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# *Being Effective Independent Directors*

International Practices and the  
Way Forward  
October 2015

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# *Agenda*

1. Overview Corporate Governance
2. The Concept of Director Independence
3. Risk Governance
4. The Audit Committee
5. Conclusion

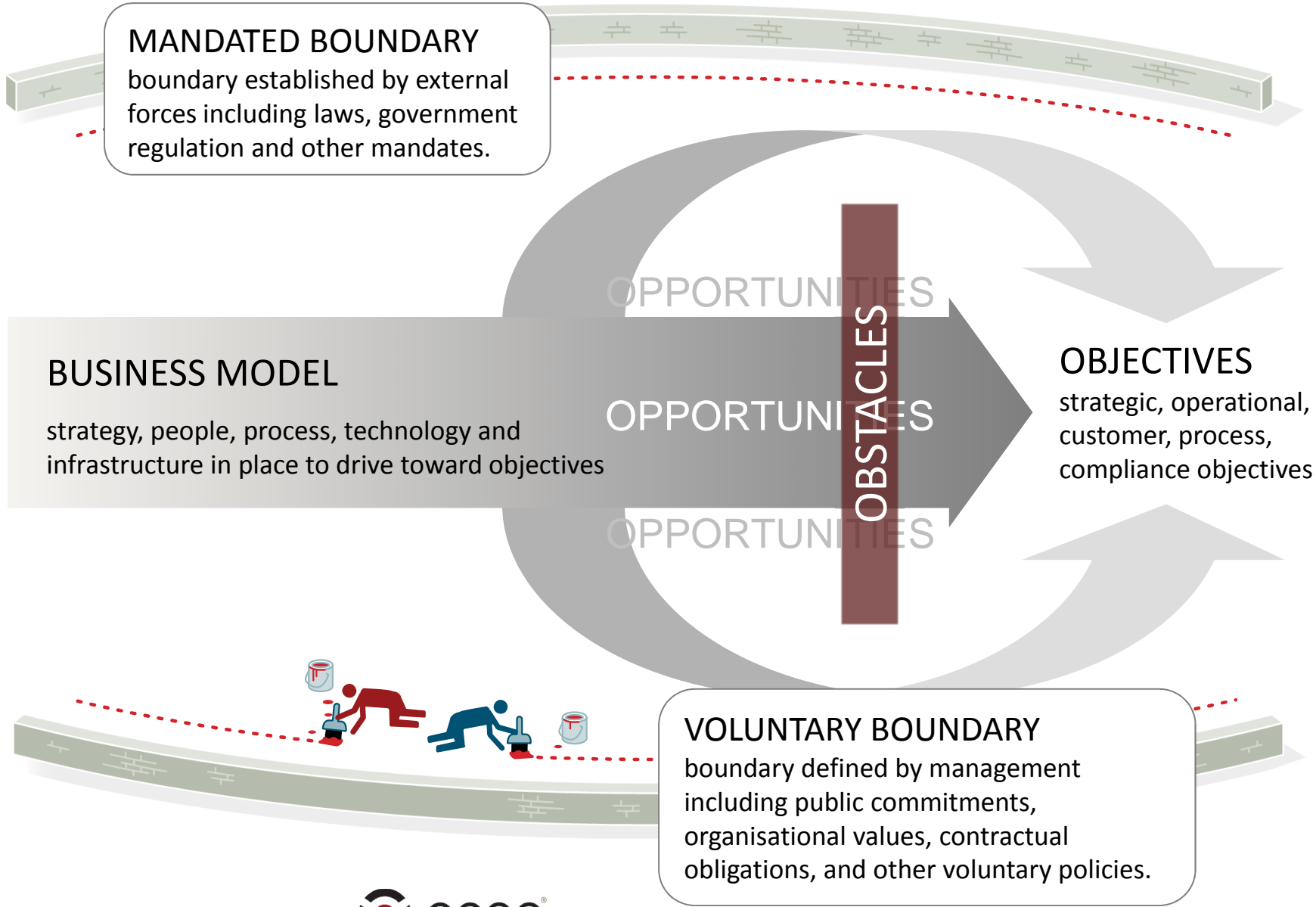
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# *Setting the scene*

Good corporate governance is about maximising performance with accountability:

- Today's business environment is complex, fast moving and very challenging
- Stakeholders are more demanding and less forgiving
- In self interest of companies to institute good governance
- Helps attract and retain investors
- Integrity of the market and investor confidence

# The Big Picture



# Corporate Governance

“There is no single model of good corporate governance.”

**OECD**

“Corporate governance is “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations”. It encompasses the mechanisms by which companies, and those in control, are held to account.

Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.

Effective corporate governance structures encourage companies to create value, through entrepreneurialism, innovation, development and exploration, and provide accountability and control systems commensurate with the risks involved.”

**ASX Corporate Governance Council**

1. Ensuring the basis for an effective corporate governance framework
2. The rights of shareholders and key ownership functions
3. The equitable treatment of shareholders
4. The role of stakeholders in corporate governance
5. Disclosure and transparency
6. The responsibilities of the board

*OECD Principles of Corporate Governance, 2015.*

# Key components of an effective Corporate Governance framework

Board Structure & Composition	Board Operation & Effectiveness	Strategy, Planning & Monitoring	Risk Management & Compliance	Transparency & Disclosure	Corporate Citizenship
<ul style="list-style-type: none"> <li>• Composition &amp; organisation</li> <li>• Induction &amp; training</li> <li>• Board remuneration</li> <li>• Succession planning / identification &amp; nomination of potential directors</li> </ul>	<ul style="list-style-type: none"> <li>• Boardroom conduct &amp; relationship</li> <li>• Audit committee</li> <li>• Nomination committee</li> <li>• Remuneration committee</li> <li>• Governance &amp; IT Oversight committee</li> <li>• Disclosure committees</li> </ul>	<ul style="list-style-type: none"> <li>• Vision &amp; mission</li> <li>• Strategic / corporate plan</li> <li>• Corporate &amp; management performance monitoring</li> <li>• Information technology strategy</li> <li>• Human Resources</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management framework</li> <li>• Internal control</li> </ul>	<ul style="list-style-type: none"> <li>• Financial reporting</li> <li>• Enhanced reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Code of conduct</li> <li>• Business ethics</li> <li>• Employee relations / Health &amp; safety</li> <li>• Social responsibilities including Environmental</li> </ul>

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## ***Corporate Governance Practices***

Corporate governance practices can be categorised into the following:

1. Legislation (mandatory)
2. Regulation (mandatory)
3. Guidance (comply or explain)

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# ***Singapore Code of Corporate Governance***

## **1. Board Matters**

- The Board's Conduct of Affairs
- Board Composition and Guidance
- Chairman and Chief Executive Officer
- Board Membership
- Board Performance
- Access to information

## **2. Remuneration Matters**

- Procedures for Developing Remuneration Policies
- Level and Mix of Remuneration
- Disclosure on Remuneration

## **3. Accountability and Audit**

- Accountability
- *Risk Management and Internal Controls*
- Audit Committee
- Internal Audit

## **4. Shareholder Rights and Responsibilities**

- *Shareholder Rights*
- *Communication with Shareholders*
- *Conduct of Shareholder Meetings*



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# ***Audit Committee Guidebook***

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GUIDEBOOK FOR AUDIT COMMITTEES IN SINGAPORE  
(Second Edition)

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- Released in August 2014
- Second edition of the Guidebook which was developed by the Audit Committee Guidance Committee (ACGC) and first issued in October 2008
- Provides practical guidance for Audit Committee members

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# *Providing Guidance on Risk in Singapore*

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Risk Governance  
Guidance for  
Listed Boards

- Released on 10 May 2012
- Aims to enhance the awareness of Board members with regard to risk governance
- PwC played a key role in the development of the Guidance
- Incorporates inputs from the perspective of practitioners

Corporate Governance Council (10 May 2012)

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## *Discussion Topics*

1. Independence
2. Competence
3. Commitment
4. Risk Governance



An aerial photograph of a city skyline at sunset. The sky is a warm, golden yellow. In the foreground, two prominent towers are visible: a tall, slender tower with a lattice structure on the left, and a shorter tower with a spherical base and a lattice structure on the right. The rest of the city is a dense collection of buildings, mostly residential or commercial, stretching towards the horizon. A red banner is overlaid on the right side of the image, containing the text "Risk Governance" in white, italicized font.

# *Risk Governance*

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## ***What is Risk Governance?***

- Risk governance is the ***architecture*** within which risk management operates in a company.
- It ***defines the way*** in which a company undertakes risk management. It is essential for the company to have clarity about ***what risks are being managed and how***.
- It provides ***guidance*** for sound and informed ***decision-making*** and ***effective allocation of resources***.

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# ***Enterprise Risk Management***

Enterprise Risk Management is:

“A ***process***, effected by an entity’s board of directors, management and other personnel, applied in ***strategy setting*** and ***across the enterprise***, designed to identify potential events that may affect the entity and manage risk to be within its risk tolerance, to provide ***reasonable assurance*** regarding the achievement of the entity’s objectives.”

*Enterprise Risk Management – Integrated Framework (2004)*, published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO)



“麻雀虽小五脏俱全”

“the sparrow may be small, but it still has five organs complete.”

~ *Chinese saying*

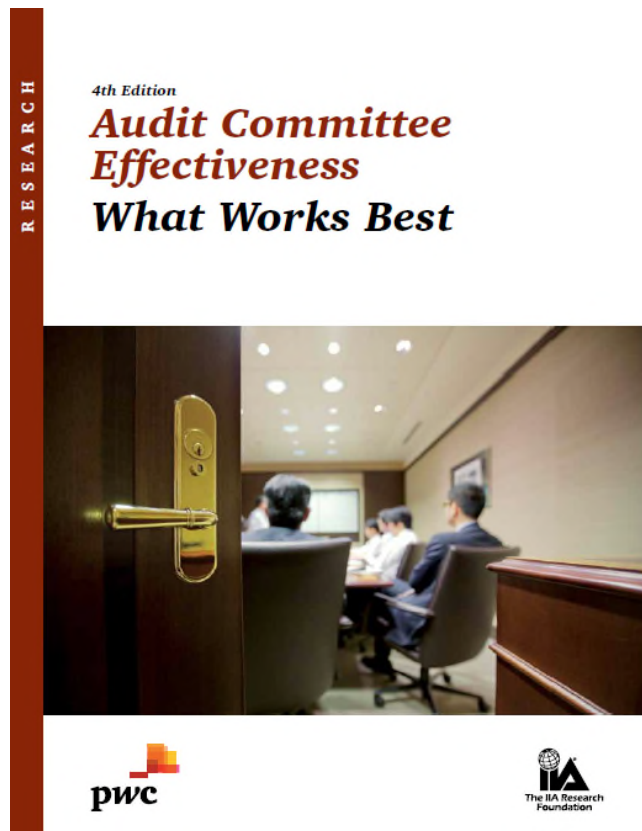


## ***6 common characteristics of leading, sustainable international risk management frameworks***

<b>Risk strategy and policy</b>	<ul style="list-style-type: none"><li>▪ The consideration of risk as an organisation sets its strategic direction</li><li>▪ How risk is considered as an organisation allocates its capital across competing priorities</li><li>▪ How risk is reflected in the policies that are adopted</li></ul>
<b>Risk process</b>	<ul style="list-style-type: none"><li>▪ How risk is identified, assessed and responded to in day to day activities</li></ul>
<b>Risk structure</b>	<ul style="list-style-type: none"><li>▪ The specific risk management functions and responsibilities established to sustain the focus on risk management</li></ul>
<b>Culture</b>	<ul style="list-style-type: none"><li>▪ The culture and behaviours that need to be developed and sustained to support effective risk management and reinforce “doing the right thing” naturally</li></ul>
<b>Risk systems and tools</b>	<ul style="list-style-type: none"><li>▪ The systems and tools used to facilitate the risk management process</li></ul>
<b>Assurance</b>	<ul style="list-style-type: none"><li>▪ How assurance is gained over the effective operation of the risk management framework and continuously improved over time.</li></ul>



# *Audit Committee Effectiveness: What works best, 4th edition*



A *practical guide* to provide information and best practices on topics that are most relevant to help ACs enhance their *performance* and *effectiveness*.

# *Board Effectiveness: What Works Best*



- Aims to help directors navigate the increasingly complicated and challenging environment they face
- Authored by PwC and published by The Institute of Internal Auditors (IIA) Research Foundation
- Provides insights from directors and governance specialists on lessons learned from around the globe, including recent developments and regulations that affect boards of directors

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## ***Getting directors up to speed***

### Director Training

There is a need to ensure that directors **have the necessary competencies** to cope with increasingly complex operating environment and the ability to discharge their fiduciary duties.

- The Nominating Committee is to **review and recommend** training and professional development programmes for directors.
- Companies are to **arrange and fund training** for new and existing directors.

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## ***Key Messages***

- Effective CG enhances enterprise and market confidence
- Analysts, markets and regulators are paying increasing attention to CG practices and disclosures
- Regulators are rapidly harmonising international CG regimes and whilst not easily implemented, the overall standard is improving
- As Board responsibilities become more onerous, Boards must be focussed, efficient and available to exercise their duties fully
- Important for Independent Directors to have the necessary skillsets to discharge their fiduciary duties

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# *Thank You*

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