



Corporate Governance

Code of Corporate Governance 2012, SGX Rule 1207(10)



Letter to the Board and Senior Management

At around the turn of the century, there was a spate of corporate scandals taking place in the US and Europe. Once highly regarded corporations, Enron, WorldCom, Tyco, Arthur Andersen (and the list goes on), became corporate scoundrels by misdeeds that their managements plotted unseen in boardrooms. Dot-com start-ups mushroomed in the 1990's, rogue traders (Nick Leeson) and money managers (Bernie Madoff) - one by one, they fell dishonoured by their dishonest practices. Countless innocent organisations, funds and individuals were injured. The Sarbanes Oxley Act was enacted in 2002 to arrest what seemed to be a run-away series of corporate misbehaviour. *Corporate governance* was thus born as the solution.

Corporate governance is simply proper management of business activities to protect the interests of stakeholders, in particular investors. It means recognizing the rights of stakeholders to protect their investments or interests by ensuring that business processes are conducted with due diligence and transparency, without fraud, and that any inherent risk that bears the potential to impair stakeholder interests is identified and adequately managed. It also means that in the event of any immitigable risk or situation of significant impact, the stakeholder is duly informed - i.e. disclosure. All these are obligations of the Board and senior management.

The Monetary Authority of Singapore ("MAS") issued **Code of Corporate Governance (2012)**, and the Singapore Stock Exchange ("SGX"), **SGX Rule 1207(10)**. These require financial institutions and public-listed companies in Singapore to comply with corporate governance requirements. The compliance focus is that organizations are to put in place an adequate system of **risk management** and **internal controls**, and to make timely disclosures on status of any material risks. Transparency and communications with stakeholders are key requirements. The onus of compliance rests on the Board and senior management.

There are numerous cases of poor governance around us, and the following are some:

1. *Snow Brand Milk Company, Japan in 2003 suffered a total cessation of its business because of a serious bacterial infection in its manufacturing process which caused 15,000 milk consumers to suffer food-poisoning. Senior management should have set internal controls to prevent and be alerted of infections in their plant.*
2. *BP Texas City Refinery in 2005 suffered a total devastation of its refinery due to lapses in maintaining its aging plant and equipment because senior management (London, UK) had reduced maintenance budgets for consecutive years as cost cutting exercise. There was no internal controls that placed safety as priority.*

What is **risk management** and **internal controls**?

Risk Management. Every business venture, operation or process has some elements of risk. Unless the risks that are present are identified and managed to eliminate or to mitigate/lessen their impact on the organisation, any such risk could spark off an incident and escalate to seriously prejudice shareholder's interests. This is **risk management**. Conducting this risk management on an enterprise-wide basis constitute an Enterprise Risk Management ("ERM") programme.

Internal Controls. Erroneous business decision-making or business activities can be prejudicial to shareholder's equity. This can occur innocently, carelessly or fraudulently. It is thus important put in place **control** devices to ensure that mistakes and misdeeds are not committed without management's knowledge. This means making business processes robust by instituting **best practices**, and placing **toll-gates** for review opportunity.

Management should invest implement risk management and internal controls, which in turn will improve operational efficiency leading to favourable returns. Expending nominal effort will be a waste of costly corporate resources, without returns. Furthermore, there will be palpable discomfort on the part of Directors and senior management who annually sign testament that there is good system of risk management and internal controls in place.

Jacob Business Armour ("J²BA") is a one-stop **total management resilience consultancy**. With 4 senior consultants totalling 128 years of corporate experiences in practically all business functions, JaBA provides consultancy services, software solutions, project implementation and training on Corporate Governance, Enterprise Risk Management, Business Continuity Management, Crisis Management, Crisis Communications, and other risk management services.

We provide tailored solutions that meets the needs of any organisation, with logical and doable actions to improve the risk environment to produce higher performance results. What's the key attraction is that, while we produce quality outcome, our charges are far lesser than the Big Four. Call us to discuss, and you will not be disappointed.



A complete two-prong approach to Corporate Governance

Jacob Risk Management & Internal Controls (J^aRMIC) Corporate Governance Management System

Internal Control: Assessing effectiveness of client's existing internal controls based on applicable regulations (MAS, SGX Listing Rules, etc) or industry best practices.

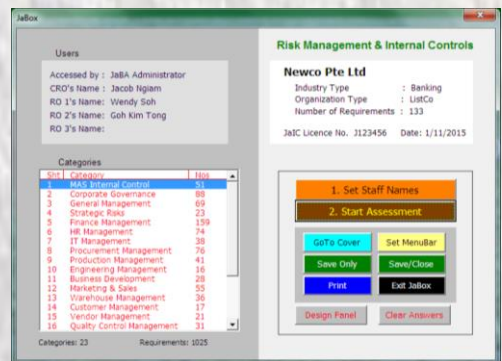
Risk Management: Implementing an Enterprise Risk Management system ensuring that all risks are managed according to ISO 31000 Standards.



The J^aRMIC software contains over one thousand of Internal Control points relevant to all organization and industry types. These are trimmed to suit client's needs.

As deficiencies are noted, the programme provides solutions to overcome them. Every Internal control point is rated from 'A+' to 'E' denoting its current and post-treatment risk levels.

Reports are printed out for treatment actions to be taken by assigned persons. Additionally, the system generates report stating the comprehensiveness and effectiveness of client's internal controls in place.



The picture (below) is a screen-shot of an internal control point, fully analyzed and treatment prescribed.

MAS Internal Control for: Newco Pte Ltd		Organisation Type: ListCo		Industry Type: Banking	
Function: MAS Internal Control		Requirement No: 1 / 50		Focus Area: Policies and Procedures	
Requirement:		Are there adequate monitoring systems to ensure that activities are properly authorised and that departures from the approved limit structure are promptly reported to the Board and senior management?			
Comment:		There should be a "Chart of Authority" or "Authority Manual" prepared for all major decisions. Departures from the approval limit structure should be promptly reported to the Board and senior management.			
Pre-Treatment		Is concern applicable? Major Effect		Comfort Level: Very unacceptable	
Risky Conditions:		Currently, there is no proper document listing authority levels exercisable by senior management person. We have practices that have continued for many years, and we simply follow what was previous practice.			
Risk Assessment:		Financial: 4/5 QA		People: 4/2 QC	
		Reputation: 4/3 QB		Governance: 4/2 QC	
Treatment		Risky Conditions:		Risk Trigger # 1:	
		Prepare and maintain a Manual of Authority, to be managed by the Company Secretary.		New persons may not be aware of past practices.	
		Risk Trigger # 1:		Risk Trigger # 2:	
		Ensure that all new management staff read and understand the Manual of Authority.		New situations may develop requiring new decision making by proper persons.	
		Risk Trigger # 2:		Risk Trigger # 3:	
		Review the Manual of Authority once annually taking into consideration changes in business situations. Audit Committee to be copied review.		Being unclear, there could be deliberate attempts to circumvent proper exercising of authority.	
		Risk Trigger # 3:			
		Monitor situation, and investigate how deviations and also mistakes take place so as to take actions to prevent future occurrence			
Post-Treatment		Function Rating:		Post Treatment Comfort: Very Comfortable	
		Requirement Rating: Pre Treatment Rating: B 3		Post Treatment Rating: A 1	