

## News release

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### **Boardroom must ask tougher questions to maintain companies' financial reputation, says Ernst & Young**

*SINGAPORE, 5 OCTOBER 2009* – Boards and audit committees should be asking tougher questions of management to fully understand the controls they have in place and the changes they propose to make to risk functions and their attitude towards fraud, says Ernst & Young in a new report published today.

*Meeting today's financial challenges* explains that many businesses were potentially hit harder than they should have been by the global downturn because they did not effectively plan for the impact of external risks. In many cases, this oversight has impacted the financial reputation of companies, and directly led to investors and other key stakeholders requesting more detailed information and transparency ahead of investment decisions.

Christian Mouillon, Global Assurance Vice-Chair at Ernst & Young, says: "Our research shows that many organizations need to improve their oversight of risk management. The scope for boards and audit committees to improve is increasing and it's essential for impacting the company's overall performance. A major shift in perception is needed to elevate the attitude towards the risk function away from just another compliance exercise."

Ernst & Young's research found that 76% of 153 audit committee members from around the world found their role had become more challenging since last 18 months. Only 13% rated their risk function as very effective. Four in 10 companies polled separately for the research expected to increase their risk management resource. Of these, 85% were planning to improve the alignment with business strategy and objectives; and 84% were planning to improve the risk assessment process.

Mouillon comments: “Our research highlights the need for companies to take a much broader view of their risk management function. For many, the global economic downturn was the first real event to test their external risk management assumptions and procedures. The depth and speed of the global economic downturn, coupled with extreme market uncertainty, caught many organizations unaware. They simply hadn’t effectively scenario planned for the impact of external risks or the effect it would have on their financial positioning. It is clear that the C-suite and the audit committee should be robust in questioning decisions.”

### **Better financial information – the legacy of the crisis?**

Liquidity issues remain a central concern for businesses as banks continue to impose tighter lending policies, customers struggle to pay bills on time and investors become even shrewder about potential investment choices.

At the same time, investors and other stakeholders are demanding clearer information from businesses on financial asset management and decision making, particularly on corporate governance, risk management and market assessments.

Mouillon comments: “Managements are under increasing pressure to provide stakeholders with clear and useful information to aid decision-making. This demand is having a huge impact on companies across the world as stakeholders seek greater tools for comparability.

“Potentially, the global downturn could result in improved company reporting – and this could extend beyond financial information and traditional financial statements. For this to be achieved, management and audit committees must work together,” he adds.

Mouillon concludes: “The last year has shown that financial challenges are far more likely to result from external events. As the audit committee works with management, they are in a good place to ensure that businesses rise to minimize these risks and plan accordingly.”

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#### ***Notes to Editors***

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