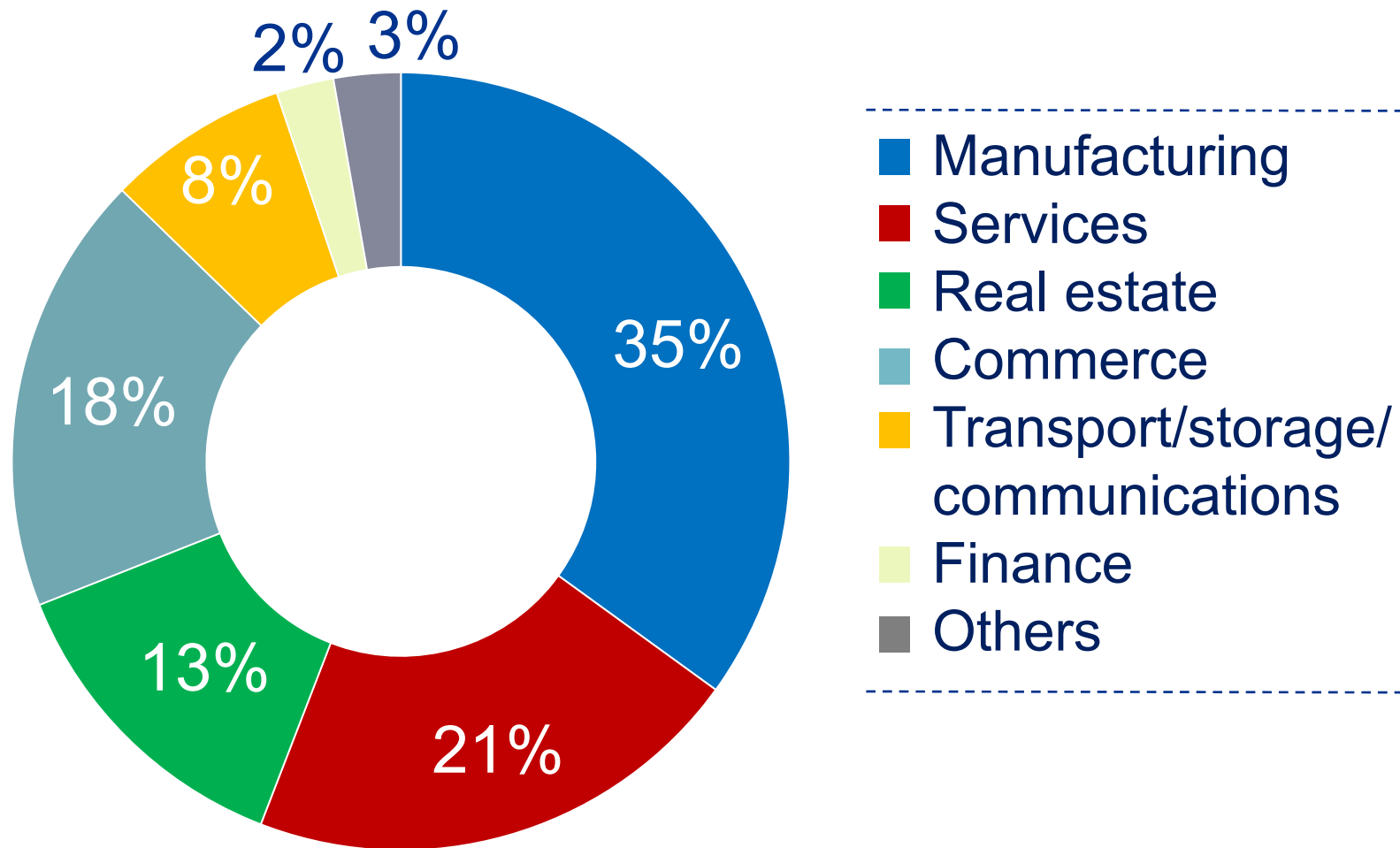
12% **Large-cap**
(\$1 billion and above)
n=30

12% **Mid-cap**
(\$300 million to < \$1 billion)
n=30

76% **Small-cap**
(<\$300 million)
n=190

Details of participating organisations

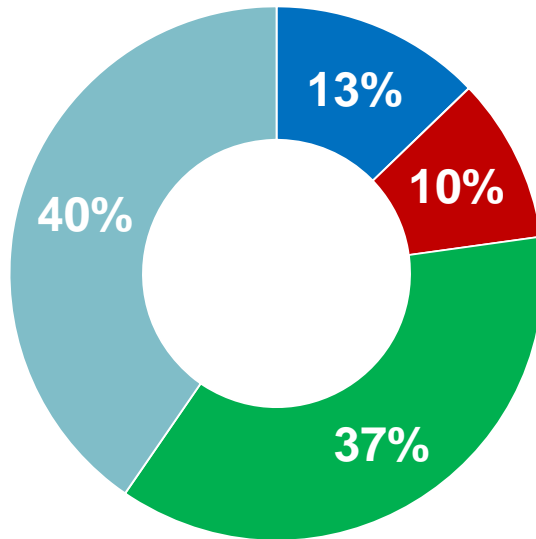
by sector



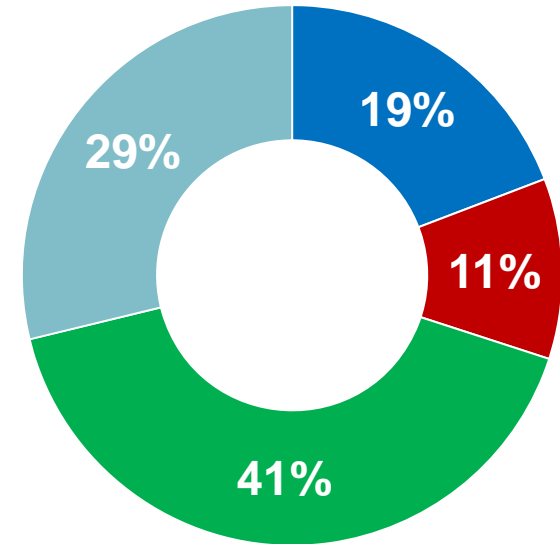
Details of participating organisations

by turnover and total assets

Total turnover



Total assets



- >S\$1 billion
- S\$500 million to S\$1 billion
- S\$100 million and < S\$500 million
- <S\$100 million

What did the research cover?

State of adoption

1. Annual report disclosure

SGX LR 1207(10) and PN 12.2

1.1 Opinion on the **adequacy** of internal control

1.2 Basis for opinion on internal controls

Revised Code 2012 (principle 11)

1.3 Comment on **adequacy** and **effectiveness** of:

- Internal controls
- Risk management systems

1.4 Assurance to the board by CEO/CFO

Basis for board opinion

Risk management capabilities

2. Risk governance and oversight structures

2.1 Board

2.2 Board committees [AC/BRC]

2.3 C-Suite [CRO or equivalent]

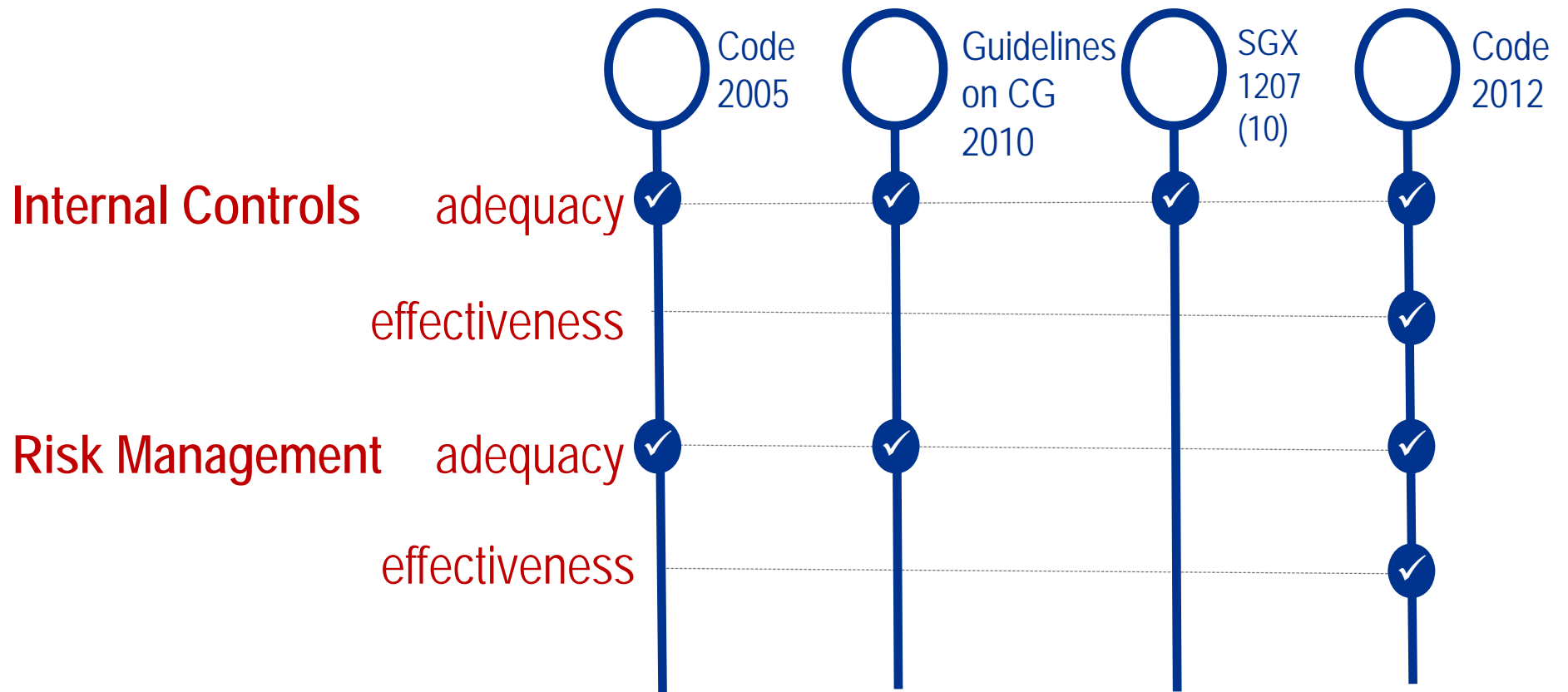
2.4 Internal Audit function

3. Risk management systems

3.1 Risk management frameworks

3.2 Whistle-blowing policies

Critical concepts – exploring the differences



Exploring key concepts

ADEQUACY



Is it designed
appropriately?

there is NO
ONE-SIZE-FITS-ALL...
you need a
framework that is
tailored to your
organisation.

EFFECTIVENESS



Is it operating
as intended?

Key highlights

State of adoption

Adoption rate of revised Code 2012 encouraging

12%

Principle 11.3

comply with revised Code 2012

already half the rate of compliance with previous Code 2005 at only

23%

Bigger companies (e.g. finance sector) and **GLCs** have adopted and disclosed better developed risk management practices

1. Annual report disclosure

Compliance is higher when regulations-based

98 % disclose an opinion
on adequacy of
internal controls
whilst...
SGX 1207 (10)

80 % disclose a basis
for the opinion
SGX Practice Note 12.2

Low rate of adoption for board assurance from
CEO and CFOs

Only **15** % disclose board assurance
received from CEO/CFO
Principle 11.3

2. Risk governance and oversight structures

Better disclosure of risk responsibilities required

Whilst **29%** state AC is responsible for risk oversight
57% do not state which board committee is responsible for risk

Separate risk structures remain uncommon;
small-caps less established

Only **5%** have CROs
Only **12%** have MRCs

IA is an essential component of the assurance framework

94% have IA functions in place

3. Risk management system

Disclosure of risk management frameworks needs improvement

Only **32**% disclose and explain their risk management framework

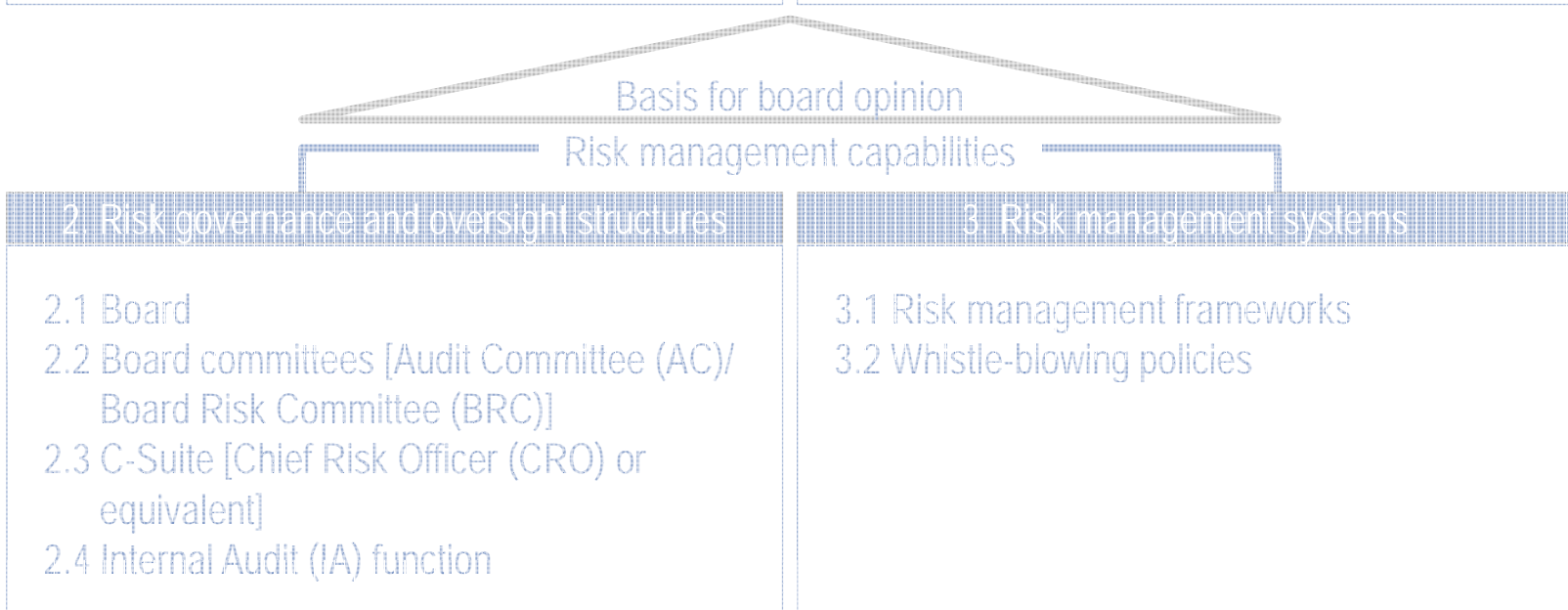
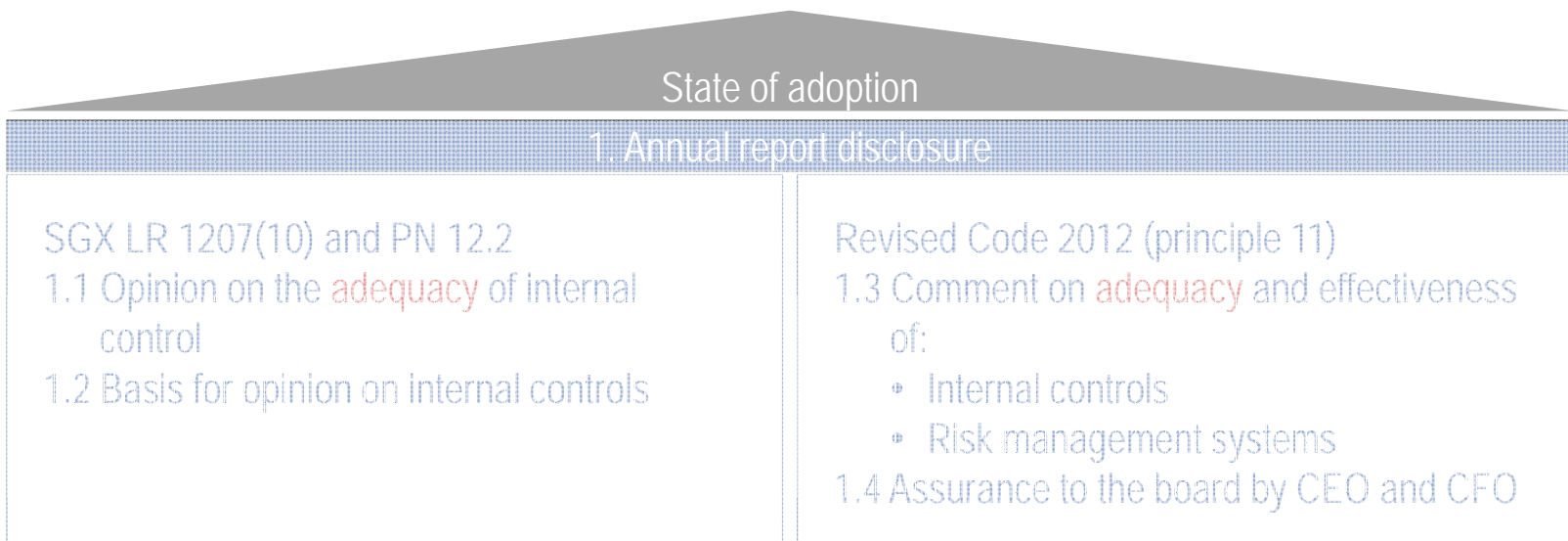
Whistle-blowing remains a key pillar in assurance framework

90% have whistle-blowing policies in place; but only

36 % disclose channels to report	16 % disclose procedures to resolve
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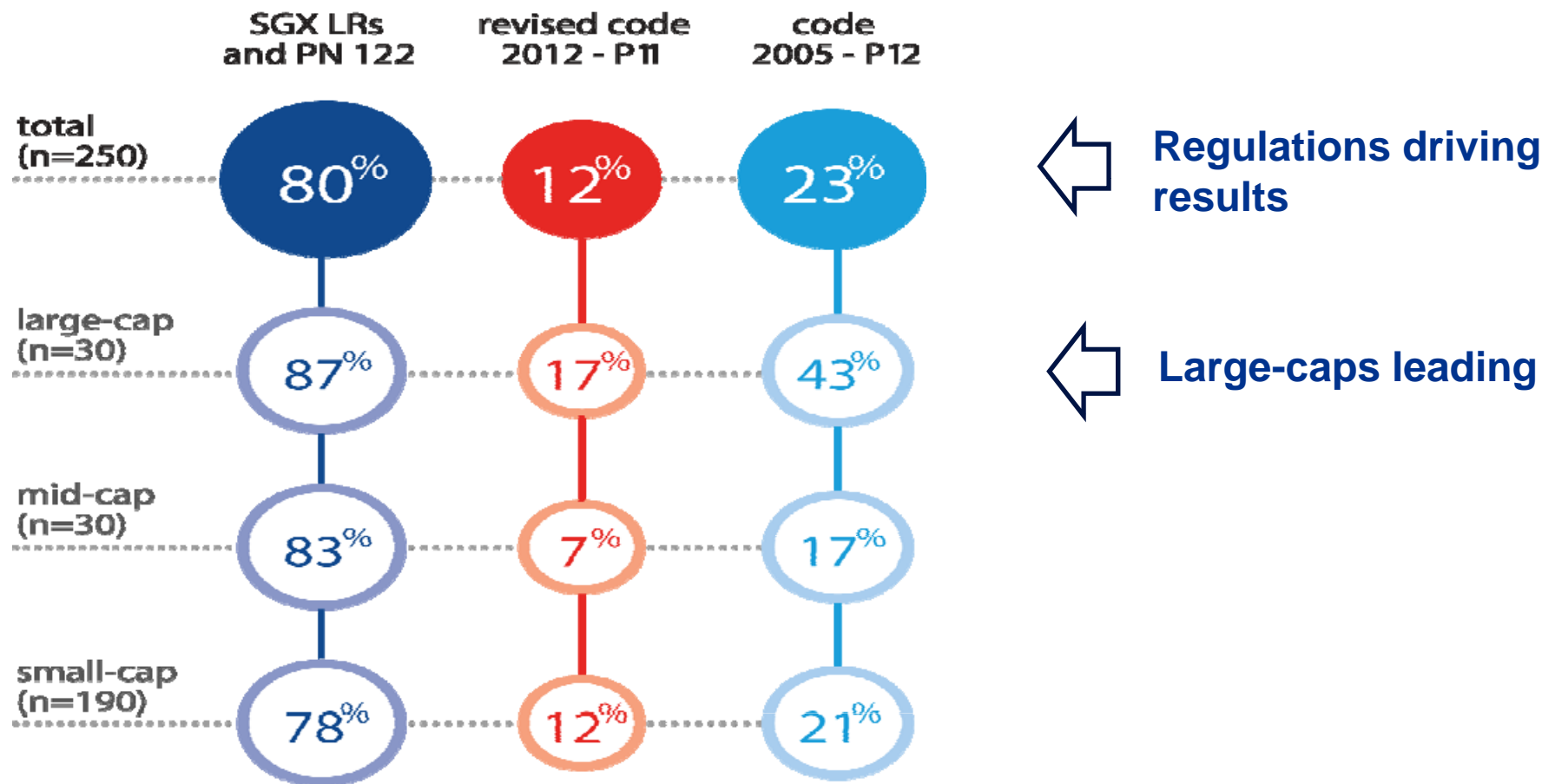
Highlights of study findings

- State of adoption



Regulations drive compliance; adoption rate of Code 2012 encouraging

Figure 6: Has the board commented on risk management and internal controls as per SGX LR and CG Code (2005 and 2012)?



Bigger companies have better risk management practices in 7/10 areas

Figure 7 (extract): risk management practices - compliance and adoption rates by market cap

1. Board responsible for risk	33%	6. Established risk management framework	84%
2. Established BRC to manage risks	63%	7. Explained risk management framework	67%
3. Appointed CRO or equivalent	37%	8. Established whistle-blowing policy	83%
4. Established MRC to manage risks	53%	9. Positive opinion with basis	87%
5. Established IA Function	100%	10. Assurances from CEO & CFO	13%

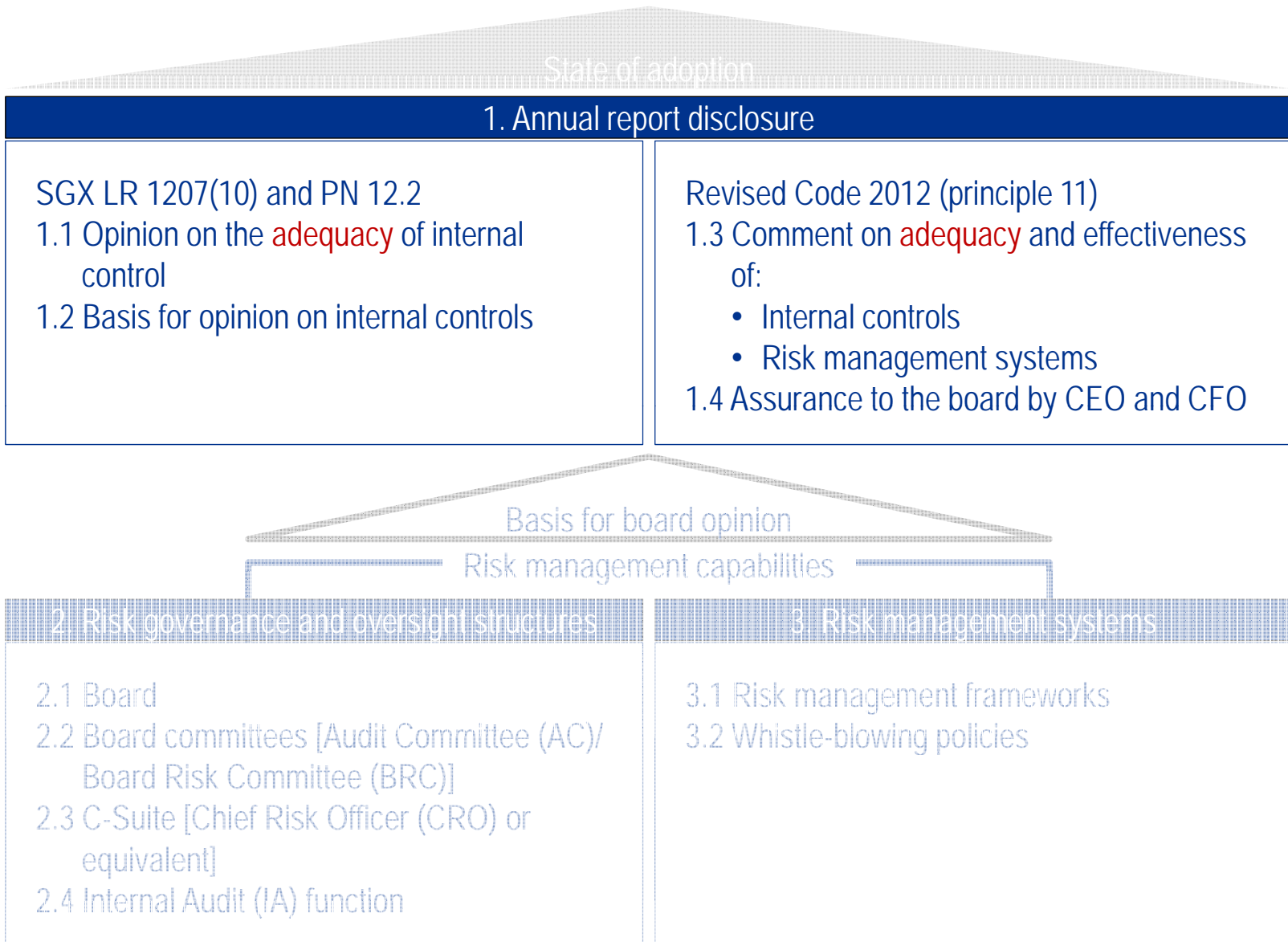
GLCs have better risk management practices in 9/10 areas

Figure 8 (extract): risk management practices - compliance and adoption rates by GLCs

1. Board responsible for risk	41%	6. Established risk management framework	73%
2. Established BRC to manage risks	55%	7. Explained risk management framework	45%
3. Appointed CRO or equivalent	32%	8. Established whistle-blowing policy	91%
4. Established MRC to manage risks	45%	9. Positive opinion with basis	86%
5. Established IA Function	100%	10. Assurances from CEO & CFO	14%

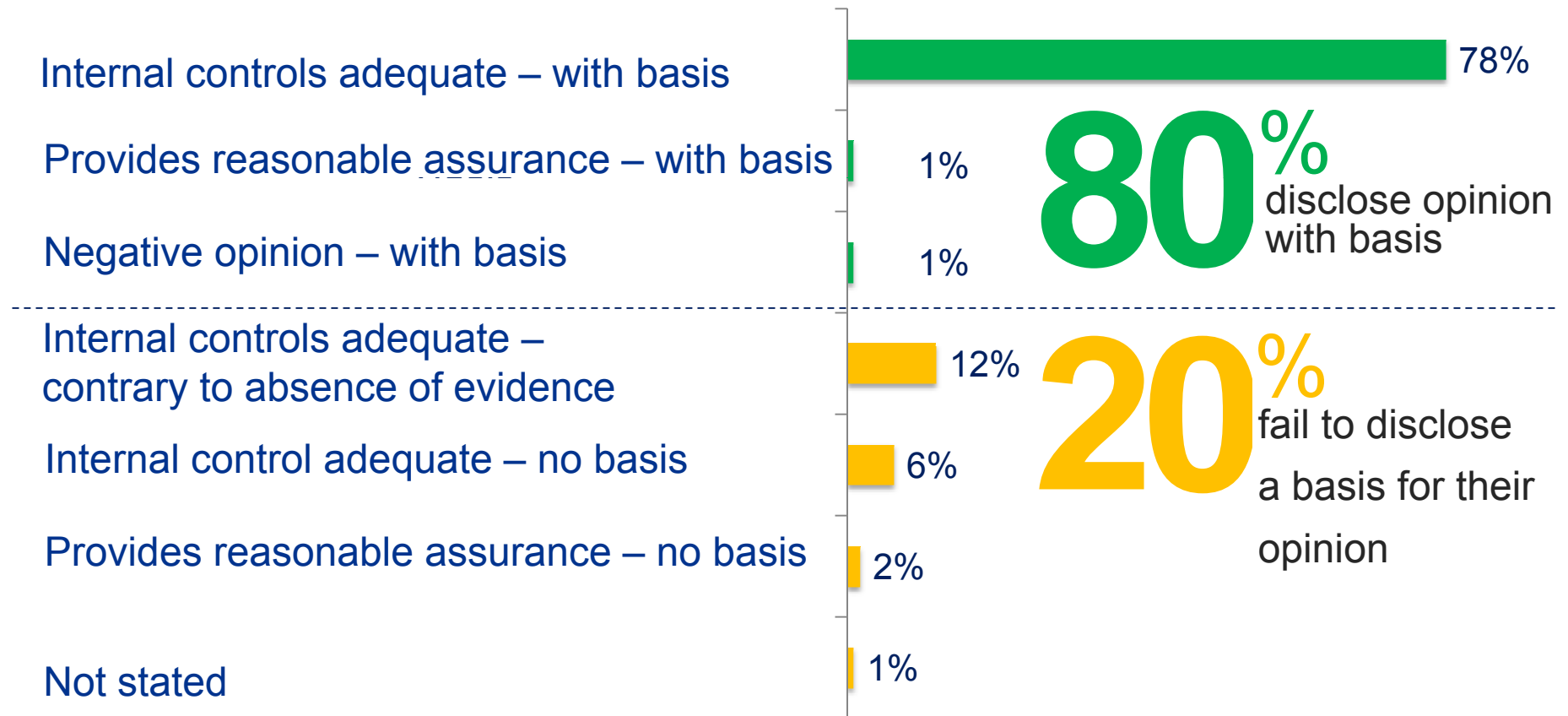
Highlights of study findings

1. Annual report disclosure



High rate of compliance with SGX Listing Rule 1207(10) and Practice Note 12.2

Figure 10: What is the board's opinion on the adequacy of internal controls? (n=250)



92% disclose opinion in the CG report

Note: Statistics do not add up to 100% due to rounding.

Internal control disclosures better than risk management

Only **12%** disclosed board comment on risk management and internal controls adequacy and effectiveness (Principle 11.3)

Internal Controls (SGX)

98% disclosed **adequacy** (SGX 1207 (10)/ Principle 11.3))

55% disclosed **effectiveness** (Principle 11.3)

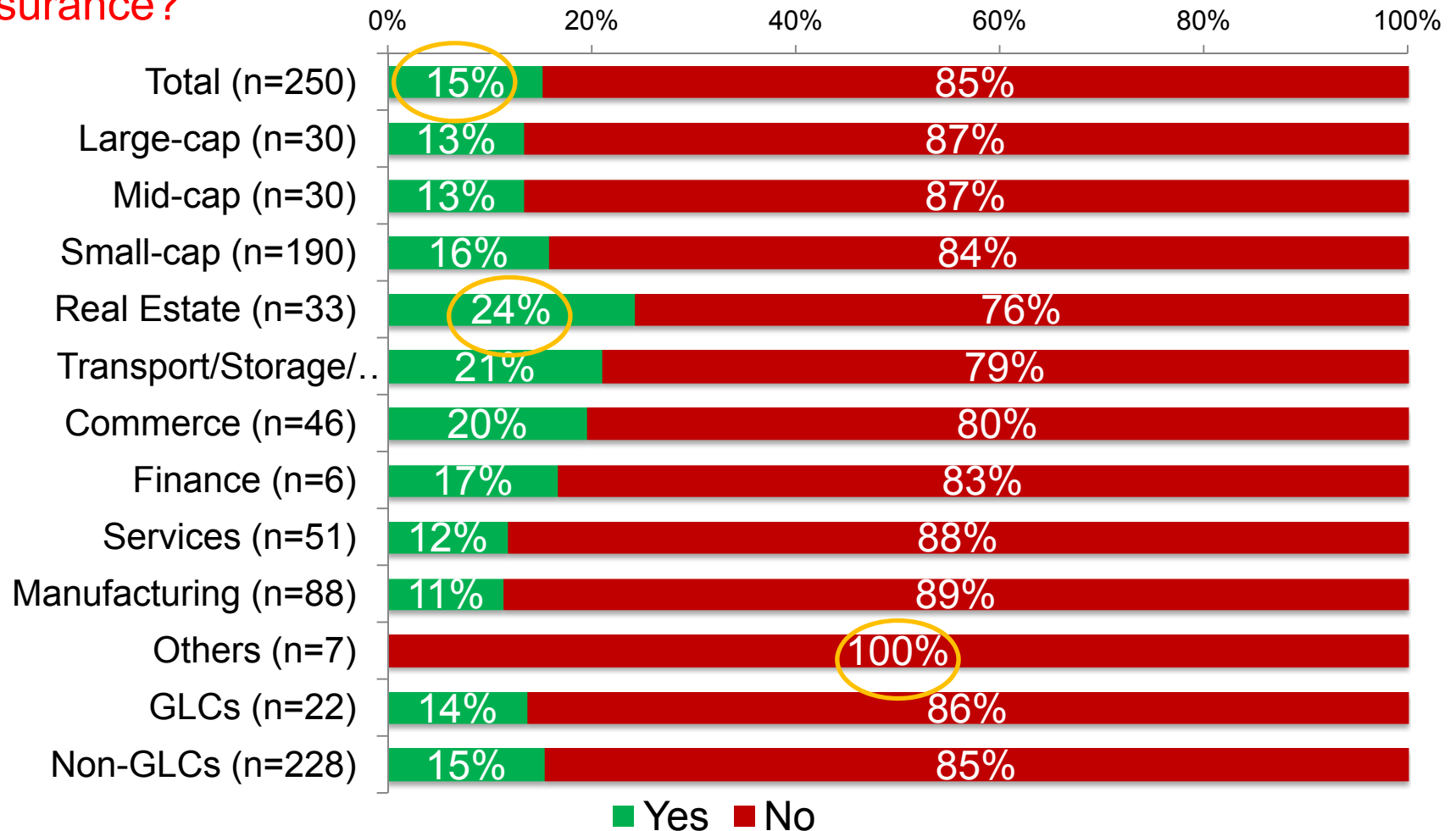
Risk Management (Principle 11)

23% disclosed **adequacy** (Principle 11.3)

20% disclosed **effectiveness** (Principle 11.3)

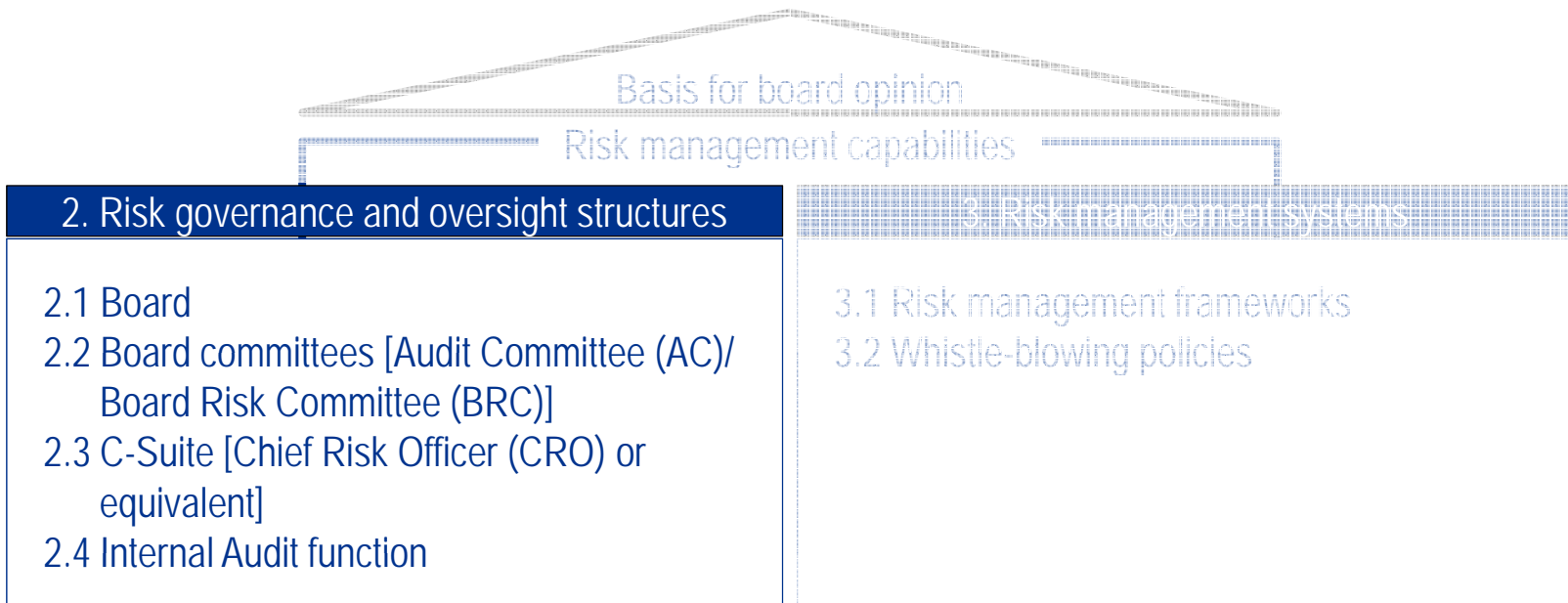
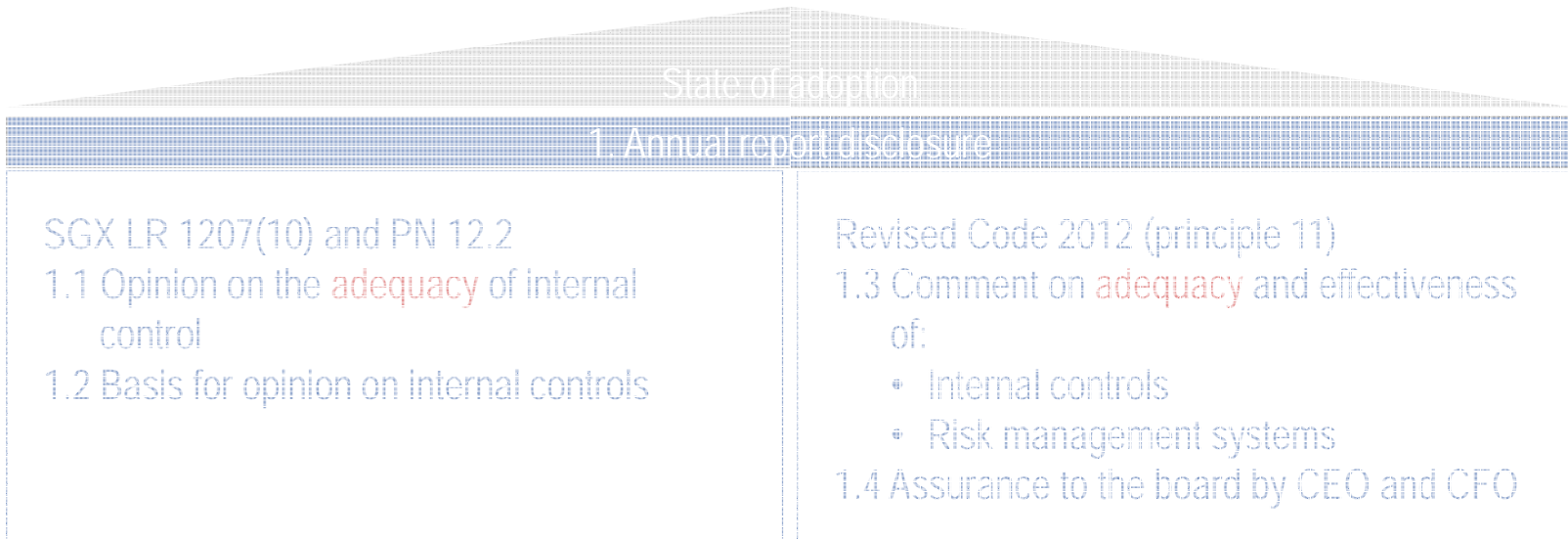
Low levels of disclosure about CEO/CFO providing assurance to the Board

Figure 12: Did the company disclose that the CEO and CFO provided assurance?



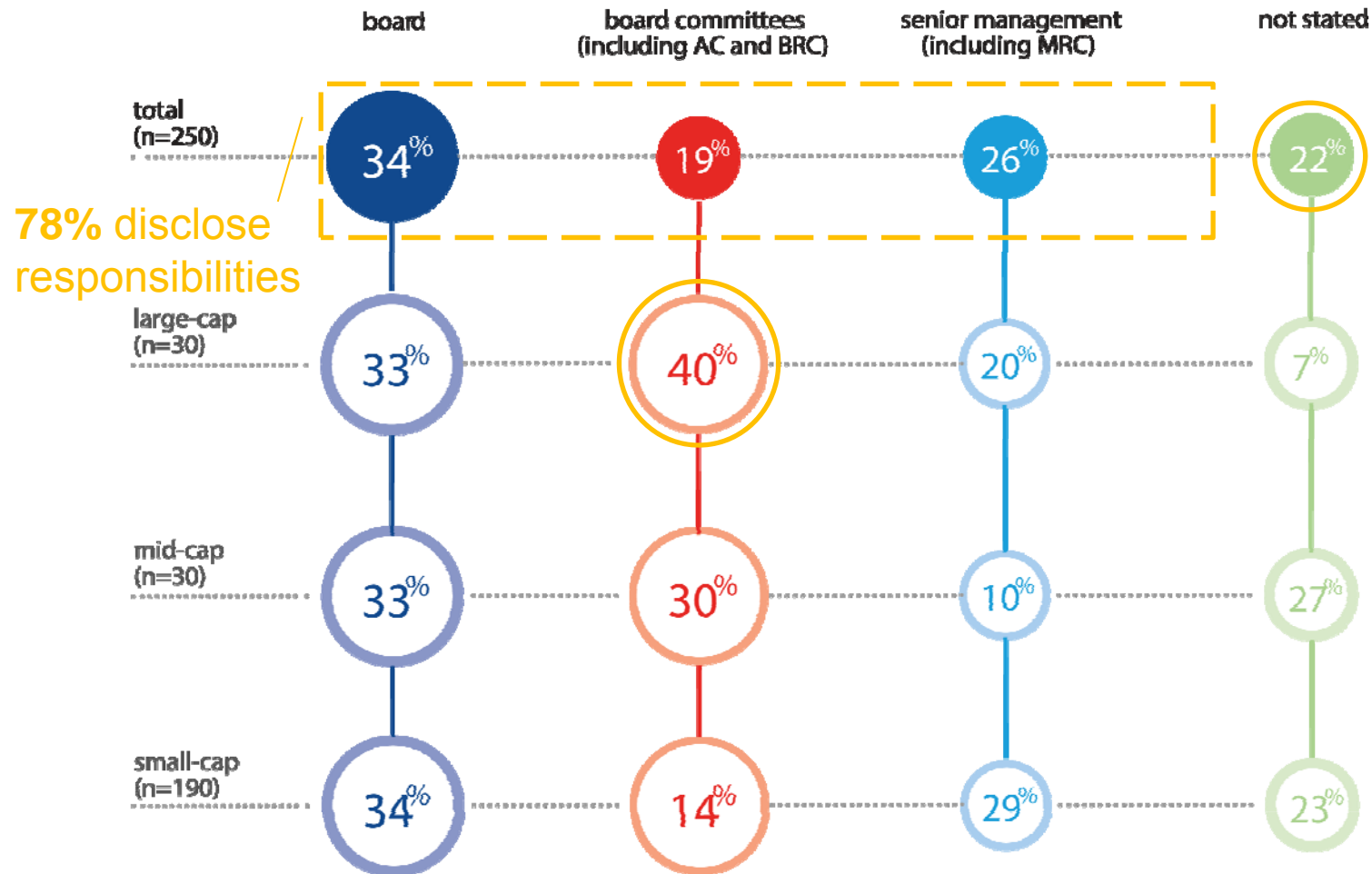
Highlights of study findings

2. Risk governance and oversight structures



Mixed disclosure regarding risk governance responsibility

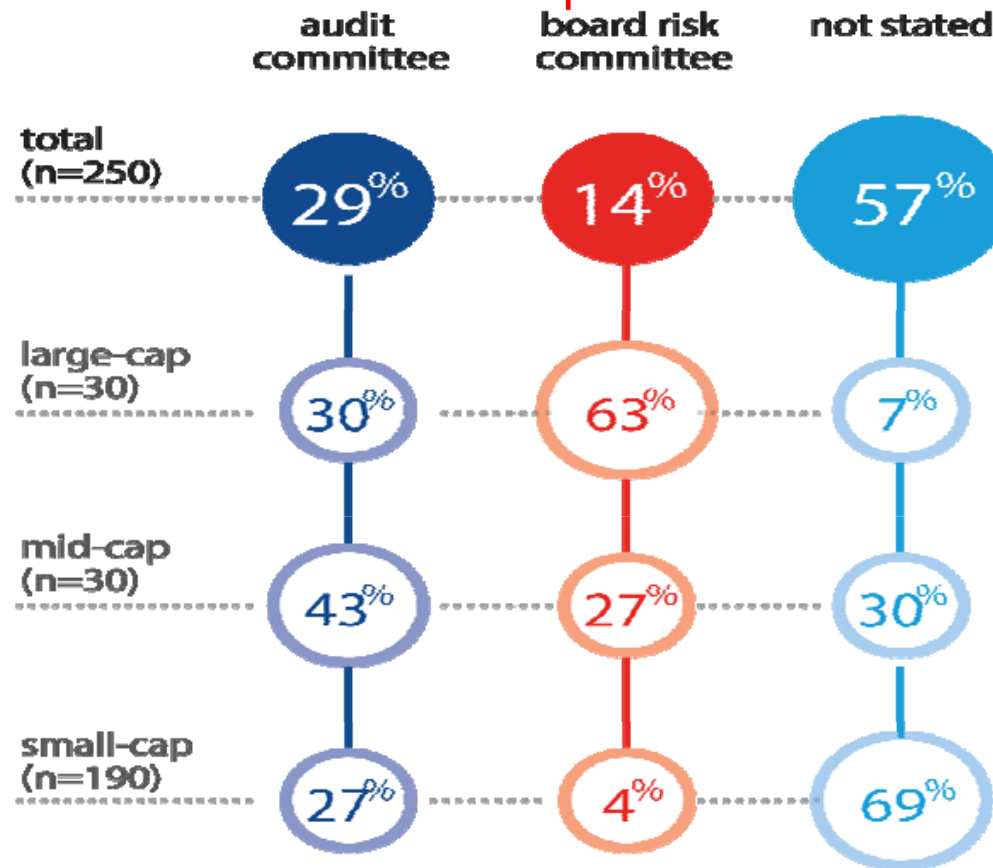
Figure 23: Who is responsible for governance of risk?



Note: Statistics do not add up to 100% due to rounding.

AC preferred committee to oversight risks; further clarity required

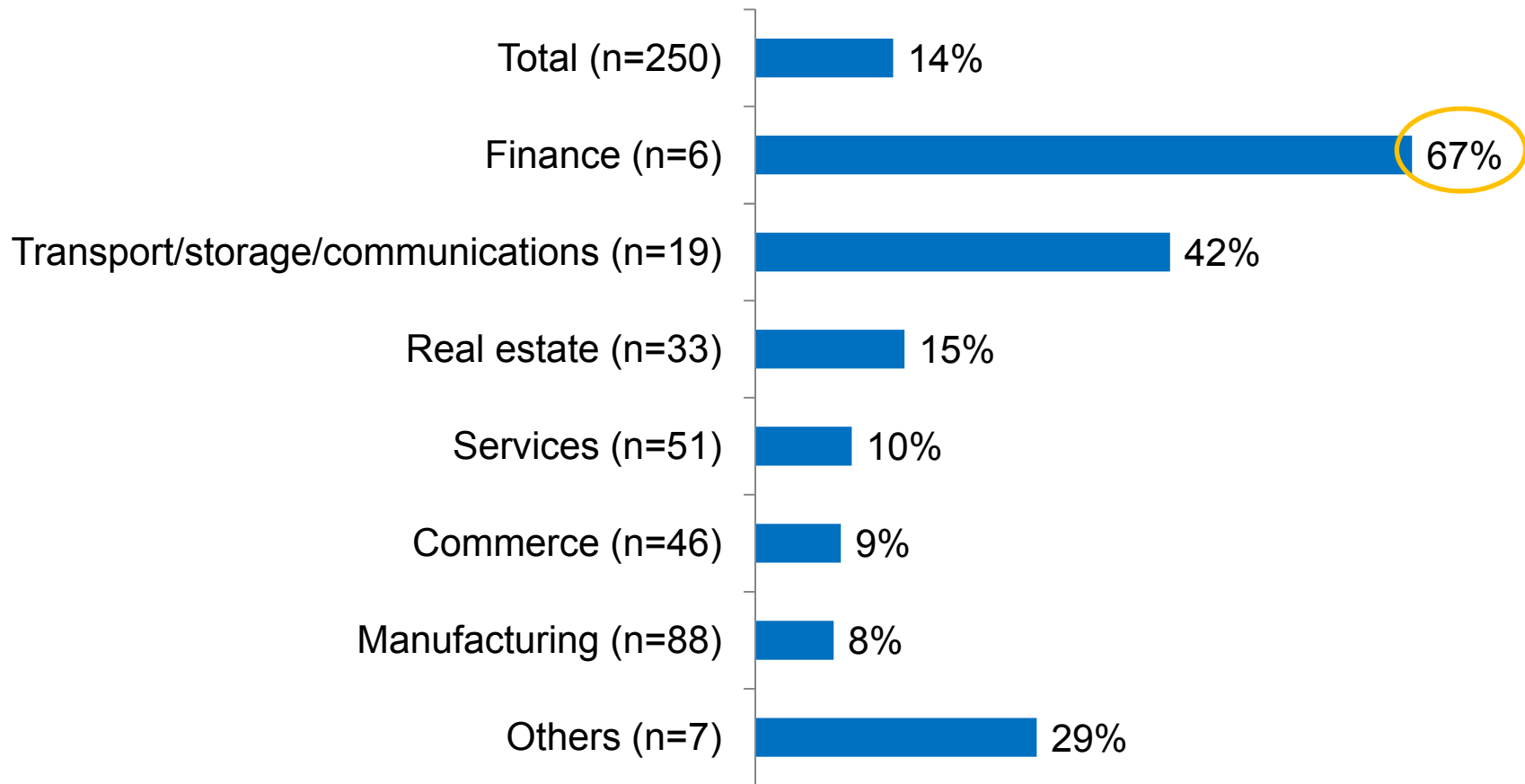
Figure 24: Which board committee helps the board to oversee risks?



Note:
For the purpose of this study, BRCs and ARCs are collectively referred to as BRCs

BRCs are an emerging element of the risk governance structure

Figure 26: Companies with BRC (by sector)



No difference in size despite increase in ACs responsibility

Size

3.33

Size of AC with risk

v

3.30

Size of AC without risk

Frequency

4.10

Number of meetings
of AC with risk

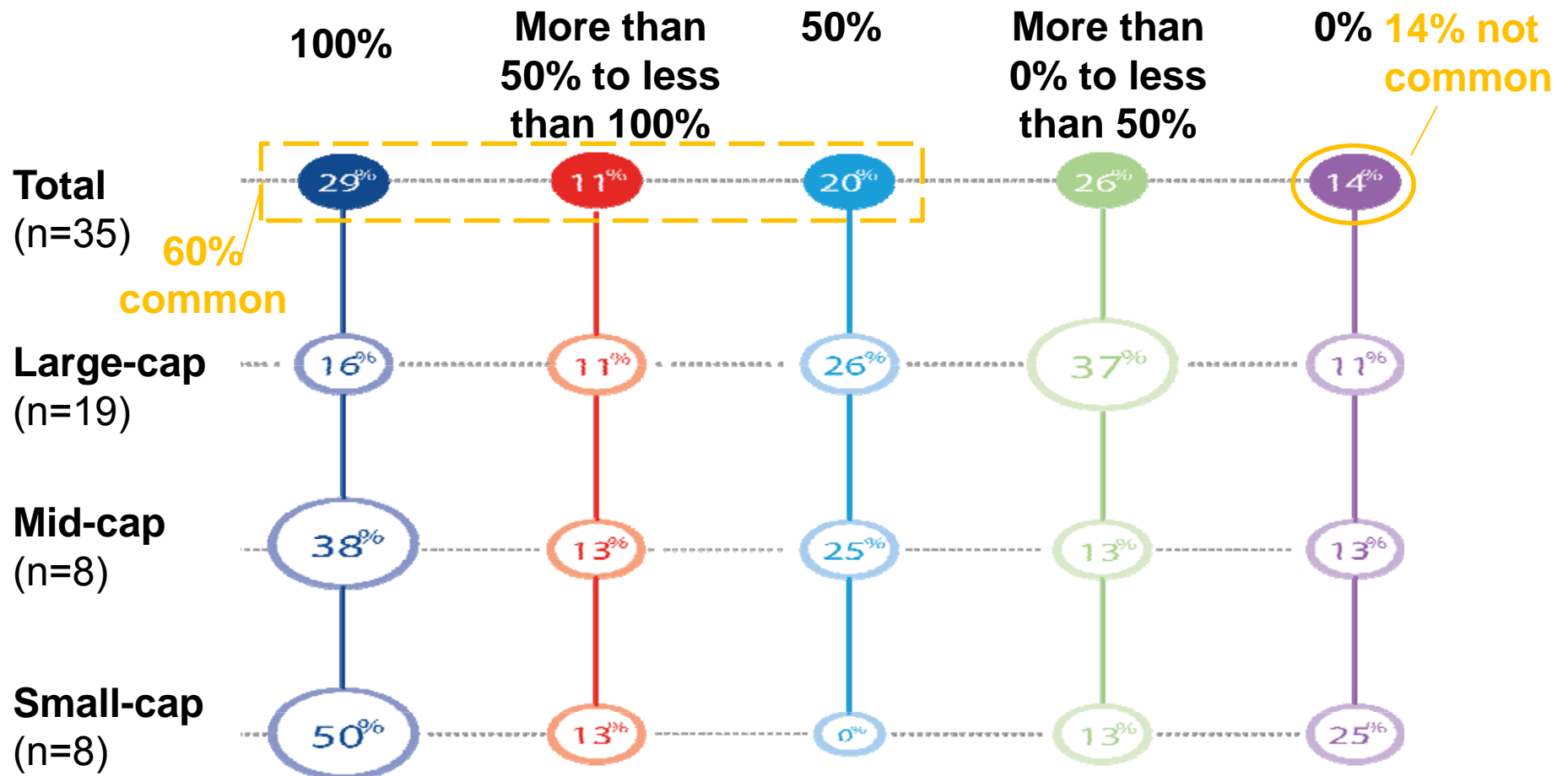
v

3.89

Number of meetings
of AC without risk

Common membership between AC and BRC critical to success

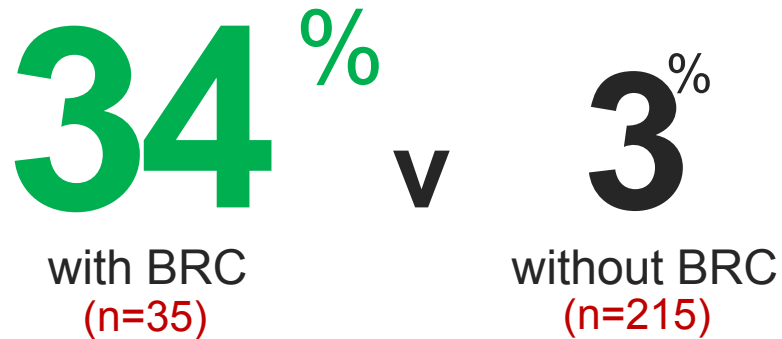
Figure 30: Percentage of BRC members who are also AC members on the same board



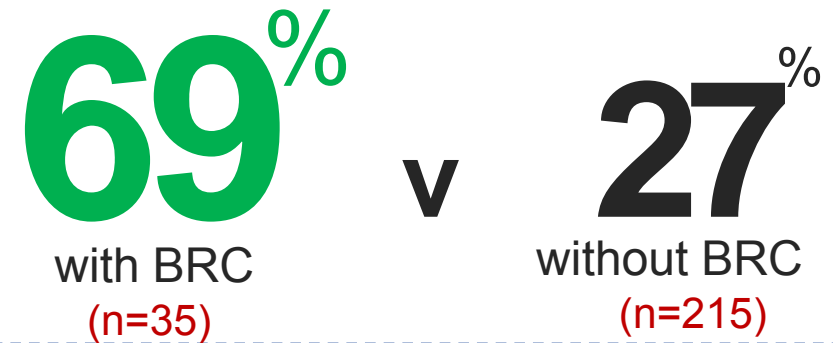
Note: Statistics do not add up to 100% due to rounding.

BRCs correlated with stronger risk management practices

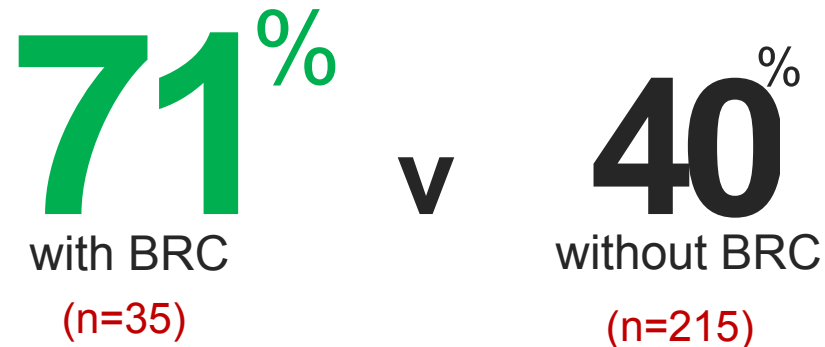
CRO



In-house IA function

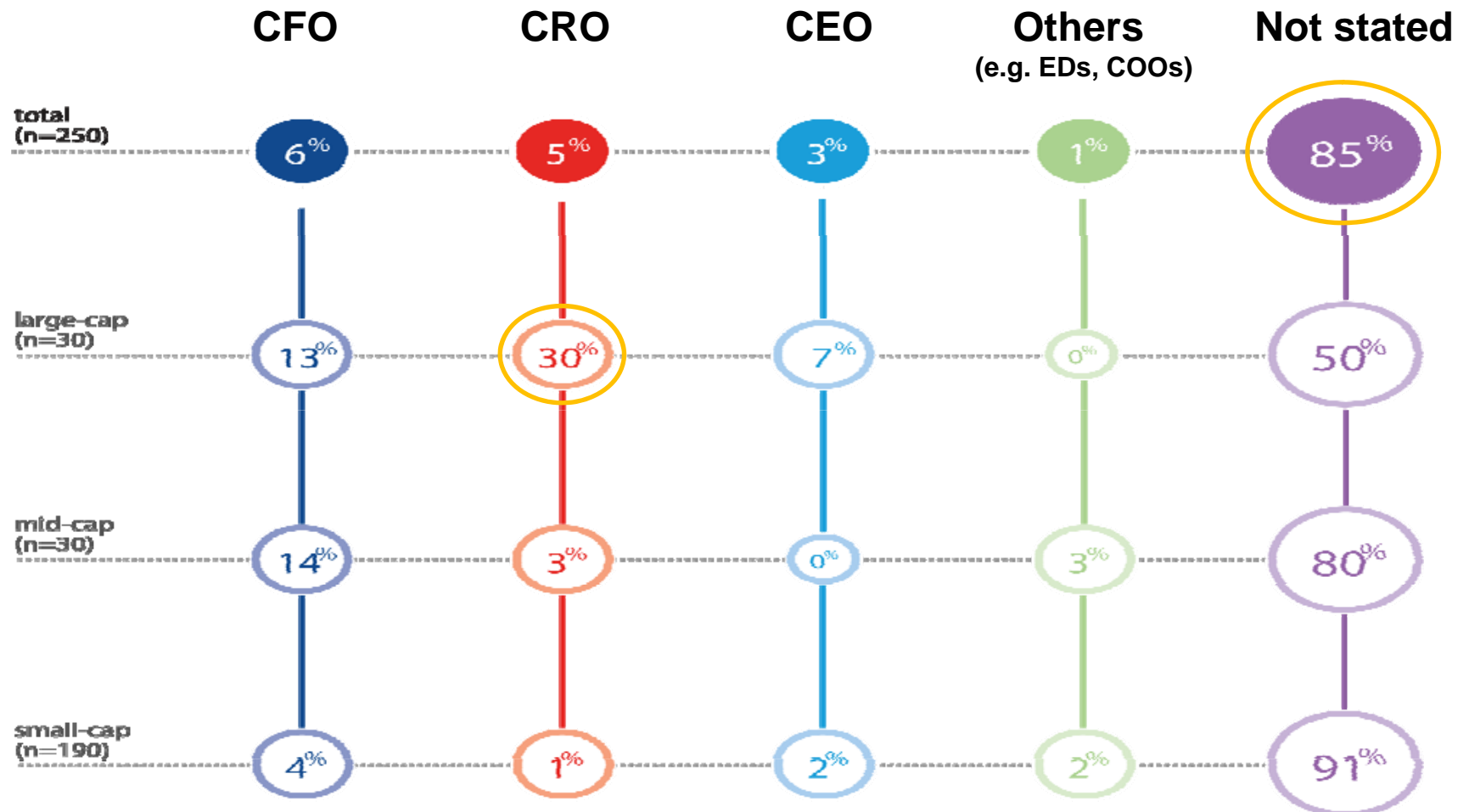


Disclosed risk management framework



Further work required to clarify risk governance role of C-suite

Figure 38: Who is responsible for risk management at the C-Suite level?



Low rates of disclosure about Management Risk Committees

Only **12%**
overall disclose
having MRCs

Leading companies are:

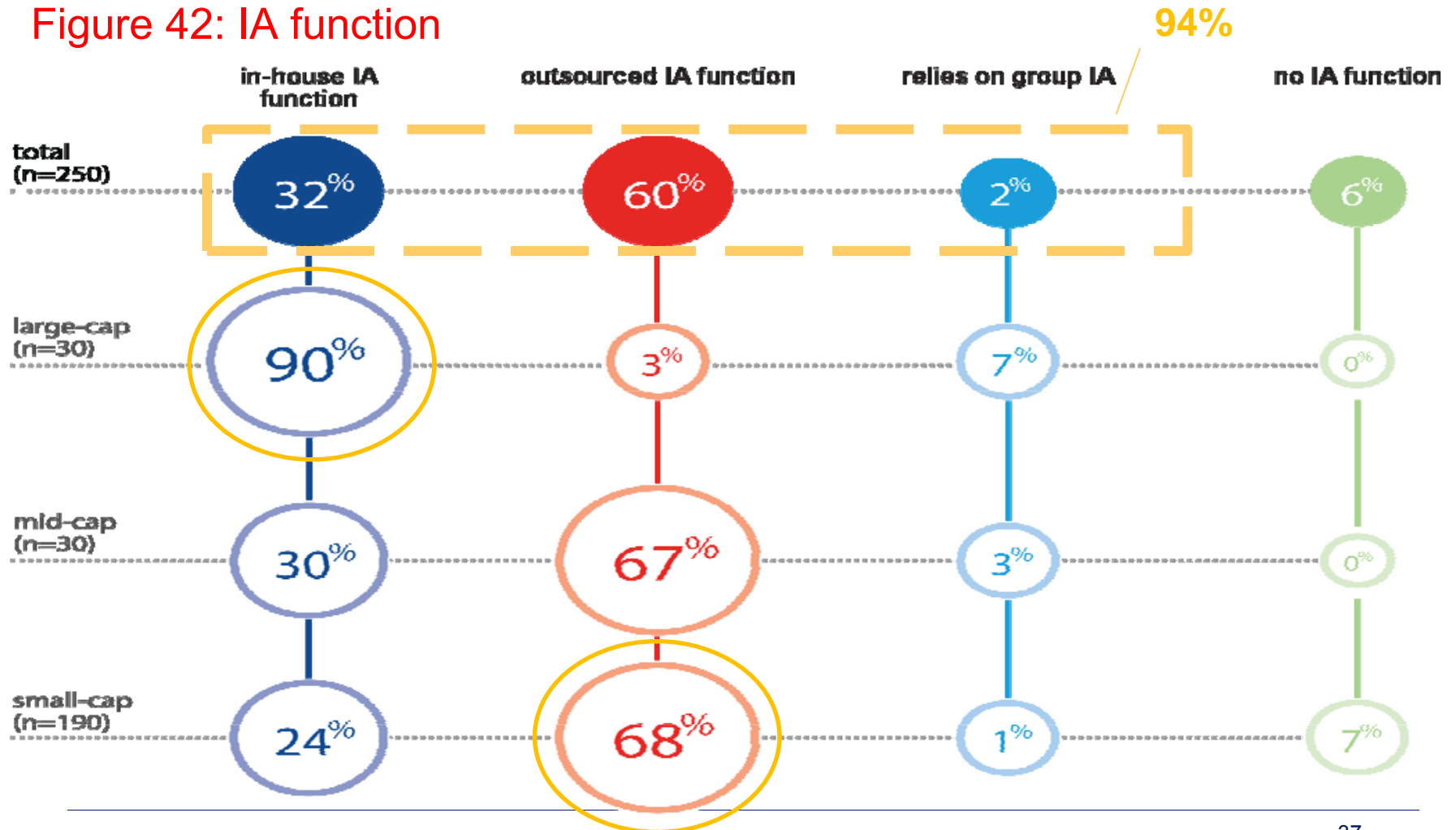
53%
Large-caps

67%
Finance

43%
'Other' sector
and GLCs

IA is an essential component of the assurance framework; capabilities must evolve to meet expectations

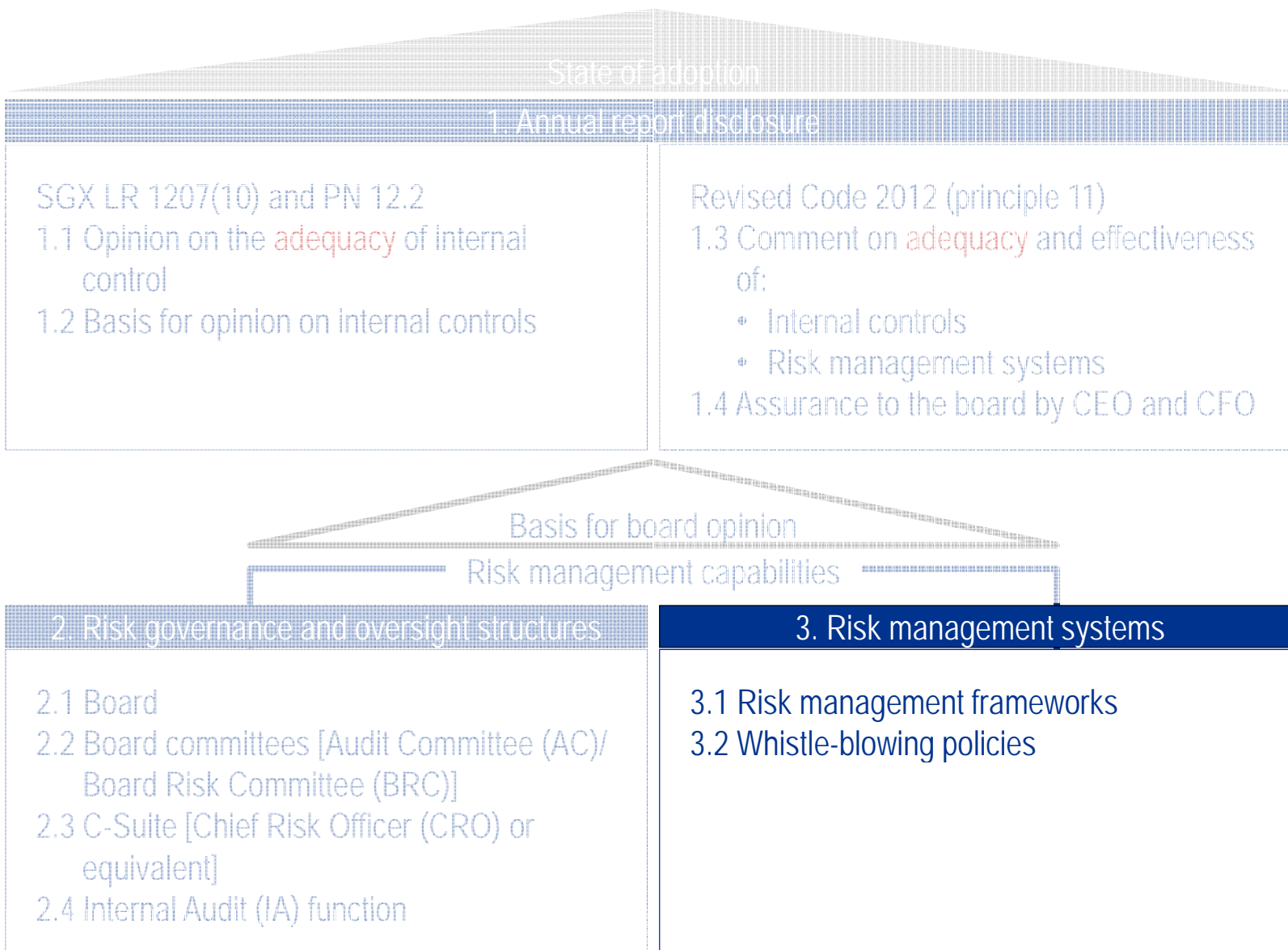
Figure 42: IA function



v 1/3 outsourced SAC-KPMG study

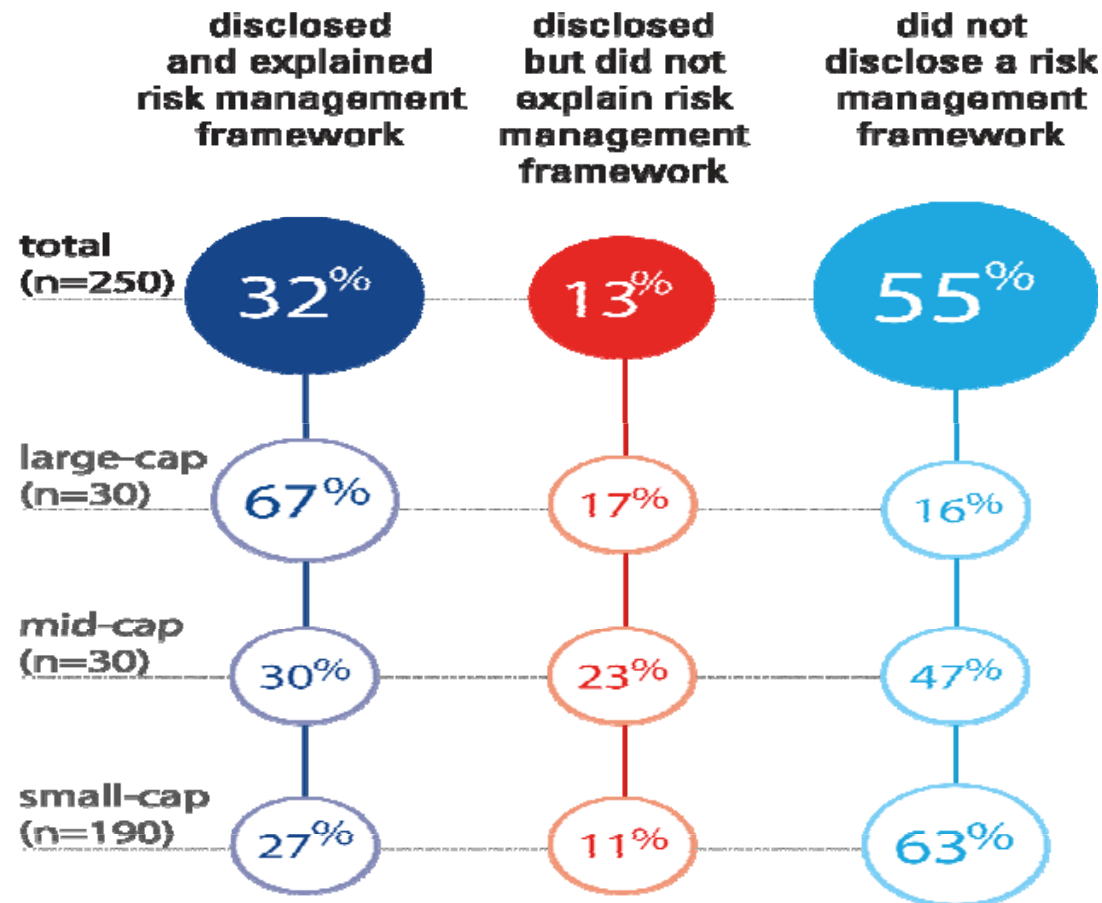
Highlights of study findings

3. Risk management systems



Low levels of disclosure about risk management framework elements

Figure 44: Disclosure of risk management framework in the annual report (by market cap)



Note: Statistics do not add up to 100% due to rounding.

Whistle-blowing remains a key pillar in the risk management and internal control assurance framework

90% have whistle-blowing policies in place

But only **36%** disclose channels to report

16% disclose procedures to resolve
(40/250 companies)

Where do they report?

73% report to AC

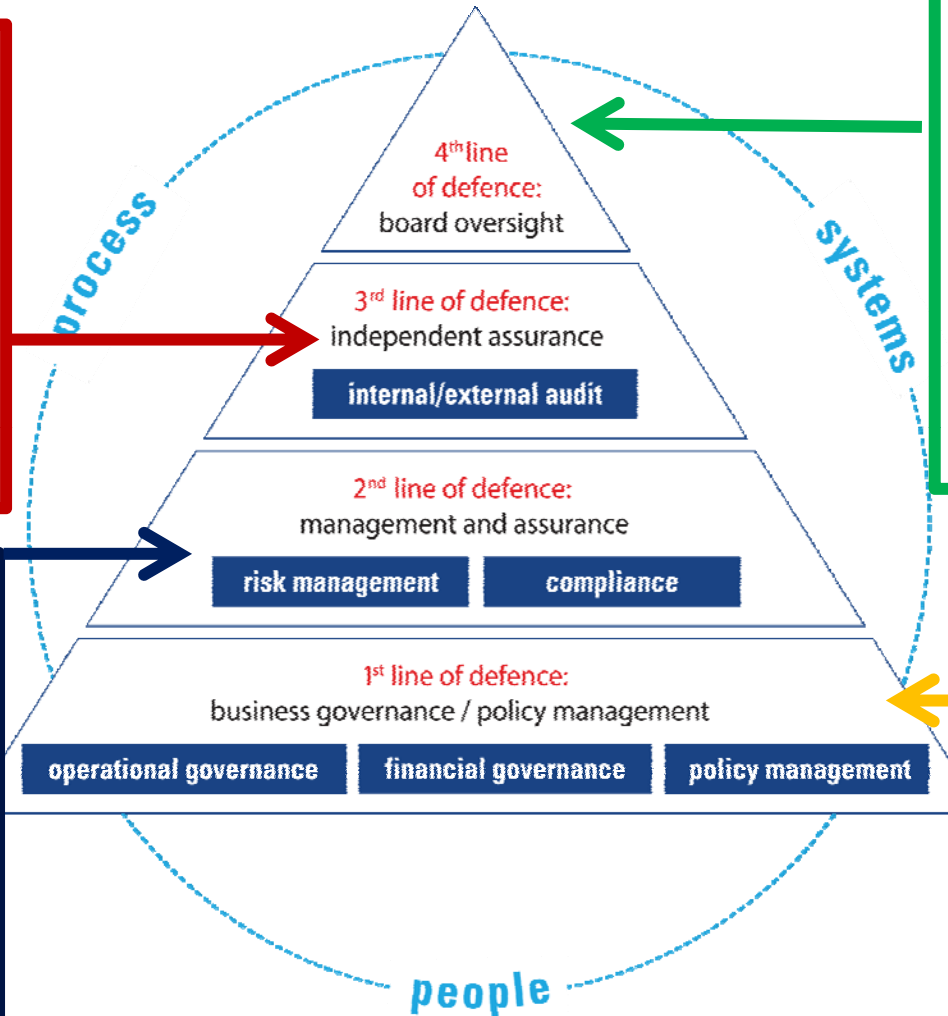
21% report to IA

Conclusion

Where do you receive assurance from?

94% have IA

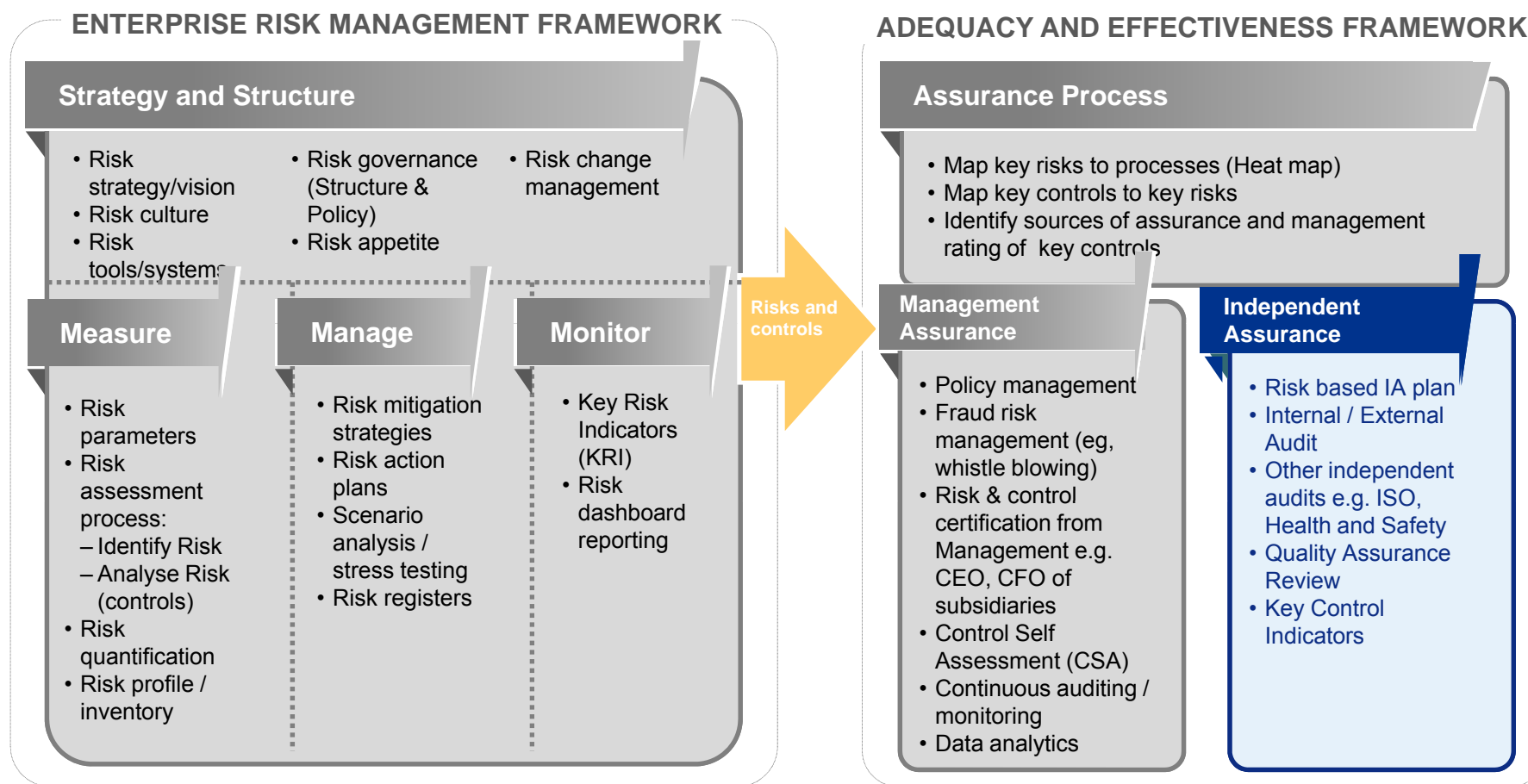
32% disclose and explain risk framework
90% have whistle-blowing policies



34% Disclose board responsible for risk
14% have BRCs
29% rely on ACs

5% have CROs
26% state senior management responsible for risk
12% have MRCs

KPMGs Board Assurance Framework



1st & 2nd Line of Defense
 3rd Line of Defense
 4th Line of Defense

Adequacy and Effectiveness of Internal Controls and Risk Management Systems
(Principle 11 & LR 1204 and 1207(10))

Board members and C-Suite executives need to:

- ✓ **Actively engage** in understanding the risk management and internal control system within your organisation
- ✓ **Clarify** key elements of your existing Enterprise Risk Management and Adequacy and Effectiveness Framework
- ✓ **Confirm** interrelationships between the key frameworks
- ✓ **Communicate** the overarching board assurance framework to key participants to ensure they understand their role and what is expected from them
- ✓ **Define** the outputs to be generated and evidenced (nature and frequency of reporting)



Thank you

Acknowledgements

ISCA Research Team

Mr. Chan Sze Yee – Head, Research

Mr. Shawn Pang – Manager, Research

Ms. Perrine Oh – Manager, Research

Mr. James Shen – Executive, Research

Ms. Kay Zin – Executive Assistant, Research

KPMG Thought Leaders

Mr. Irving Low – Partner, Head of Risk Consulting

Ms. Emilie Williams – Director, Risk Consulting

KPMG Risk Consulting Professional Team

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