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# Asking Tougher Questions in Tough Times

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School of  
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KPMG Audit Committee Institute in collaboration with the School of Accountancy,  
Singapore Management University

# Asking tougher questions in tough times

SINGAPORE



AUDIT ■ TAX ■ ADVISORY



# Contents

1. Introduction	1
2. Framework	4
3. The Toughest Question of All	9
4. Tough Questions	11
5. Activity Plan	17
6. Summary	19

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# Foreword



“The toughest question of them all, addresses the question closest to the hearts of each audit committee member: Do we as an audit committee, have the authority, responsibility and integrity we need to effectively help the company navigate through the turbulent times?

It challenges their belief system in relation to their willingness to stand up to the test.”

During turbulent times, the top priority in the audit committee agenda must focus on survival and sustainability - helping their companies get through the next phase.

In the current business landscape where iconic corporations can collapse overnight, audit committees should be focused on ensuring that management addresses key risks, that risk management processes are effective, and that the company’s strategy and the board’s oversight practices can stand up to scrutiny, particularly on governance issues.

The tough questions addressed in this Guide are meant to “push the envelope further” and stress-test organisational resilience during these challenging times. For independent audit committee members, the best use of the guide would be in asking the right tough questions.

We hope the KPMG Audit Committee Institute’s contribution to this thought leadership subject is a helpful and constructive one. KPMG is proud to collaborate with the Singapore Management University in publishing the Asking Tougher Questions in Tough Times Guide (the Guide).

## **Irving Low**

Head, Internal Audit, Risk and Compliance Services  
KPMG LLP in Singapore



*“A crisis is an opportunity riding the dangerous wind. The current challenging business environment presents opportunities for audit committee members to draw upon their knowledge, experience and oversight leadership to help companies better navigate through this crisis.”*

Risk has always been an integral part of doing business. The current global economic and financial meltdown has fundamentally shifted the risk profiles of businesses and, as a consequence, poses challenges to the relevance of prevailing business models. Under these circumstances, there is a heightened level of risk oversight demanded of audit committee members.

This guide, entitled *Asking Tougher Questions in Tough Times*, deals with risk oversight through the lenses of survivability and sustainability. Eight issue-driven questions are articulated. Each question contains a description of the critical success factor that is required to address the corresponding concern. An activity plan is also included in this guide to ensure that appropriate actions are taken and that there is proper closure of issues that are in question.

A Chinese proverb says, “a crisis is an opportunity riding the dangerous wind”. The current challenging business environment presents opportunities for audit committee members to draw upon their knowledge, experience and oversight leadership to help companies better navigate through this crisis. We are proud to collaborate with the KPMG Audit Committee Institute and contribute to this thought leadership initiative on risk oversight.

**Foo See Liang**

Practice Associate Professor  
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# 1. Introduction







### The challenge confronting audit committees

The recent wave of corporate governance disasters globally raises many eyebrows and burning questions whether audit committees (ACs) are doing the right things to effectively discharge their roles and responsibilities.

To further test the integrity and reputation of the Singapore market as a listing gateway for foreign companies in turbulent times like these, the headlines are also reporting a spate of suspected and actual corporate fraud and scandals involving China-based, Singapore listed companies (commonly referred to as “S-chips”). Many angry investors and the public question whether ACs and independent directors are doing their jobs.

The Singapore Exchange (SGX) has stepped up its engagement with listed companies and market professionals and has urged Boards and ACs to be vigilant in identifying, addressing and managing risks that may have a material impact on the financial statements and operations of companies. Many have voiced their views that such governance disasters might have been averted if independent directors and audit committees had been more rigorous in asking their Chief Executive Officers (CEOs) the right questions, demanding answers and when needed, blowing whistles. This suggests that one of the root causes could be that ACs may not be asking the right questions, and not asking enough tough questions to challenge top management.

This guide deals with two critical issues facing most ACs: corporate survivability and sustainability. Failure to achieve the former means that the business will not achieve the latter. The current global economic and financial meltdown is creating unprecedented obstacles to businesses everywhere, and Singapore is no exception. Environmental uncertainties that were previously of minor concern, or simply unheard of, are unexpectedly becoming of major concern. Issues that were once far away on management radar screens are becoming increasingly more complex, and now require urgent attention.

Within the current business environment, the prevailing business model is being questioned, as businesses undergo a shift in strategic, operational, compliance and reporting risk profiles. These represent threats to the business, and therefore require renewed scrutiny. “Risk” in this context refers to “the chance of something happening that will have an impact on objectives”<sup>1</sup>. The potential consequences of a lack of corporate readiness and robustness, especially in view of present uncertainties, cannot be overstated for any business. Indeed, even the collapse of national systems is a stark reminder of how devastating this risk can be if businesses do not remain vigilant.

It seems clear, therefore, that a heightened level of corporate oversight is demanded of AC members; one which focuses on improved resilience and the capacity for survival. The default position now is more oversight responsibility and leadership by AC members to facilitate management efforts in navigating the perilous road ahead to avoid value erosion, to preserve corporate capabilities, and to marshal competencies that can seize new opportunities.

<sup>1</sup> ISO/IEC Guide 73. 2002. “Risk management – Vocabulary – Guidelines for Use in Standards”

However, the dilemma for AC members is where to begin and how to prepare for these daunting challenges. At a minimum, they need to evaluate the robustness of the governance framework in withstanding the severe “credit crunch” that is jeopardising liquidity and operations. Also, some introspection is required. How effective is the AC in its current risk oversight role in guiding the company through the maze of economic turmoil that lies ahead?

The AC plays a pivotal role in risk oversight. Instead of avoiding risk as a topic of conversation within the Board, AC members need to serve as the catalyst in initiating and confronting fundamental risk issues dealing with asset preservation, effective resource allocation and exercising opportunities for value creation amidst a myriad of negative events.

### Contents

This guide, entitled ‘Asking Tougher Questions in Tough Times’, specifically covers core questions that AC members could raise for the Board’s deliberation on pertinent risk governance and resilience issues. Most certainly, there are lessons to be learned. As such, this guide is not simply a how-to manual. On the contrary, all questions proposed are underscored by sound governance principles that are a hallmark of the Audit Committee Guidance Committee’s (ACGC) Guidebook for Audit Committees in Singapore, published jointly by the Accounting and Corporate Regulatory Authority (ACRA), the Monetary Authority of Singapore (MAS), and the Singapore Exchange (SGX) in 2008.

Giving proper consideration to the “tough” questions outlined in the following sections will help to shape and develop perspectives pertaining to critical risk issues that can make a difference in company performance.

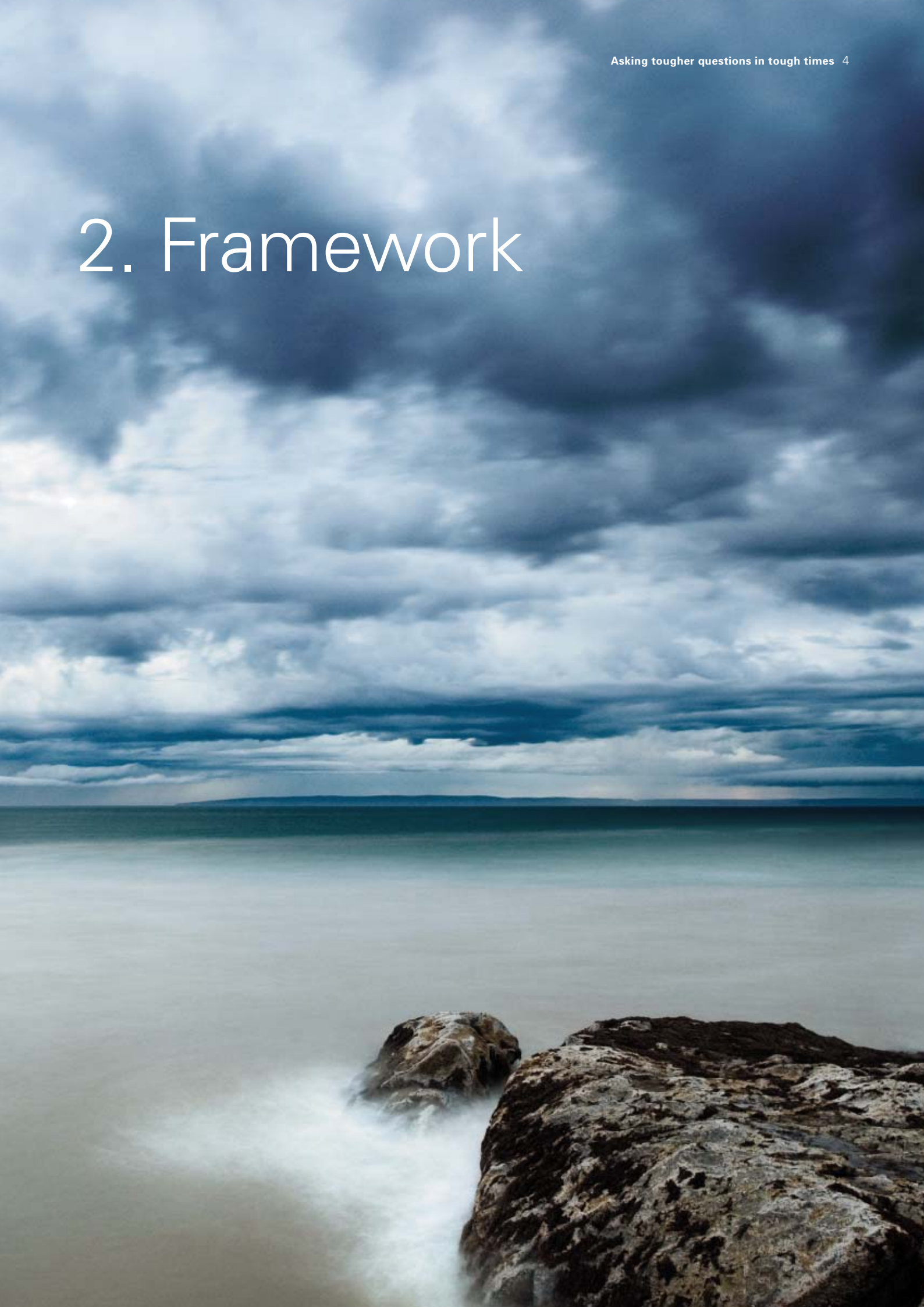
**Section 2** develops foundations for the tough questioning approach that AC members must embrace to foster resilience and fortitude during the ongoing financial and economic crises. A model premised on the face of a clock is presented to help embed the sequencing of tough questions required to address the two critical concerns of survivability and sustainability of business operations in the minds of AC members.

**Section 3** puts forth the toughest question of all. Audit committees need to ask themselves this question and get an honest answer before even discussing other tough questions.

**Section 4** then develops in detail the tough questions directed at survivability and sustainability, and the corresponding critical success factors associated with each.

**Section 5** offers an activity plan to “close the loop” by ensuring that appropriate response strategies are put in place and monitored to achieve desired outcomes. The final section presents a summary to this guide.

# 2. Framework



### Business context

We have heard views in the global financial community that the current global economic turmoil may be as severe as the Great Depression of the 1930s. Deutsche Bank's Chief Executive, Joseph Ackermann, put it this way: "The crisis that engulfed first the financial industry, and then entire economies, is a watershed event. Broad segments of global financial markets stopped working. Structures and institutions that had been the bedrock of the system for decades disappeared literally overnight. And in response, central banks and governments deployed counter-measures on an unprecedented scale."<sup>2</sup>

In simple business language, the availability of liquidity to finance company operations has disappeared rapidly. Normal credit lines that organisations have relied upon for years seem to have evaporated, leaving the core of many businesses completely vulnerable as viable going-concern operations. Equally disturbing is the shrinkage and depletion of normal revenue streams.

Major customers, suppliers and alliances have been crippled, with far too many on the brink of disappearing permanently. For most companies, the painstaking efforts to map visions of the future need to be completely overhauled because the fundamental assumptions that underpin their formation and business models have changed and are no longer relevant.

While there are many repercussions arising from the severe economic and financial fallout, two key aspects clearly stand out and they are the focus of this guidebook. The first pillar is survivability over the next 12 months, which means securing adequate liquidity to preserve the business. The second pillar is sustainability, which means reshaping business strategies and formulating sound business plans to navigate through the treacherous economic environment ahead. AC members need to specifically address both of these concerns for businesses to have any reasonable expectation of operating in the future. Hence, survivability and sustainability are central to the model developed below.

### The model

The current economic and financial upheaval has a pervasive impact on four core risk categories, namely, strategic risk, operational risk, compliance risk and reporting risk. In turn, this formidable meltdown has unsettled the corporate vision and action plans of companies going forward. To grasp the implications of this disturbance on the business landscape and what it means for requisite action by the company, imagine the face of a clock containing the four components of risk at its center (see Figure 1).

Collectively, these four risk components impact four major issues or question nodes labeled preserve, conform, navigate, and deliver which are shown at twelve o'clock, three o'clock, six o'clock, and nine o'clock, respectively. These sets of question nodes provide a framework around which AC members can rally amidst the current economic storm.

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<sup>2</sup> Josef Ackermann, Chief Executive of Deutsche Bank, "How to restore the financial markets to health?" The World in 2009, 19 November 2008.

**Figure 1**  
**A Mental Map for AC Members**



Underpinning the above four risk components, are the key attributes in an internal control framework, which also needs to be considered: PEOPLE + PROCESS + SYSTEMS/TOOLS.

#### **Survivability**

The process of asking tough questions originates with the preserve node at 12 o'clock where the focus is on preserving what the company presently has or, simply stated, asset protection. Clearly, survivability of the company is contingent on its ability, not just to sustain value, but to augment and create value for the shareholders. However, gaining sufficient understanding of these problems leads to more questioning and this is directly linked to the conform node located at 3 o'clock. So, there should be in the minds of AC members, a journey from 12 o'clock to 6 o'clock that questions survival through preserving what currently exists or possibly new opportunities that can give added protection.

#### **Sustainability**

The process of reliable self-assessment and evaluation of the risk management structure overarching the preserve-conform linkage is difficult in the best of times but even more serious questions are inevitable in tough times. Specifically, action-driven questions must be addressed and they need to be properly expressed to the Board. Therefore, AC members must subsequently move towards the navigate node and deliver node shown at 6 o'clock and 9 o'clock, respectively, in Figure 1.

#### **The meaning of tough questions**

Survivability and sustainability serve as pillars for companies to adopt a harsh examination of their "business health" if they want to stay afloat and keep afloat in the future. The critical process in this pursuit is having AC members ask "tough questions" of management to understand more fully the present state of the company and what it should do going forward.

Questions are a means by which the AC gathers information. Silence at AC and board meetings represent an absence of information. Without pertinent information, effective decision making is not possible. What should AC members consider to engage the board and management in this process?

First, going back to the drawing board, AC members need to eliminate the “blind trust syndrome” and “superstar” phenomenon. Recall the case of Bernard Madoff’s Ponzi scheme where the issue of blind and reckless trust exists. Madoff’s high standing in the investment community was like a quality assurance certification in itself, his victims (including established banks with good due diligence procedures and requirements) did not bother to do proper due diligence before placing their money with him.

For the case of Satyam Computers, the AC did not question and challenge the CEO of Satyam as he was of impressive social stature. Corporate governance, due diligence procedures and requirements hence went out of the window.

ACs may not want to appear stupid in challenging the norm and popular belief that these high-powered people can be wrong. The ACs probably doubt their own suspicions rather than the hint of red flags surfacing.

At the outset, questions must be issue driven and not personality driven. Put differently, the effectiveness of the meeting is threatened when the principles of courtesy and respect for individuals’ dignity and values are ignored. More appropriate outcomes materialise if a boardroom confrontation is avoided. The objective of good communication is to not make disparaging remarks that are degrading and threaten the CEO and his team. Questions should be put forward in a tone, manner and body language that create an atmosphere of positive inquiry and mutual dialogue.

What, then, are the dimensions of tough questions? These are issue-driven questions aimed at the essence of an issue that are intended to uncover a solution-driven discussion and subsequent decision making. The fundamental issues are survivability and resilience amidst trying times. Therefore, searching questions should address root causes underlying any problem. The causes, if analysed, can often be attributed to one of the key features in the internal control framework of PEOPLE + PROCESS + SYSTEMS/TOOLS<sup>3</sup>. More importantly, questions should provide a platform for the Board to deliberate and discuss alternative strategic responses and the design of tactical plans by management.

The sensitive nature of the questioning process by the AC members does not mean that AC members should abandon boldness.

An effective AC also requires independent directors who live up to their title and are willing to adopt a truly independent and objective stance, even if this runs contrary to what others on the Board may want. If AC members lack this independence and objectivity, they are unlikely to be able to be effective in their role as a catalyst and compass in helping the company navigate through the current climate.

<sup>3</sup> KPMG LLP in Singapore – Internal Controls Framework. Please refer to Diagram 1 in Appendix I.



To quote Reggie Thein, Council Member of the Singapore Institute of Directors, “When it comes down to the crunch, are you willing to stand up and challenge management?”<sup>4</sup>

In the Singapore context, some independent directors and audit committees would deem this to be a very challenging and an almost impossible task, due to a very conservative culture. Some may feel that they “do not want to rock the boat”, especially with a management team spearheaded by a domineering founder at the helm. This is perhaps a subtle combination of the high context culture where people do not want to appear “stupid” or ask unnecessary questions that happen to be the “show stopper”, coupled with the need to “be nice” and polite”.

Despite this, the process does not have to turn ugly. Enquiries and questions at AC or Board meetings can be respectfully, discreetly and politely put to the Chairperson who will from his experience, respond effectively and factually in most cases.

The severity of the financial and economic crises probably means that people need to think and perhaps act unconventionally but with rationality. Thus, questions need to focus attention in most instances on failures and not successes. Indeed, in many cases, glib adherence to rules of thumb which worked in the past need to yield to a reinvention of the wheel. While doing this, it is imperative to concentrate on the nuts and bolts of survival rather than on visions of grandeur and grand strategies. Hence, AC members need to cultivate a sceptical mindset.

<sup>4</sup> Fraud: insights for audit committees - Highlights from the inaugural KPMG ACI Roundtable 20 May 2009.

# 3. The Toughest Question of All







Before we move on to the detailed discussions of what constitutes tough questions for management, there is the most critical and probably toughest root question amongst all, that audit committees would need to ask themselves:

**Question:**

**Do we, individually and collectively as an audit committee, have the authority, responsibility and most importantly, integrity we need to effectively help the company navigate through turbulent times?**

To answer this question, one needs to take a very honest hard look at your “as is” circumstance. Consider the following factors:

- **Proper basics** – “Audit committee members are often required to deal with complex situations, yet sometimes committee members don’t understand things like derivatives,” noted Mr Thein.<sup>5</sup>  
Does your audit committee have the right mix of members’ experiences and skill sets, independence and leadership? This is your arsenal of knowledge to equip you in staying abreast of new accounting standards, and emerging complex issues, hence being able to reliably decipher financial ‘guesstimates’.
- **Access to the purse** – To what extent does your audit committee have access to funds to enable you to effectively discharge your responsibilities? In the event the audit committee needs to commission an investigation into suspected malpractices at the highest management level, what is the ease with which audit committee can have access to such funds? Are you prepared to fund these out of your own pockets in the event there is no support from management?
- **Not afraid to lose the popularity poll** – When it comes to the crunch, are you prepared to challenge management with all the tough questions? Are you prepared to take a step back on “AOB”<sup>6</sup> items on the agenda? Or are you careful with not “rocking the boat” too much? Anyway, some people regard that if things really do not work out, there is always the fire exit - just resign from the Board and cite personal reasons for departure.
- **A very thick, bullet proof skin** – Are you prepared for unwanted press coverage if you are being voted out by the majority shareholder and domineering founder? You may find yourself recognisable overnight, to the man-on-the-street because the board you served on hit the headlines for the wrong reasons.

These dimensions can shed more light on the level of honesty in response to the toughest root questions.

<sup>5</sup> Reggie Thein, Council Member of the Singapore Institute of Directors, Fraud: insights for audit committees - Highlights from the inaugural KPMG ACI Roundtable 20 May 2009.

<sup>6</sup> AOB is the acronym for Any Other Business.”

# 4. Tough Questions





This section illustrates and explains the tough questions associated with the two platforms of survivability and sustainability that underlie the AC members' mission through interactions with the Board and management. First, the core questions pertaining to the preserve-conform linkage are presented, followed by the core questions underpinning the navigate-deliver linkage.

**Survivability: the preserve-conform linkage**

There are four core questions that constitute the essential pillars of survivability and these emanate from the preserve-conform linkage shown in Figure 2.

**Figure 2  
Mental Map for Survivability**



The **preserve** node spanning 12 o'clock to 3 o'clock reminds AC members of the need to seriously think about three issues, all related to asset protection and going-concern status. The first point is whether the company's viability is at risk. Here the emphasis is on awareness of existing routines that can locate, evaluate and communicate critical risk events. Second, attention must be focused on whether the income-generating capability of the business has been compromised in any way and to what extent. For most businesses, the normal revenue stream has been damaged and cost containment must be tailored accordingly. The third issue is access to funds, both internal and external to the business. Of immediate concern here is the availability of liquid resources, including capital, to outlast the financial crisis.

The **conform** node spanning 3 o'clock to 6 o'clock draws AC members' attention to necessary control mechanisms for monitoring and measuring the status of the preserve qualities noted above. Conformity means having the proper control structure in place to protect value. AC members must ensure that the corporate governance structure overarching strategic, operational, reporting, and compliance risk is sufficiently robust and resilient enough to withstand the "credit crunch".

To summarise, four tough questions directed to both preservation and conformity are mandatory in the quest for survival. These questions and their corresponding critical success factors are listed accordingly.

Tough questions for survival	Critical success factors
<p><b>Question 1:</b> Is the business aware of key risks that may affect its survivability?</p>	<p>The extent to which management has installed mechanisms to identify, assess and communicate key risk events affecting survival.</p> <p>(PROCESS/SYSTEMS &amp; TOOLS)</p> <p>Refer to Appendix I, Diagram 2 – Elements of a good risk management framework</p>
<p><b>Insights &amp; perspectives:</b> ACs need to pose the right questions to management. These include: Is management aware of the key risks that will severely impact the company’s survival in the next 12 months? Is management aware of the company’s blind spots and emerging risks?<sup>7</sup></p>	
<p><b>Question 2:</b> What cost containment strategy does the business have in place?</p>	<p>Given the impact of key risk events on the revenue stream, the extent to which management has installed cost containment measures to preserve liquidity.</p> <p>(PROCESS/SYSTEMS &amp; TOOLS)</p>
<p><b>Insights &amp; perspectives:</b> In the leadership’s cost containment agenda, it is important that the cost cutting measures do not include cutting corners in governance and compliance. Compromising governance can destroy the value built over the years and damage investor confidence.<sup>7</sup></p>	
<p><b>Question 3:</b> Does the business have sufficient funds (access to liquidity) for the coming 12 months?</p>	<p>The extent to which management has the capacity to garner funds to sustain operations for the coming 12 months.</p> <p>(PROCESS)</p>
<p><b>Insights &amp; perspectives:</b> ACs need to understand the crisis’s impact on the company’s earnings, cash flow, liquidity, and compliance with debt covenants, and monitor key indicators of trouble.<sup>7</sup></p>	
<p><b>Question 4:</b> What mechanisms does the business have in place to monitor and measure the effectiveness of its business strategy?</p>	<p>The extent of regular monitoring and adaptation of strategies to preserve going concern status.</p>
<p><b>Insights &amp; perspectives:</b> It is recommended that management assembles a crisis management team to monitor the impact of the crisis on a ‘real-time’ basis, and develop, with stress-test, worst-case scenarios. A strategic and timely response to this crisis is critical.<sup>7</sup></p>	

<sup>7</sup> ACI Singapore - Ten To-do List for Audit Committees in 2009. To-do items No. 1, 4 and 7.

### Sustainability: the navigate-deliver linkage

There are four core questions that constitute the essential pillars of sustainability and these emerge from the navigate-deliver linkage shown in Figure 3. In this case, the emphasis shifts to the left-hand side of the clock and embraces first the navigate node at 6 o'clock and then the deliver node at 9 o'clock, on the return to 12 o'clock.

**Figure 3**  
**Mental Map for Sustainability**



As the word suggests, the navigate node encourages AC members to ponder over how to maneuver the company through a business horizon that is plagued by lack of visibility. Attention to governance leadership is paramount here and AC members must play a catalyst role in helping management plot its way through economic and financial turbulence. Key to this would be the PEOPLE factor, and we consider this attribute of the internal control framework to be the most critical success factor. The tone at the top in lending its leadership in the area of governance would primarily drive the success of the other two attributes: PROCESS + SYSTEMS/TOOLS.

Endurance is the significant quality that must prevail. Consequently, even tougher questions must be put on the boardroom table because in many instances a company's survivability is at stake. Thus, a process involving frank and open discussions between the AC, the Board and management must take place.

Knowing how to raise leading questions of management on risk matters through interactive conversation with the Board is, in reality, a search for viable alternatives. No PROCESS or SYSTEMS/TOOLS can determine the quality of interactions and discussions amongst the board members. In reality, it is the PEOPLE who will ultimately make the difference. At the end of the day, an action plan must not only be agreed upon but acted on, and this is the heart of the questioning endeavour in the deliver node. Responses emanating from question-centric dialogue between the AC and the Board must therefore be properly enacted by management and monitored by the AC. Without these conditions, the chance of withstanding the risk of failure is severely hampered. If the business cannot survive, then issues of sustainability are irrelevant.

For AC members to deliver questions that address business resiliency demands a subtle mindset that must capture both survival and change over time. The external environment will be volatile, thus increasing uncertainty. In addition, the business model will most likely change. This leaves little space for complacency and for the faint of heart. Instead, strong leadership must emerge in the business, supported by a culture of shared values, norms, and perceptions directed at mindfulness, determination and success.

The clock imagery supports the type of thinking that needs to drive the questions in the navigate-delivery linkage. The return to 12 o'clock does not mean that the AC's mandate is complete. On the contrary, the process must circle again, repeatedly until calmer times arrive. Throughout this cycle, AC members must generate stable thinking processes and cope with variation in business routines. They cannot 'switch on and off'; this creates variable thinking processes and encourages stable routines, a sure recipe for mindlessness and failure. So whilst PEOPLE establishes the PROCESSES, one cannot exist in the absence of the other. An organisation may have the best processes, but if no one follows the established processes, then they would be ineffective in achieving desired control objectives.

In summary, four tough questions directed to both navigate and deliver are essential in the drive for sustainability. These questions and their corresponding critical success factors are listed accordingly.



Tough questions for sustainability	Critical success factors
<p><b>Question 1:</b> Is the business aware of key risks beyond the 12-month time horizon?</p>	<p>The extent to which management has installed mechanisms to identify, assess and communicate key risk events affecting survival.</p> <p>(PEOPLE, PROCESS/SYSTEMS &amp; TOOLS)</p>
<p><b>Question 2:</b> Is the business aware of key risks that may affect sustainability?</p>	<p>The extent to which management has adapted to an alternative business model with new assumptions about the environment.</p> <p>(PEOPLE, PROCESS)</p>
<p><b>Insights &amp; perspectives (Questions 1 and 2):</b> ACs should consider the adequacy and effectiveness of the company’s governance processes for managing risk. ACs need to ask the right questions of management. These include: Is management aware of the key risks that will severely impact the company’s survival in the next 12 months? Is management aware of the company’s blind spots and emerging risks?<sup>8</sup></p>	
<p><b>Question 3:</b> Does the business have the right leadership and cultural ethos to spearhead and propel the company forward in this turbulent time?</p>	<p>Possessing the right leaders to positively steer the company into the future.</p> <p>(PEOPLE)</p>
<p><b>Insights &amp; perspectives:</b> Undesirable side effects: ‘Cook the books’?</p> <p>Immense pressure from bad times may bring out the worst in some companies. There are increased temptations for fraud at the highest level. There is a need to be acutely sensitive to the tone and attitude from the top, and the examples set by leadership. ACs should aim to reinforce a culture of compliance and a commitment to financial reporting integrity throughout the organisation. They should also focus on the review of the control environment and fraud risk management framework; recognise the fraud risk factors, and pay attention to red flags and warning signs. Where necessary, ACs should watch out for and dig deeper into specific areas of suspected malpractices.<sup>8</sup></p>	
<p><b>Question 4:</b> Has the business ensured that its existing business model is still relevant and effective for maintaining going concern status?</p>	<p>The robustness of the business models in assuring future business operations.</p> <p>(PEOPLE, PROCESS/SYSTEMS &amp; TOOLS)</p>
<p><b>Insights &amp; perspectives:</b> Globalisation and the financial crisis have changed the world in dramatic ways. These changes include: a less leveraged economy, a restructured banking and finance industry, an increase in regulation and shareholder activism on issues like executive compensation, and new business models driven by technology. ACs must step back and consider what the emerging business environment will look like. ACs need to ensure that management considers how this new environment will impact the company’s risk profile. ACs also need to discuss with management how the post-crisis business landscape may impact the company’s existing business model.<sup>8</sup></p>	

<sup>8</sup> ACI Singapore - Ten To-do List for Audit Committee in 2009. To-do items No. 5, 7 and 9.

# 5. Activity Plan

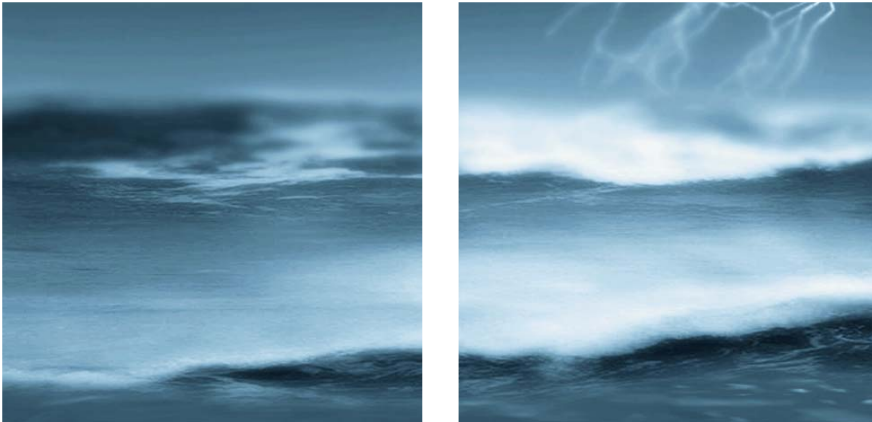






# 6. Summary





Without doubt, the two most important challenges facing businesses today are (i) surviving the global financial and economic storm, coupled with the buoyancy to stay afloat; and (ii) continuing sustainable business operations. This guidebook has expressed these two pillars of concern in terms of the preserve-conform linkage and the navigate-deliver linkage mounted on the face of a clock. In turn, four core questions for each linkage were developed with associated critical success factors.

The intention of the clock analogy is to inspire AC members to visualise the process that must unfold in conversation with the Board for businesses to stay alive in the short run and to maintain the value proposition to stakeholders in the medium term. Accordingly, the analysis originated at 12 o'clock, with the initial emphasis accorded to the risk structure of the business and captured by questions in the preserve-conform linkage. Next, the action domain becomes central and this is captured by questions in the navigate-deliver linkage.

What gives credibility to this clock image of AC questioning behavior is the fact that: (a) ACGC's principles as contained in its Guidebook for Audit Committees in Singapore overarch each question node; (b) there are no short cuts to successful risk management under trying economic conditions – sequential sets of questions must proceed from twelve o'clock to three, six, nine, and back to twelve o'clock, respectively; (c) this last theme underscores the dynamic nature of the "tough question" process; and, (d) it must be recycled until the current economic volatility abates.

Of course the model and the corresponding eight questions are not meant to be exhaustive in any sense. Instead, the purpose is to give AC members a mental map of the critical processes that must be dealt with, including their iterative sequencing. Most certainly the AC can modify, supplement or extend the set of questions to fit any specific set of circumstances. The activity plan is instrumental in facilitating the AC oversight function concerning any resolution of decisions emanating from the Board.

Finally when asking these questions, AC should bear in mind the key attributes of the internal control framework in: PEOPLE, PROCESS, SYSTEMS/TOOLS. When one understands the relationship of these attributes, addressing the "root-causes" will be a lot more effective.

# Appendix I.

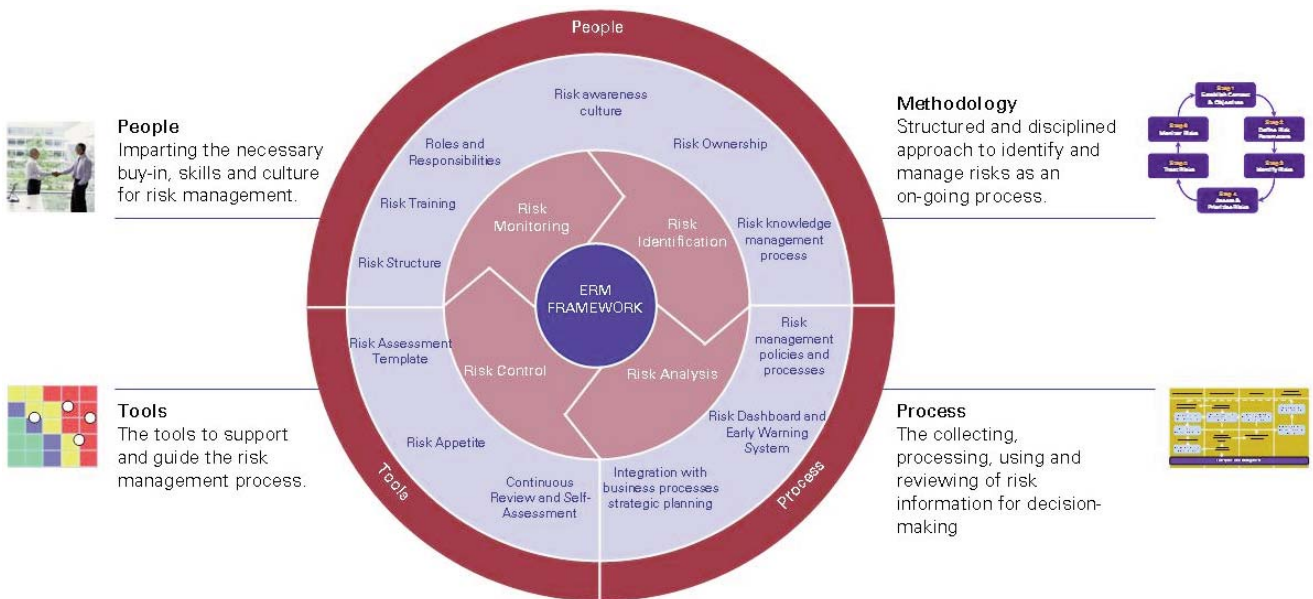
Diagram 1. The PEOPLE, PROCESS, SYSTEMS/TOOLS Internal Controls Framework



Adapted from KPMG LLP in Singapore: The Internal Controls Framework.

The framework describes the four lines of defenses of a strong internal control environment and identifies three underpinning critical success factors of PEOPLE, PROCESS AND SUSTEMS/TOOLS that are paramount to holding the internal control environment together.

Diagram 2. Elements of a good risk management framework



Adapted from KPMG LLP in Singapore's Enterprise Risk Management Framework, 2007

A good risk management framework should address three key aspects – People, Process and Tools in the four key activities of risk management – Risk Identification, Risk Analysis, Risk Control and Risk Monitoring. The elements of a good risk management framework are illustrated in the figure above.



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