



MAICSA ANNUAL CONFERENCE

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Improving Financial Governance A Practical Approach



Governing Responsibly : Inevitable Changes!

The Board's Role In Corporate Governance

Content



Emphasis On Financial Governance



Suggested Framework on Financial Governance



Practical Points in Improving Financial Governance

Governing Responsibly : Inevitable Changes!

The Board's Role In Corporate Governance

Malaysian Code on Corporate Governance (Revised 2007)

Part 1. Principle Of Corporate Governance

D. ACCOUNTABILITY AND AUDIT

I. Financial Reporting

- The board should **present a balanced and understandable assessment** on the company's position and prospects.

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D. ACCOUNTABILITY AND AUDIT

II. Internal Control

- The board should **maintain a sound system of internal control** to safeguard shareholders' investment and the company's assets.

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D. ACCOUNTABILITY AND AUDIT

III. Relationship with Auditors

- The board should **establish formal and transparent arrangements** for maintaining an appropriate relationship with the company's auditors.

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Malaysian Code on Corporate Governance (Revised 2007) Part 2. Best Practices

AA – I. Principal Responsibilities of the Board

The board should explicitly assume the following **six specific responsibilities**, which facilitate the discharge of the board's stewardship responsibilities:

- ***Reviewing and adopting a strategic plan for the company;***
- ***Overseeing the conduct of the company's business to evaluate whether the business is being properly managed;***

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- ***Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;***
- Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management;

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- Developing and implementing an investor relations programme or shareholder communications policy for the company; and
- ***Reviewing the adequacy and the integrity of the company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.***

**What is good financial
governance ?**



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Company has an established framework that

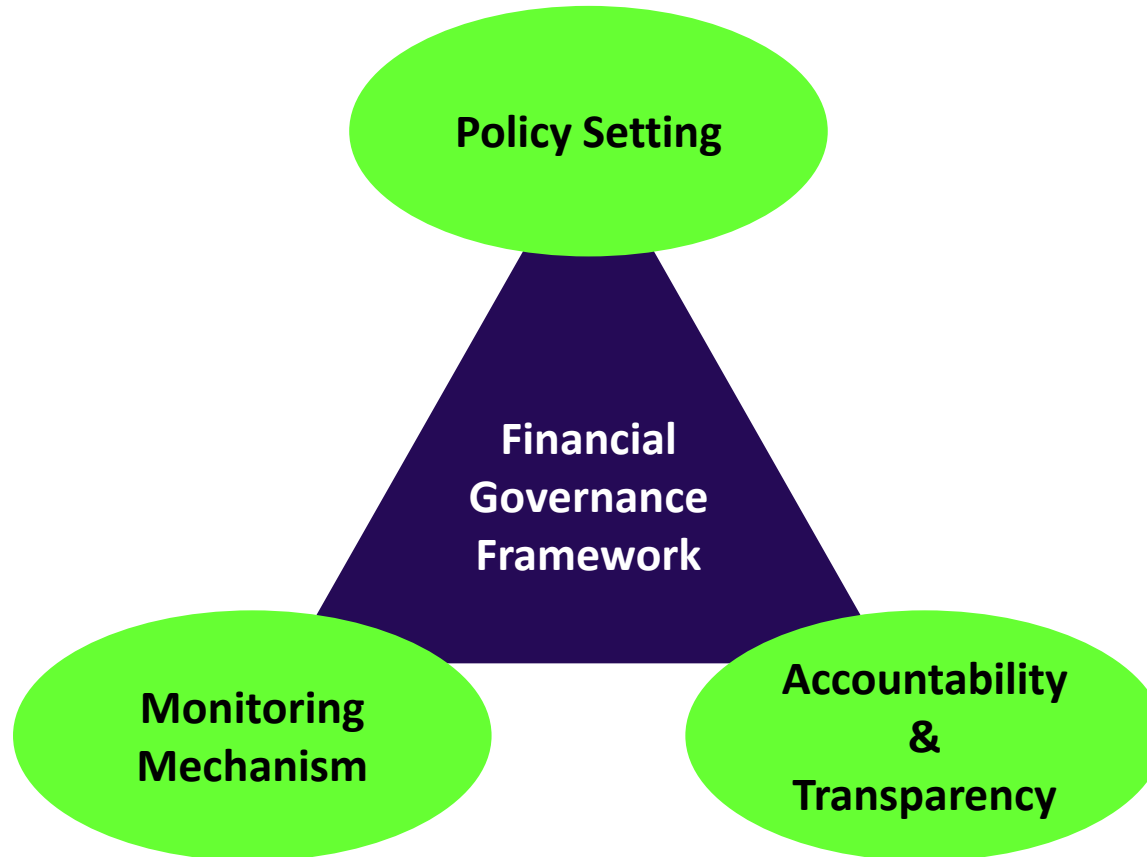
- **formulates *relevant financial and operational policies,***
- **provides a *robust reporting, monitoring and management system,***
- **enables the Board *perform its oversight responsibilities and fiduciary duties,***
- **contributes to the *management of the business, and to enhance stakeholders' values.***

A suggested framework for good financial governance



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The Board's Role In Corporate Governance



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The Board's Role In Corporate Governance

A. Policy Setting

1. Matters for Board Approval

- Companies Act
- Listing Requirements
- Articles of Association (Meetings/ Board resolutions)
- Changes in Share Capital
- Mergers and Acquisition
- Capital investments/Divestments
- etc...

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2. Formulation of Strategy and Strategic Roadmap

- Long term strategy

3. Risk Management policies

- Financial Risks (Credit, Hedging)
- Operational Risks
- Off Balance Sheet risks



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The Board's Role In Corporate Governance

4. Financial Reporting and Management

- Financial Reporting Standards
- Treasury Management
- Transfer Pricing
- Related Party Transactions

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5. Operational Management

- Quality Standards
- Purchasing
- Customer Service
- Asset Management
- Cash Management
- etc.

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6. Funding/Debts issue.

- Capital structure and Debt Equity Ratio
- Rights / Bonds Issue
- Share Purchase Scheme
- Employees Share Option Scheme



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7. Dividend Payment and Enhancement of shareholders' values.

- Dividend Payment
- Shareholders Communications

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8. Whistling Blowing Policy

- Code
- Assurance
- Process
- Safeguard

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**Are Board members clear with all
these policies matters ?**

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The Board's Role In Corporate Governance

B. Monitoring Mechanism

BEST PRACTICES – AA - Board of Directors

Relationship of The Board to Management

XVII Quality of Information

“The board should receive **information** that is:

- **not just historical or bottom line** and **financial oriented**, but
- information that **goes beyond assessing the quantitative performance** of the enterprise, and
- looks at **other performance factors**, such as **customer satisfaction, product and service quality, market share, market reaction, environmental performance** and so on,

... when dealing with any item on the agenda.”

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The Board's Role In Corporate Governance

B. Monitoring Mechanism

BEST PRACTICES – BB – Accountability and Audit

The Audit Committee

II. (iii) To review the quarterly and year-end financial statements of the board, focusing particularly on–

- any change in accounting policies and practices;
- significant adjustments arising from the audit;
- the going concern assumption; and
- compliance with accounting standards and other legal requirements.

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B. Monitoring Mechanism

- 1. Robust information system to generate relevant and timely reports.**
- 2. Relevant financial and operational reports to monitor achievement of KPIs.**
- 3. Financial Analysis and use of Data Analytics.**
- 4. Market Environment, Industry and Trends Reports.**
- 5. Internal and External Audit Reports.**

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C. Accountability & Transparency

1. **Business Results or KPI versus Reward System**
2. **Maximize Stakeholder Value**
3. **Corporate Social Responsibility/ Sustainability**
4. **Employee Welfare**



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The Board's Role In Corporate Governance

POLICY SETTING

- Matters for Board Approval
- Strategy
- Risk management
- Financial Reporting
- Operations Management
- Funding/debt issue
- Dividend/shareholders value
- Whistling Blowing policy

MONITORING MECHANISM

- Robust Reporting System
- Relevant Financial & Operational Reports
- Financial Analysis & Data Analytic
- Market Environment, Industry/Trend Reports
- Internal/External Audit Reports

ACCOUNTABILITY & TRANSPARANCY

- Business Results & Reward System
- Maximising Shareholders' Values
- Corporate Social Responsibility and Sustainability
- Employee Welfare

Practical Points in Improving Financial Governance



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Board members come with different backgrounds and experiences, “at least one of the members must have **financial qualification or background** in the Audit Committee”.

(Listing Requirement Part C – Audit Committee 15.09)

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- “All members of the audit committee should be financially literate and at least one should be a member of an accounting association or body.”

(MCCG – BB. Accountability and Audit, The Audit Committee)

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Which are the areas the Board needs to be watchful?

What are the questions the Board needs to ask?



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General areas (Financial Perspective):

1. **Historical trends** – up, down or flat.
2. **Future trends** – up, down or flat.
3. **Ratio analysis** and relationship between P&L and balance sheet items.
4. **Variances analysis** – comparing across periods
5. **Off Balance sheet items** – financial, legal or contractual.
6. **Significant events** or contracts.

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Balance Sheet Items:

1. Fixed Assets
2. Inventory
3. Trade Receivables
4. Inter-Company Balances
5. Cash & Bank Balances
6. Trade Creditors
7. Tax Provisions
8. Share Capital & Reserves
9. Long Term Loans

P&L Items:

1. Revenue
2. Cost of Sales
3. Gross Profit
4. Expenses
5. Unusual Items
6. Taxes

General/Operations

1. Off Balance Sheet Items
2. Environment/Safety
3. Quality Management
4. Risk Management

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Additional Considerations :

1. When and how does the Board follow up on outstanding issues ?
2. What policy matters do the Board need to review?
3. Is there a need to consider changes to key appointments?
4. Are there additional investments the Board needs to consider in order to strengthen the financial governance infrastructure?

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Basis of Questions:

1. Are there developments/issues we should be aware of?
2. How and what can we contribute to the growth strategy/resolving the challenges?
3. How do these developments (positive or negative) affect the company's performance and long term strategy?

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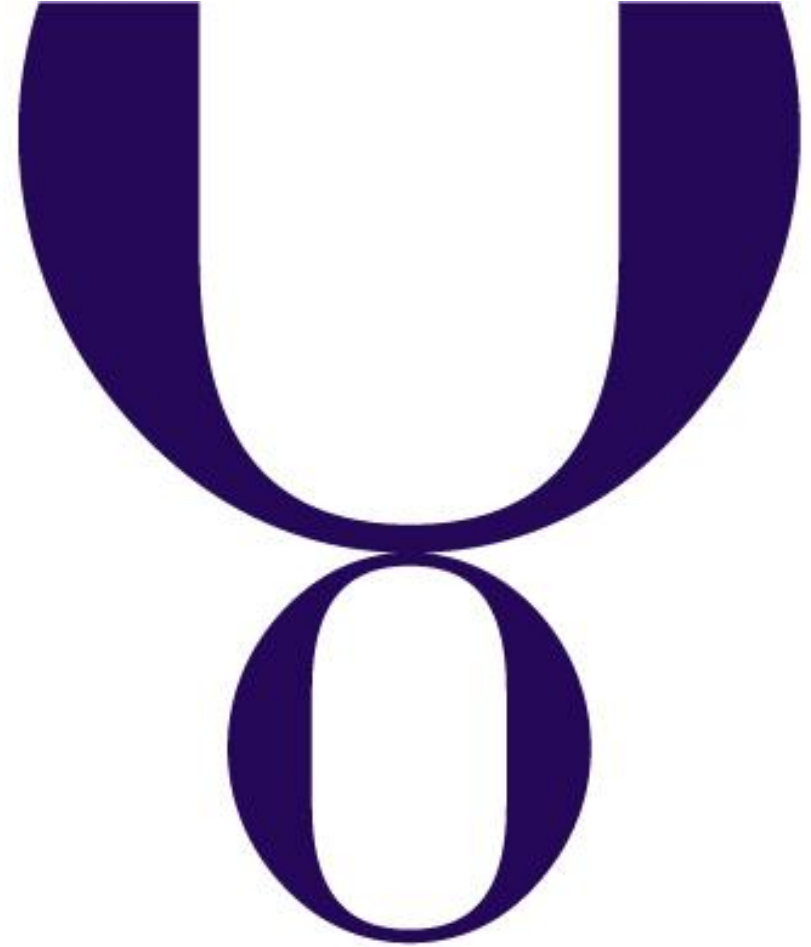
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In Summary:

1. Ask open ended questions
2. Look beyond the numbers
3. Get elaborations on the obvious
4. Ensure follow up



Thank You



BoardRoom
Smart Business Solutions