

Wake Up Call

Building the most fit risk management framework

My organisation is operating in Indonesia and a subsidiary of a Singapore listed company. What should be the basis for the board and audit committee to assess adequacy of internal controls - addressing financial, operational, compliance risks; and the consideration in building ERM?

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Risk is an essential part of any business. Properly managed, it drives growth and opportunity. It is necessary that the enterprise risk management processes become embedded in business to ensure that responses to risk remain current, dynamic and relevant.

Basis for assessing adequacy controls in addressing risks

There are several sources that board member can use in assessing the adequacy of internal controls with regards to financial, operational and compliance risk, and it can entail both internal and external sources.

Enterprise risk management (ERM).

The purpose of an internal controls system is to manage key risks to a level that is acceptable by the company. As part of ERM, enterprise risk assessments will be performed. The result is a starting point to identify key risks, and matching them to existing controls to assess the adequacy of the controls.

Internal audit activity, compliance and other control programs. Internal audit helps to provide reasonable assurance on the effectiveness of internal controls system.

Thus, an internal audit plan should be aligned to results of periodic enterprise risk assessment to ensure that controls surrounding key risks are checked. Also, assessment of the internal audit function should be performed to review the structure, methodology,

and resources. Other compliance programs such as compliance reviews and whistleblowing system are also means to identify risks and control gaps.

Other external sources. This involves reviewing the results and action of third parties (e.g., the management letter raise by the statutory auditors, ISO audits, accolades or disciplinary actions by professional or regulatory bodies).

Good governance requirements relevant to a Singapore listed company

As a subsidiary of a Singapore listed company, you need to be aware of the listing requirements related to good governance practice, which include among others:

An issuer in Singapore is required to have a robust and effective system of internal controls, addressing financial, operational and compliance risks.

The board of directors and audit committee are required to give an opinion on the adequacy of the internal controls, addressing financial, operational and compliance risks.

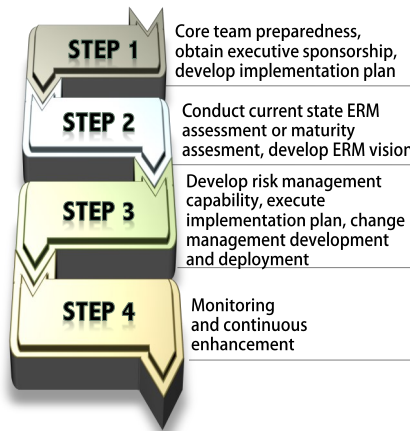
The audit committee may commission an independent audit on internal controls for its assurance,

or where it is not satisfied with the systems of internal control.

This means that there should be an effective board oversight on risk management as well as an assurance from the CEO and the CFO not only on the fair view of financial information, but also on assurance on the effectiveness of company's risk management and internal control systems.

Consideration in building ERM framework

Stages in ERM implementation process can vary, but what most important is to understand what activities constitute within and its corresponding objectives, so that it can be tailored to the uniqueness of your organisation.



There are several guidelines that you can utilise as well in designing the most fit risk management framework, COSO ERM Framework, AS/NZ ISO 31000:2009 Risk Management, ISO 31000, IEC/ISO 31010, to name a few.

KEY POINTS

- All entities face uncertainty, and the challenge for management is to determine how much uncertainty it prepared to accept as it strives to grow stakeholder value .
- Determining whether ERM is "effective" is a judgment resulting from an assessment of whether the components are present and functioning effectively.
- For the components to be present and functioning properly there can be no material weaknesses, and risk needs to have been brought within the entity's risk appetite.
- When ERM is determined to be effective, there should be a reasonable assurance that strategic and operations objectives are being achieved, and that the reporting is reliable and applicable laws and regulations are being complied with.



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