2011 Survey on risk management practices in Malaysia

Ernst & Young
Quality In Everything We Do

The Institute of Internal Auditors Malaysia

Contents

Foreword

Ernst & Young, Malaysia ("Ernst & Young") and The Institute of Internal Auditors Malaysia ("IIA Malaysia") are pleased to present to you the 2011 survey findings on risk management practices in Malaysia.

In the current challenging economic climate, the relevance of risk management within an organisation is more important than ever. Sound risk management practices need to be in place to provide reasonable assurance that an organisation's ability to achieve its strategic business objectives are not hindered by unanticipated adverse events or opportunity losses, both internal and external.

This survey is also timely given the increasing expectations being placed on the importance of risk management by regulators in Malaysia. This is evidenced by the changes proposed in the Revised Statement on Internal Control Guidance for Directors of Public Listed Companies ("SIC Guidance") which is expected to be issued in mid-2012.

Ernst & Young research indicates that companies with more mature risk management practices outperform their peers financially. Thus, risk management should be viewed as an enabler to assist organisations to not only "keep out of trouble" but also to "make the business better".

Key messages that have emerged from this 2011 survey include:

- Increasing importance is being placed on the identification, understanding and management of risks, particularly as they aid in business decision-making. This is in line with the fact that with better management of risks, business performance will improve and shareholder value enhanced.

- Many organisations surveyed believe they have a formal and relatively mature governance, risk and compliance (GRC) framework in place. However, in the majority of cases, there needs to be enhancement in the interconnectivity between risk management, business strategies and key performance indicators.

- There appears to be a need for the multiple risk functions within organisations to better align and coordinate their activities to ensure the best possible risk coverage.

- Building and embedding a risk-aware culture are paramount in aiding organisations to manage their risks – and the results of the survey indicate that there is more to be done in this area. Risk-related communications must be top-of-mind and practised in the day-to-day running of businesses. This is to ensure that relevant personnel are equipped with the right information to identify, prevent, manage and mitigate risks.

We wish to express our appreciation to the participants for their time and invaluable contribution to the survey. We also look forward to more joint studies between Ernst & Young and IIA Malaysia in the years to come.

Ernst & Young
Quality In Everything We Do

The Institute of
Internal Auditors
Malaysia

About the survey

Introduction

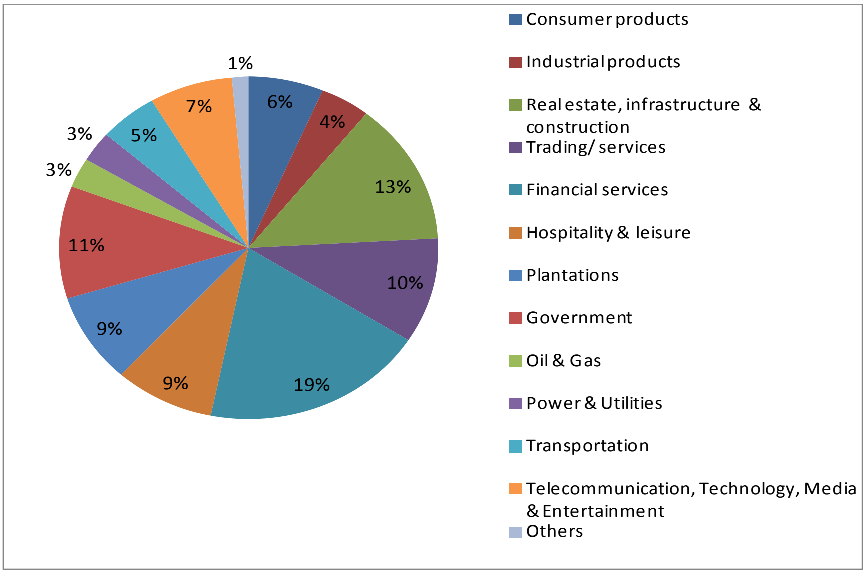
Ernst & Young and IIA Malaysia are pleased to present the results of the first survey on risk management practices in Malaysia. We would like to thank the many participants who took the time to share their views.

In Malaysia, many companies have taken a somewhat silo-based approach to risk management, creating multiple redundancies and inconsistencies in how risks are identified, assessed and managed. An effective Governance, Risk and Compliance (GRC) programme focuses on the alignment and convergence of risk management functions and related activities in order to balance risk coverage with overall cost, and achieve value across the organisation.

With this in mind, we embarked on a survey to further our understanding on the state of risk management practices in Malaysia as well as the role of internal audit and the other risk functions in this sphere. In analysing the results of this survey, we have also made comparisons with other global surveys including the 2010 Ernst & Young Global GRC Survey and Ernst & Young's 2011 Global Business Risk Report.

This survey is timely given the increasing expectations being placed on risk management by regulators as evidenced by the proposed issuance of the SIC Guidance. The proposed SIC Guidance clearly advocates the importance of maintaining effective risk management and internal control systems. The elements of a sound risk management system which are being proposed by the SIC Guidance are broadly assessed in this survey.

Who responded?



Responses were received from 141 individuals from different professional backgrounds and representing diverse industries as illustrated in the pie chart.

A majority of the respondents hold professional qualifications, mainly accountancy related or the Certified Internal Auditor (CIA) qualifications.

Ernst & Young GRC maturity model

To help structure the survey and its results, the Ernst & Young GRC maturity model was used. The survey results are aligned with this framework which provides focused insight on the key elements of Governance, Risk and Compliance (GRC) and also briefly explains the levels of maturity for each of the elements.

Survey Components	Elements	Basic	Evolving	Established	Advanced	Leading
Risk governance	Governance	Risk functions operate autonomously				One strategy, set at the corporate level, that coordinates risk efforts and enables value creation
Risk management practices	Alignment to business objectives	Risk function objectives are stand-alone and may not be aligned to business objectives				Risk functions directly support and enable value creation and cost reduction
	Risk framework and approach	Focused primarily on financial and compliance risks – multiple methods to address risks				Comprehensive view of risk including common method for ongoing identification, assessment monitoring and measurement of risk
	Process improvement	Scope of risk function does not include improvement activities				Risk function proactively offers improvement ideas and is an integral part of improvement efforts
	Assessment and monitoring	Ad-hoc risk assessment and monitoring				Risk assessment, monitoring and measurement embedded into management processes
Integrated GRC capabilities	Technology enablement	Risk functions use basic technology with limited efficiency and leverage				Risk functions are fully leveraging the efficiencies offered by leading tools and technologies
	Metrics and measurement	Traditional performance metrics				Efforts are measured on a risk adjusted ROI basis incorporating elements of value, cost and risk
Business level engagement	Embedded and sustainable	Inconsistent risk measures and incentives				Risk management is effectively integrated into business planning and performance management

Overall key summary findings based on respondents' views

- **Maturity of GRC frameworks –** organisations believe they have formal and relatively mature GRC frameworks in place – a sign that the efforts taken by the regulators to enhance the GRC standards in Malaysia since the early 2000s may have paid off. Nonetheless, the survey reveals that there is still room for improvement, particularly in aligning risk management with business strategy, having a comprehensive view of risk, coordination of risk efforts, as well as embedding risk management into the organisation.

- **Value proposition for sound risk management** – respondents believe that the most significant benefit derived from risk and control activities is that they enable better identification and understanding of key risks which then improve decision-making. The end result is that business performance improves, while existing business value is protected.

- **The role of internal audit** – it is clear that internal audit functions continue to play a significant role in organisations' risk management activities. Although still predominantly seen as a provider of assurance on risk management, there are increasing expectations for internal audit to play an advisory role given their skills and experience in this area.

- **Staying vigilant** – organisations need to enhance or institute mechanisms to scan business and operating environments for looming risks that could have potentially disastrous consequences. Although most organisations have early warning indicators and business continuity management processes in place, there appears to be a need to ensure that these indicators and mechanisms are tested to ensure that they remain relevant, effective and responsive.

- **Align risk functions** – organisations believe that they have multiple risk functions overseeing particular segments of risk. There appears to be a need for the various risk functions within an organisation to better align and coordinate their activities to ensure the best possible risk coverage i.e. avoid duplications and "black holes".

- **Enhance risk communication** – there needs to be improvement in the level of communication of risk-related activities across organisations so that all relevant personnel are equipped with the right information to identify, prevent, manage and mitigate risks.

- **Building a risk-aware culture** – this is seen as paramount in aiding organisations to manage risks. The proposed SIC Guidance clearly states that risk management frameworks must be embedded into the culture, processes and structures of organisations. In tandem, relevant risk related training should be provided to Boards, senior management as well as other personnel to increase vigilance and to equip them with the necessary skills to manage risks.

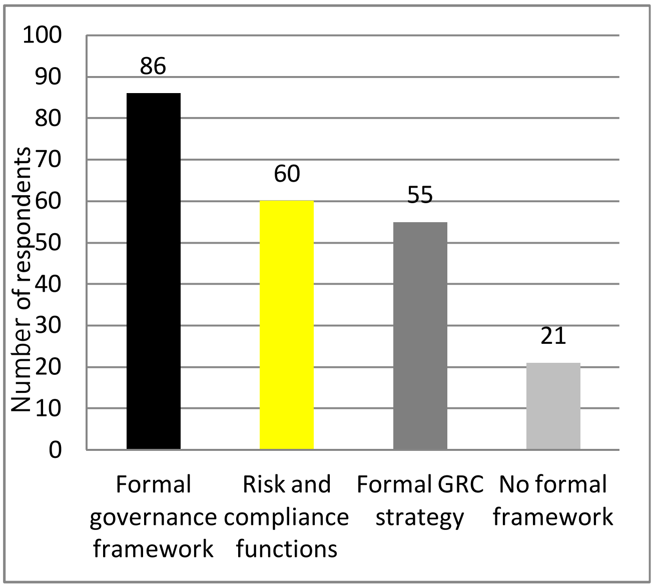
- **Top 5 risks** - top five risk areas identified are listed below:
    - Market dynamics risks arising from the changing business environment
    - People risks
    - Liquidity and credit risks
    - Value chain risks
    - Business planning and resource allocation risks

  Organisations should have a balance of controls in place to manage internal risks that are generally controllable and external risk factors that are largely inherent, which could ultimately impede the achievement of business objectives.

Risk governance

Governance is a fundamental part of any organisation's effective performance. It determines the extent to which the overall strategies and objectives of the organisation are aligned from risk management and internal control perspectives. Risk governance is aimed at enhancing board and management level oversight of risk and risk management functions.

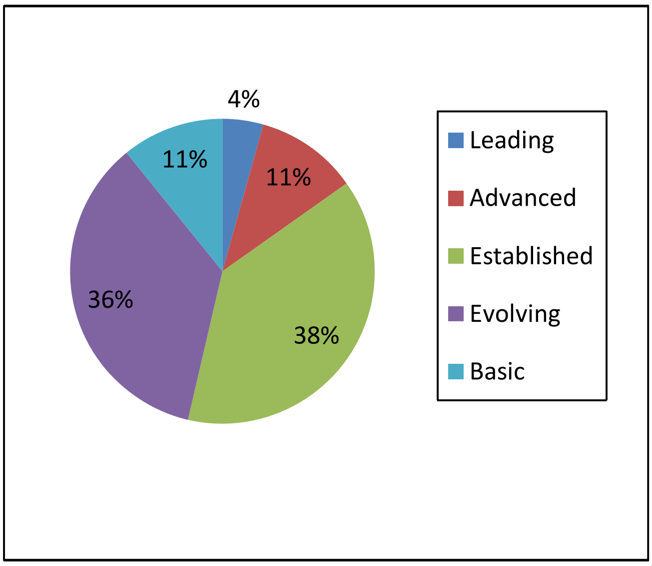
Does your organisation have a risk management governance structure in place?



As expected, majority of the respondents indicated that their organisations had a formal governance framework in place, including policies and procedures and delegated authority limits. However, less than half of the respondents were of the view that their organisations had a formal focus on GRC. 21 respondents or 15% of the respondent base indicated that their organisations did not have any form of a formal framework. They relied on informal processes based on long-term experience and shared responsibilities of senior management.

NB: Participants were asked to select all applicable answers i.e. the responses were not mutually exclusive.

What is the level of maturity of the governance, risk and compliance framework in the organisation?



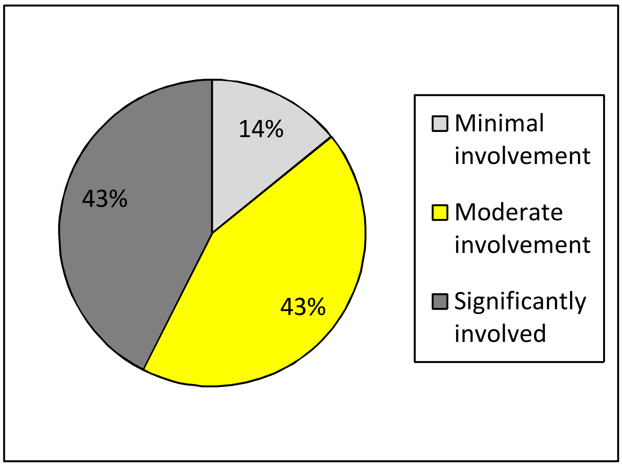
Respondents were asked to rate the level of GRC maturity in line with Ernst & Young's GRC maturity model. Of the organisations that had formal frameworks in place from the responses above, 53% of the respondents were of the view that their organisations had GRC frameworks that had established to leading maturity levels. Nonetheless it is noted that a significant portion (47%) of the respondents still have work to do to take their framework to the next level; with a majority of these stating that this would happen in the next two years.

Ernst & Young's view:

It appears that many organisations in Malaysia still have some way to go in enhancing the maturity levels of their GRC framework to the advanced and leading stages. Our view is that the areas which require the most attention would be risk governance i.e. having one strategy, set at the corporate level, that coordinates risk efforts and enables value creation as well as embeds risk management into the business planning initiatives of the organisation.

The above findings are in line with a global survey undertaken in 2010 by Ernst & Young on the expectations and state of governance, risk and compliance functions, hereafter referred to as the "Ernst & Young Global GRC Survey". In this survey, over two-thirds of all respondents indicated that more work was needed to enhance their GRC functions, with 67% indicating that there was a strong need to address this. Many developed GRC functions were found to be inadequate when navigating the recent global financial crisis despite spending extensive amounts of money on these functions.

How involved is the Board in risk management activities of the company?



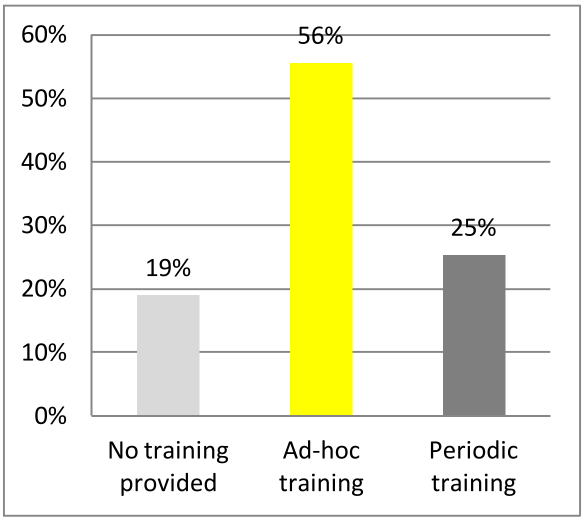
The majority (86%) of the respondents were of the view that their Boards were active in risk management activities within their respective organisations. Such involvement included being recipients of regular risk reports, having risk management as an agenda item in Board meetings, and general pro-activeness in requesting risk-related information.

Ernst & Young's view:

This is a positive result as it appears that Boards are serious about their principal responsibility of ensuring that there is a system in place to manage principal risks in their organisations (as promulgated by the Malaysian Code on Corporate Governance (Revised 2007)). This active involvement may also be driven by the recent financial crisis and various corporate failures, whereby the role of the Board in weathering storms has come under greater scrutiny.

Effective risk management starts at the top with clarity around risk strategy and governance. It is critical that proper oversight and accountability exist at the board and executive levels.

How often is risk training provided to the Board members and senior management?



The survey reveals that only 25% of the respondents felt that their Board members and senior management received structured training periodically while the majority or 56% were trained on an ad-hoc basis. On the downside, 19% of the respondents' Boards and senior management did not receive any risk- related training at all. Though the earlier analysis (see previous page) indicates that a majority of Boards were actively involved in risk management activities, the fact that training for the most part was ad-hoc or not carried out at all suggests that the capability to address risk management challenges may be hampered.

Ernst & Young's view:

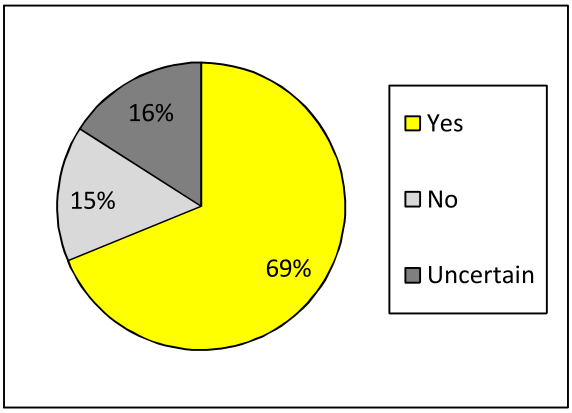
Immediate attention should be paid to address this concern as Boards and senior management should be well-equipped with the relevant knowledge and skills to ensure that efficient and effective risk management is practised in their respective organisations. Examples of training events include the following:

- Risk refresher training on the risk management framework adopted by the organisation
- Updates on current events (e.g. Eurozone crisis) which may have an impact on how the organisation manages risks
- Updates on global risk trends including sharing of sector-specific risks

Risk management practices

This component is aimed at obtaining a view on the extent in which organisations have been aligning risk management practices including risk assessment, monitoring and reporting functions to create sustainable risk management practices across the organisation.

Is there a formal process in place to perform an assessment of enterprise-wide risk?

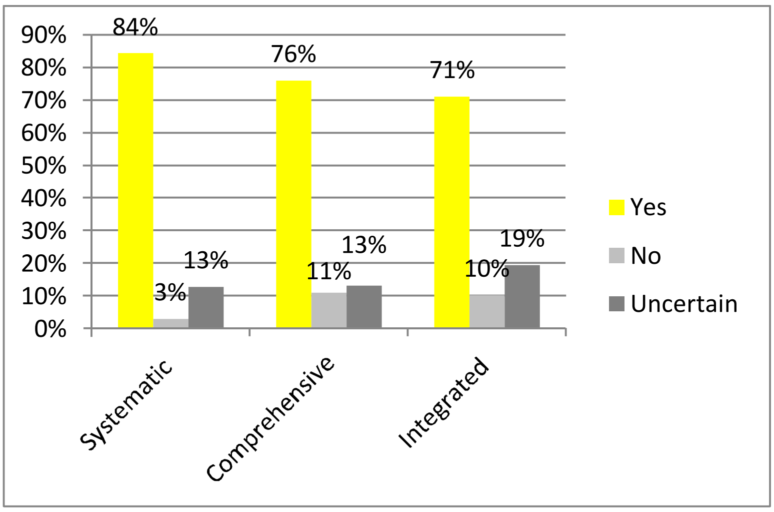


The majority of the respondents were of the view that there was a formal process in place to perform risk assessments. However, there is still room for improvement as the remaining 31% of respondents indicated that there was either no process in place or they were uncertain about whether it exists.

Ernst & Young's view:

There may be a need to increase communication within the organisation on risk-related activities to increase awareness on the mechanisms in place to assess, respond to and mitigate risks. Examples of communication methods include setting up a risk management intranet information portal, structured risk awareness sessions, and having risk management discussed at employee induction sessions.

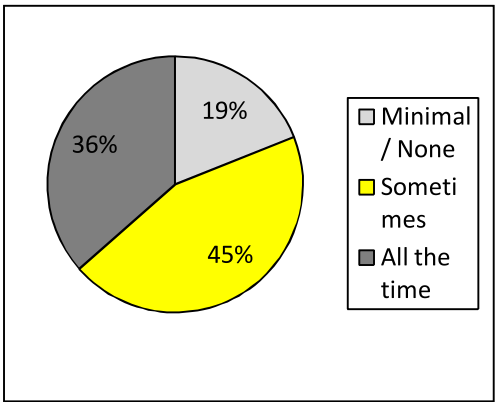
If there is a formal process in place to perform an assessment of enterprise-wide risk, what type of characteristics does it have?



The majority of respondents indicated that the process in place to perform an assessment of enterprise-wide risk is systematic, comprehensive and integrated. This is positive as it reflects that organisations having such a formal process in place are at a leading maturity level.

NB: Participants were asked to select all applicable answers i.e. the responses were not mutually exclusive.

How well is the linking of business strategies, stakeholder expectations and key performance indicators ("KPI") to the risk assessment process being carried out in the organisation?

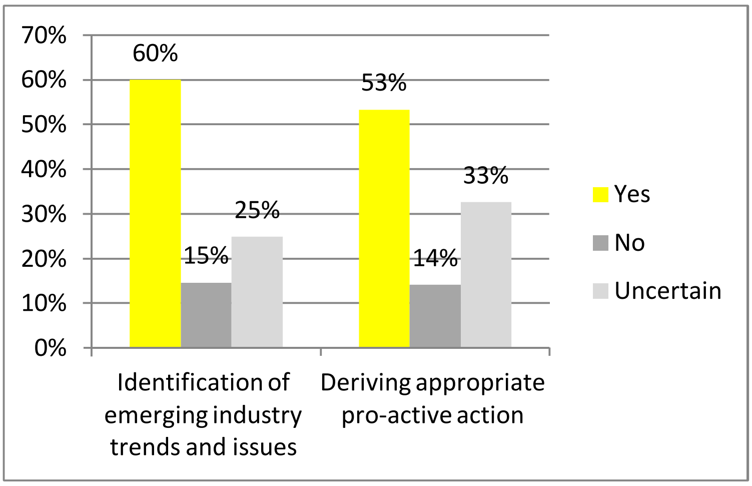


64% of respondents felt that there were no or inconsistent actions taken to link business strategies, stakeholder expectations and KPI to the risk assessment process. This could expose organisations as they may be assessing and managing key risks which are not crucial for business survival and growth.Though the earlier analyses shows that that the level of maturity in risk assessment processes is advanced (see earlier page), this response sheds some light on the fact that there could be inconsistencies or even lack of awareness of the standards that should be applied in such assessments.

Ernst & Young's view:

The above results indicate that there is significant room for improvement, particularly in the area of linking an organisation's enterprise-wide risk assessment process to its core business processes (i.e. business/strategic planning, contracting, mergers and acquisitions). Our research shows that in top-performing companies, planning and risk reporting cycles are coordinated so that current information about risk issues is incorporated into business planning.

Does the organisation have an established approach to scan business and operating environment?



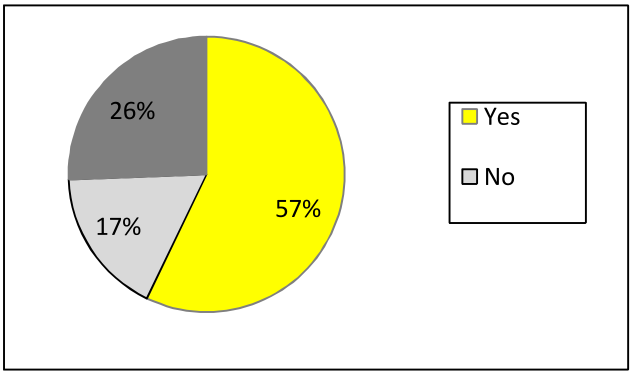
60% of the respondents were of the view that their respective organisations had a process in place to identify emerging trends and issues which may impact their existing governance, risk and compliance activities. A lesser number (53%) felt that there were processes to proactively respond to changes in the business and operating environments.

Ernst & Young's view:

There is room for improvement in ensuring that organisations are able to weather any storms brewing in their operating environments to avoid potentially disastrous effects as has been evidenced by the fall of many corporate giants in the recent financial crisis. For example, for companies affected by the Eurozone crisis, key questions to consider are as follows:

- Have risk management functions been assigned responsibility for monitoring Eurozone risks and evaluating the effectiveness of controls?
- Have key performance indicators regarding business activities in Europe been defined and monitored?

Does the organisation have early warning indicators in place to alert management of potential risk events (e.g. system failure, project delays, fraud, new product from competitors)?



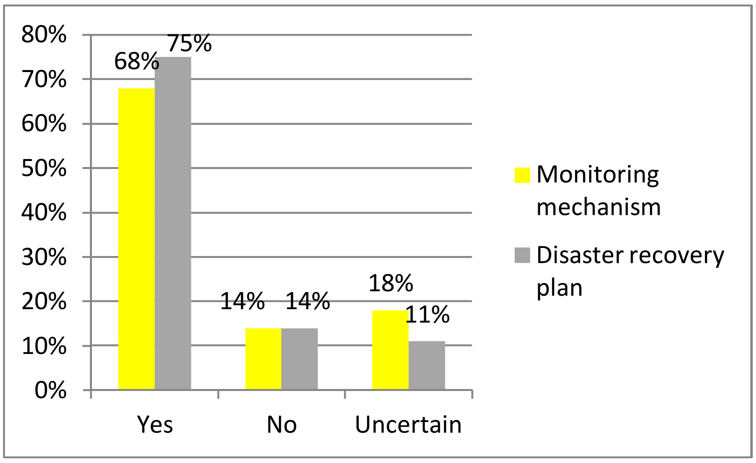
It is heartening to note that 57% of the respondents indicated that their organisations had early warning indicators in place to avert and address potential risk events. However, it remains that 43% of respondents felt that their organisations either did not have such indicators or were uncertain. This needs to be looked into as the resultant impact could be risk exposures not being addressed appropriately or not at all.

Ernst & Young's view:

The use of key risk indicators (KRI) is a typical early warning indicator adopted by some organisations. KRIs are metrics used to monitor the level of risk in order to identify vulnerabilities before events occur. KRIs are real-time, forward-looking indicators that highlight red flags when a potential risk has a higher possibility of occurring.

It is paramount that these early warning indicators are institutionalised and communicated to all parties in the organisation so that personnel are aware of the levels of vigilance and responsiveness expected of them.

What types of business continuity management processes are in place?



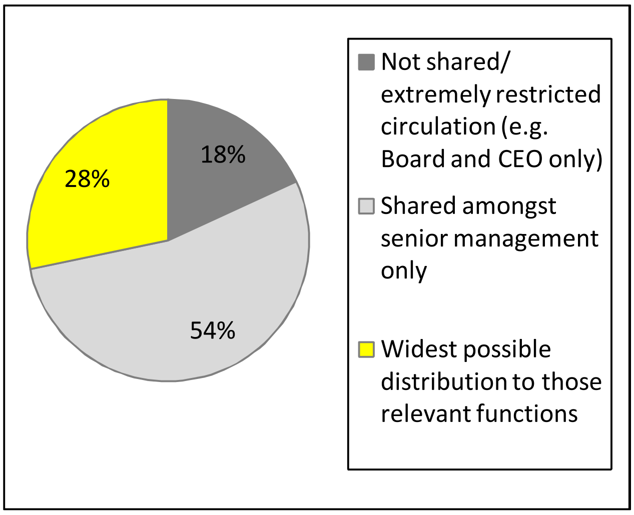
The majority of organisations have both monitoring mechanisms to anticipate and identify catastrophic events as well as formal disaster recovery plans (DRP) and/or business continuity plans (BCP) in place. Additional responses indicate that only 51% were of the view that the DRP and/or BCP were tested annually, with 24% responding that they had never been tested.

Ernst & Young's view:

Further emphasis should be placed in ensuring that not only is a DRP and/or BCP formulated but that they are also frequently tested to ensure that they remain relevant, especially in the event of changes in the operating environment, and are effective and responsive. Multiple test options are available including the following:

- Desktop walkthrough exercise – confirm feasibility of recovery procedures
- Incident simulation exercise to:
  - Familiarise participants involved in the exercise with the recovery procedures;
  - Test the readiness of alternate recovery facilities; and
  - Assess the feasibility in recovering operations within the stipulated recovery time

Are the results of risk assessment activities shared across the organisation for appropriate actions to be taken?



It appears that only 28% of organisations attained leading practice by having the widest possible distribution of risk related information within their respective organisations. This level of transparency should be emulated by other organisations. Therefore, it is of concern that a majority of respondents were of the view that risk assessment results were not shared with the board of directors, despite the fact that risk management is a principal responsibility of the board.

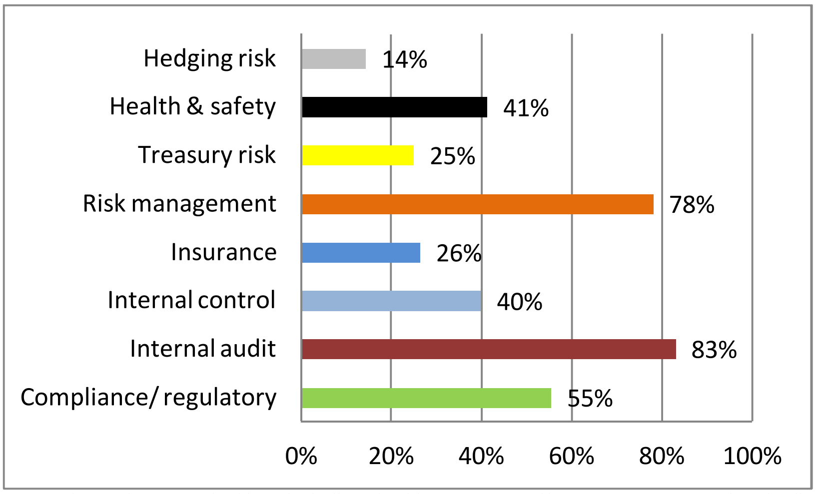
Ernst & Young's view:

In order for risk management to be effective, risk-related activities should be embedded across the organisation and remain a key agenda of the board in fulfilling its principal responsibilities. Potential risk events can only be identified and addressed if all personnel are aware of the causes and consequences of such events, and appropriate measures to mitigate these risks are put in place.

Integrated GRC capabilities

This component covers the extent to which organisations have been successful in integrating and coordinating multiple risk, control and compliance functions to minimise risk exposures and enhance the overall efficiency and effectiveness of risk management processes.

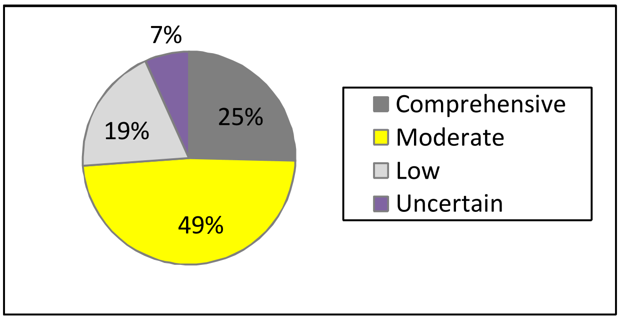
Types of risk functions existing within organisations



As expected, most organisations have multiple risk functions with internal audit and risk management functions leading the pack. 55% of the respondents indicated that their organisations had dedicated compliance/regulatory functions to manage these specific risks. This is then followed by health and safety and internal control functions.

NB: Participants were asked to select all applicable answers i.e. the responses were not mutually exclusive.

To what extent are the mandate and scope of the multiple risk functions aligned to avoid overlaps/duplications?



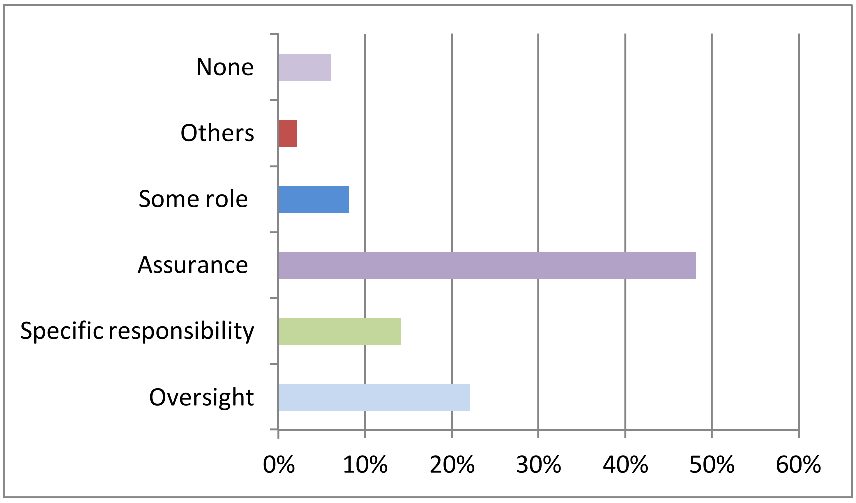
Three quarters of the respondents indicated that the mandate and scope of the multiple risk functions were not comprehensive, which means that duplications or overlaps could exist and render inefficiencies or even gaps in the overall risk management process.

Ernst & Young's view:
The results of the 2010 Ernst & Young Global GRC Survey indicated that 73% of survey respondents had seven or more risk functions. However, the global survey results below indicate that these functions have divergent agendas as they are focused on different parts of the business:

- 67% had overlapping coverage in two or more risk functions
- 50% reported gaps in coverage between risk functions

More focus needs to be placed by organisations on increasing the alignment of their multiple risk functions to remove duplications and redundancies and, more importantly, to ensure that there are no gaps or "blind spots" in the organisations' risk and control activities. These can take various forms including integrated GRC planning (e.g. heads of various risk functions meeting on a bi-weekly basis to align ongoing activities), cross functional initiatives (e.g. development of a compliance self-assessment tool), greater information sharing and mapping of material risks against the coverage of the various functions.

How actively is the internal audit function involved in risk management?

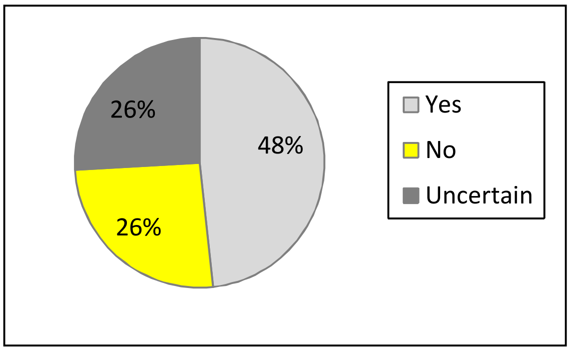


48% of the respondents indicated that the internal audit function provided independent assurance over risk management practices. Another 22% indicated that the internal audit function developed and assisted in overseeing the implementation of the risk management framework.

Ernst & Young's view:

The results show that internal audit continues to play a significant role in organisations' risk management activities be it in providing assurance or acting in an advisory support role. This seems to be aligned with The Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) which recognises that internal audit plans should have alignment with risks to ensure achievement of the organisation's strategic objectives and that internal auditors should be well-placed to act in an advisory role in this respect.

Is adequate risk management training provided to management and other personnel to ensure that adequate capability exists within the business?



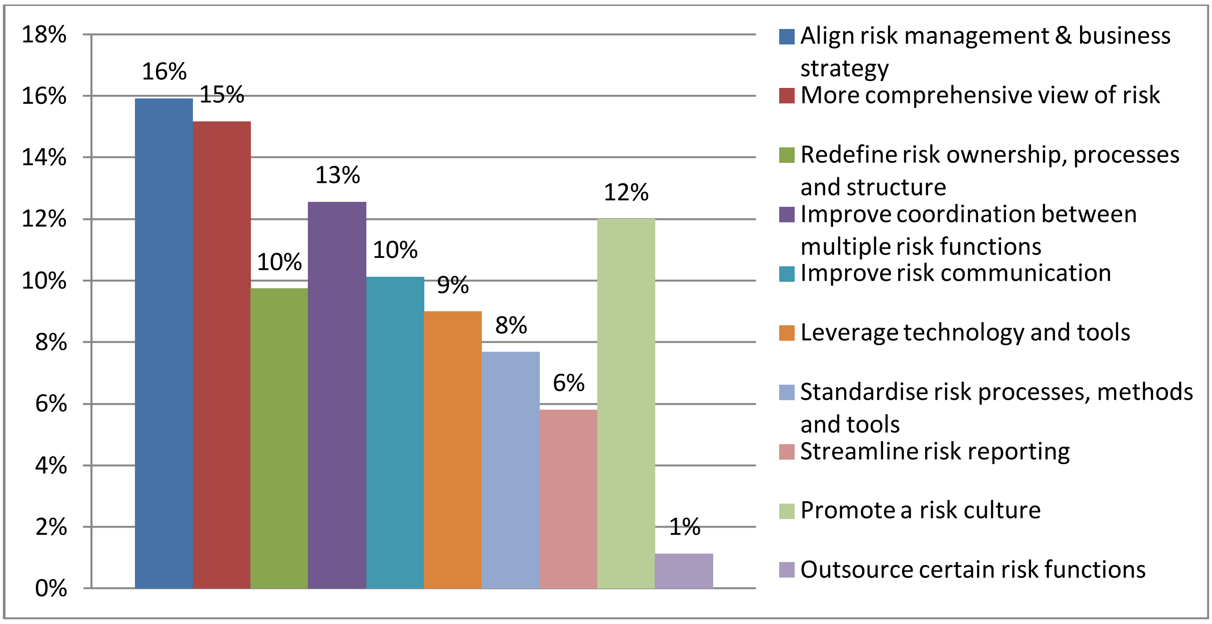
Only 48% of the respondents indicated that adequate risk management training was provided to management and other personnel. The remaining 52% indicated that their organisations either did not have a formal training programme or were uncertain as to whether such programmes existed. This suggests that either these programmes were not conducted or did not cover a wide audience.

Ernst & Young's view:

It is critical that all personnel are given the right type of risk-related training to equip them with the necessary skills to manage risks when undertaking their day-to-day work responsibilities. Examples include:

- Risk refresher training on the risk management framework adopted by the organisation
- Updates on specific industry/operational risks which are relevant to the organisation
- Targeted risk training for specific employee groups e.g. project risk assessment, managing cyber security threats, financial risk management

What areas of improvement does the organisation need to focus on to strengthen its risk management capabilities?



The respondents were of the view that their risk management functions needed to be strengthened in mainly four areas:

- Alignment of risk activities with overall business strategy
- Providing a more comprehensive view of risk
- Improving coordination between multiple risk functions
- Promoting a risk culture in their organisations

In terms of timeframe, a majority felt that their organisations would commit resources in the next 12 to 24 months to strengthen their respective risk management capabilities.

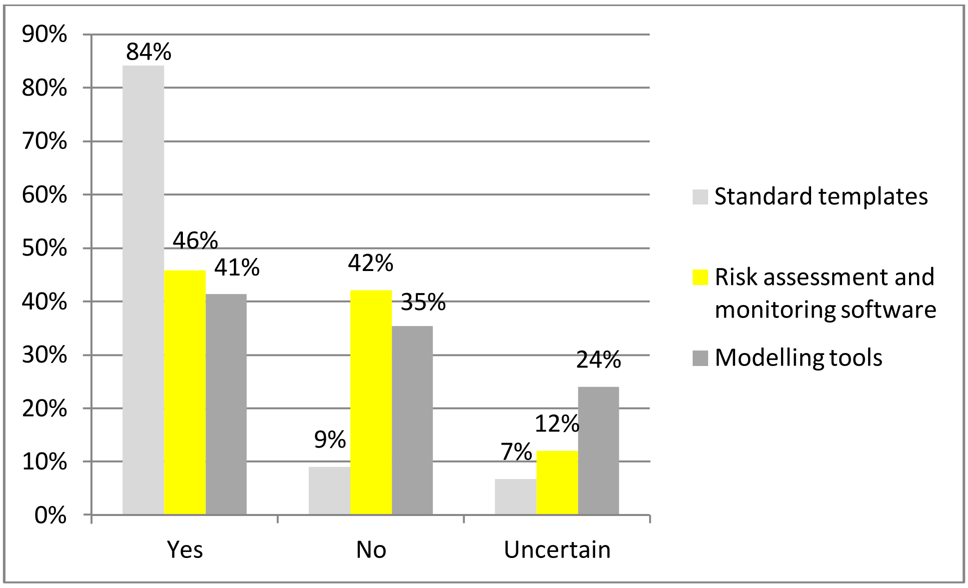
Ernst & Young's view:

It appears that risk management functions need to adopt a more strategic view in aiding business decision-making whilst ensuring that the coverage of risk activities is comprehensive but not duplicated across the various functions.

These results are consistent with the 2010 Ernst & Young Global GRC Survey results whereby over two-thirds of the respondents indicated that more work was needed to enhance their GRC functions. 41% of the respondents indicated that further investments in GRC functions were planned in the short-term.

Improvements in risk management functions can be achieved by focusing resources on priority areas. For example, spend from low-value risk management activities, which may be routine and deliver comfort but are not business critical, should to be redirected to other higher-risk priorities.

Do you have appropriate enablers in place to support the risk management activities?



NB: Participants were asked to select all applicable answers i.e. the responses were not mutually exclusive.

For most organisations, standard templates are used to support risk management activities. However, it is worth noting more than 40% of organisations utilised risk management software or other modelling tools.

Ernst & Young's view:

The results indicate that there is significant room for improvement in the automation of risk management activities in organisations. Some benefits of automation include the following:

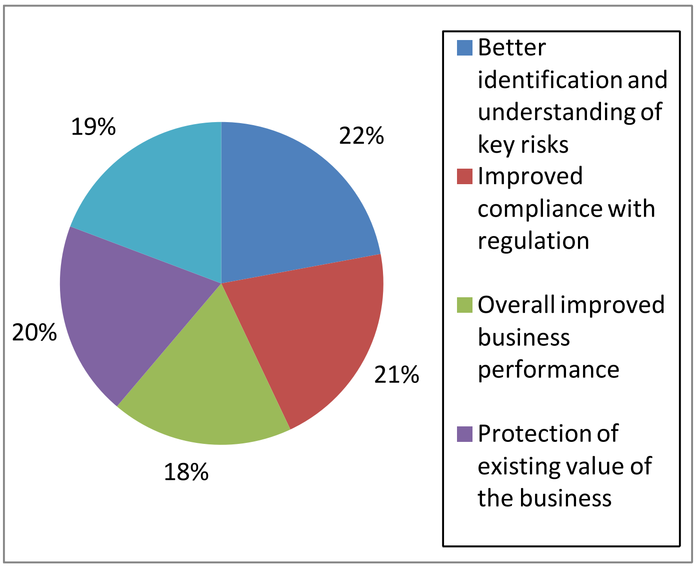
- Automation will free up risk professionals to focus on more value-added activities e.g. analysis of risk information and scenario planning, rather than focusing on labour-intensive data-entry type activities.
- Utilisation of an integrated technology platform by all risk functions enables an organisation to manage risk and eliminate or prevent redundancy and lack of coverage.
- Technology would also facilitate the notification of all stakeholders affected by a risk event and not just those in the function or area where the risk was identified.

Business- level engagement

This component is about improving the effective integration of risk management efforts at the business level to better enable performance.

What benefits do your current risk and control activities provide to your organisation?

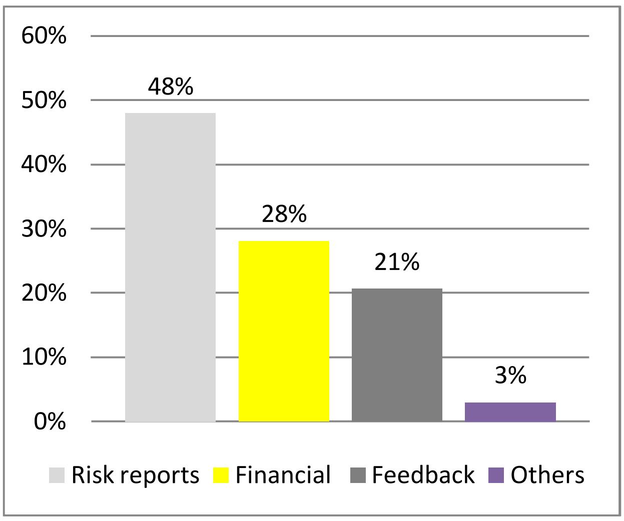
The following chart depicts the five most significant benefits of risk and control activities identified by respondents:



The majority of the respondents were of the view that their current risk and control activities enabled better identification and understanding of key risks. This in turn provided a basis for better decision-making within the organisation. The end result being improved business performance and compliance with regulations, and ultimately, protection of existing business value.

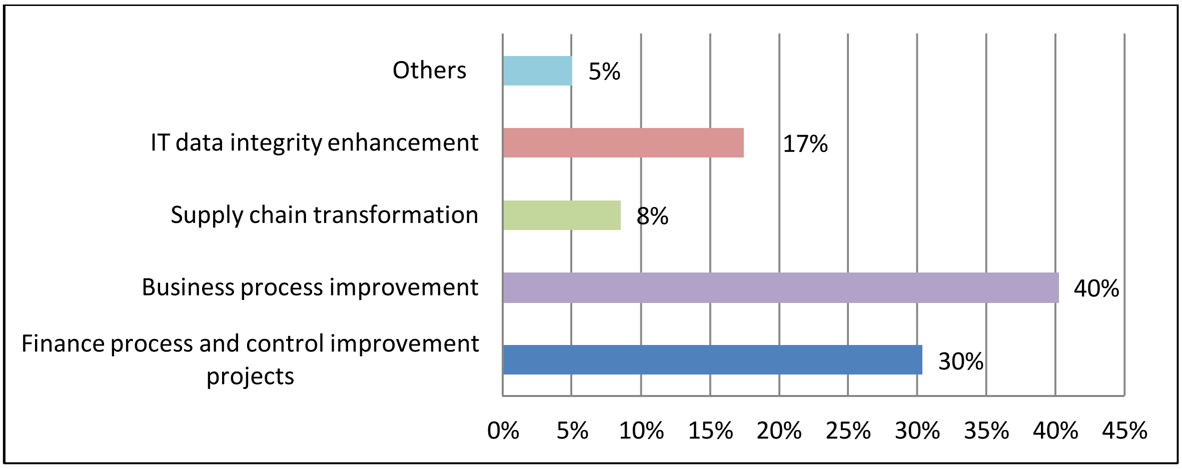
It is worthy to note that in the survey, respondents felt that the least benefits derived from existing risk and control activities were cost reduction and increased process efficiencies.

How are these benefits being measured?



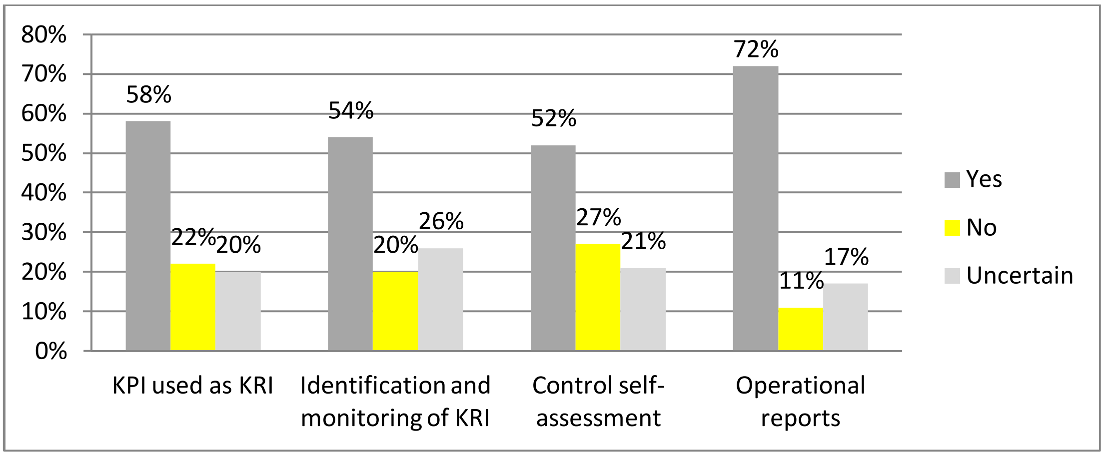
Respondents indicated that the measurement mechanisms were mainly in the form of risk reports which explicitly identified and/or measured the benefits of risk and control activities. Other popular mechanisms included the use of financial reports, e.g. cost-saving reports and periodic feedback from stakeholders. Key performance indicators and quarterly assessments, apart from informal observations, were other forms of measurement but on a lesser scale.

Is the risk management function involved in other initiatives to improve business performance?



40% of the respondents indicated that their risk management functions were involved in business process improvement initiatives in their organisations. Finance process and control improvement projects were the next most significant areas in which risk management functions got involved. This reflects the symbiosis between business process improvements and the necessary modifications needed to finance and control processes to support these changes.

Is risk management linked to the monitoring of operations via the utilisation of specific mechanisms?



NB: Participants were asked to select all applicable answers i.e. the responses were not mutually exclusive.

Most respondents indicated that operational reports were used as inputs for risk monitoring. Almost an equal number of participants indicated that either key performance indicators (KPI) or key risk indicators (KRI) were used as metrics to measure organisational vulnerabilities to risk. Organisations also used control self-assessments to assess the proper functioning of controls that are in place to mitigate or manage risks.

Ernst & Young's view:

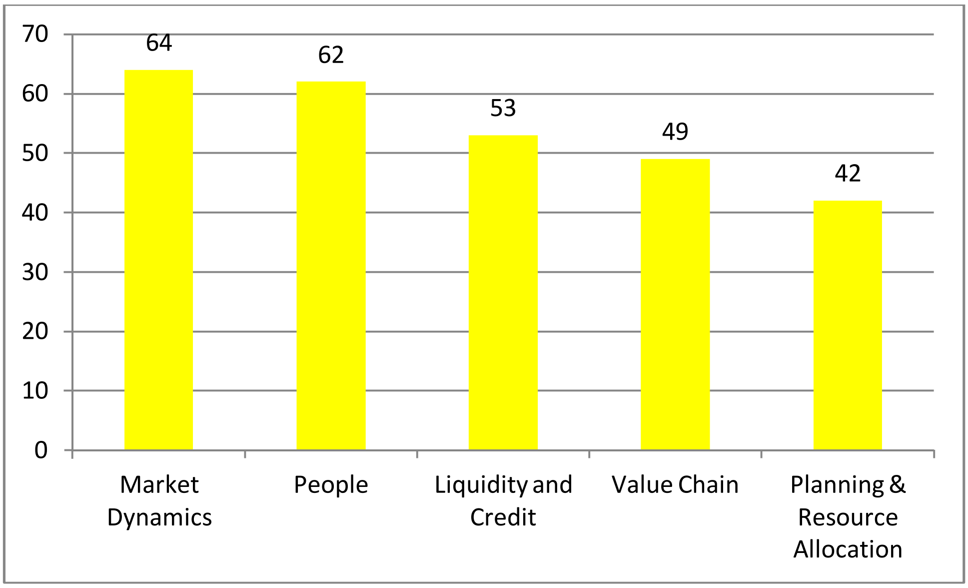
Overall, from the business engagement angle, the results indicate that risk activities appear to have a more strategic or "big picture" impact on organisations but do not have a direct influence on increasing operational efficiency and effectiveness. There is significant room for risk management functions to increase their involvement in other business improvement initiatives by ensuring that detailed risk assessments are conducted for all significant business initiatives and these risks are monitored and mitigated accordingly.

Top five risk areas

In addition to requiring respondents to elaborate on their organisations' risk management practices, this survey also explored respondents' views on the following:

- The top five risks facing their organisations
- Whether these risks would change in the future
- What could have been done better to mitigate these risks in the past and to weather the global financial/economic crises

Please state your organisation's top five risks.



The above top five risk responses which are based on the number of responses received are analysed as follows:

<u>Risk number 1: External market dynamics</u>

External market dynamics, which was identified as the top risk by respondents, are issues or risks faced as a result of operating in a particular business environment. They include pricing pressures, competition, political instability, economic upheavals, inflation, technological changes and customer lifestyle preferences (e.g. boycotts of organisations that do not demonstrate ethical/ environmentally-safe behaviours). As these risks are largely inherent in nature, organisations need to ensure that they are continually kept abreast of changes in the business environment and equip themselves with the relevant resources and capabilities to adapt to these changes in order to stay ahead of the competition.

Risk number 1: External market dynamics (cont'd)

Ernst & Young's 2011 Global Business Risk Report – Turn risk and opportunities into results ("2011 Global Business Risk Report"):

Ernst & Young recently launched its 2011 Global Business Report that was based on a survey of over 700 leading organisations to discover how companies and governments perceived and were addressing the risks and opportunities that had been identified. The top 10 global business risks and opportunities were then aggregated based on ranking by survey respondents.

Pricing pressures took the fourth place in the 2011 Global Business Risk Report.

- These pressures appeared to be predominantly market-driven. Key drivers included market maturity, declining populations, population aging and slow economic growth that were producing slow or even negative organic growth opportunities. This meant that firms seeking rapid growth had to take market share from competitors, and had to often price aggressively.
- For developing countries, pricing pressures could also be attributable to rising exposure to international competition due to rapid globalisation.
- The majority of the respondents indicated that they were actively managing price pressure risk primarily by adjusting their pricing strategies, managing costs and enhancing customer service to remain competitive.

Risk number 2: People

People-related risks cover the entire spectrum of issues faced in recruitment, retention, talent management and succession planning. The global war for talent poses a challenge for organisations in getting the right people to fill the available positions. A review of retirement policies, student sponsorships and training for existing staff could help to fill the gaps.

Ernst & Young's 2011 Global Business Risk Report:

Managing talent ranked third in the 2011 Global Business Risk Report.

- Risks associated with the war on talent continue to rise annually. Drivers of this risk included internal problems, e.g. weaknesses in HR processes (including talent development processes), and external pressures such as rising competition for talent. Nearly 20% reported that people with the right skill sets are simply not available, a factor that may in part reflect weaknesses in the education systems.
- Many of the geographies where the risk is of particular concern are the emerging markets i.e. Brazil, China, India and South Africa. This suggests that the much publicised "reverse brain drain" of talented Chinese and Indian workers returning to their home countries has not been sufficient to offset the rising need for skilled workers in these economies.
- Risk mitigation strategies adopted included the following:
  - Developing programmes for managing talent
  - Embedding culture of developing employee potential
  - Focusing on employee satisfaction

Risk number 3: Liquidity and credit

In the wake of the recent financial crisis and credit crunch, many organisations also appear to be wary about liquidity in the market and their access to available credit. Of particular concern has been the ability to sustain operations in the event funding is not available to sustain working capital, especially during a downturn where internally-generated funds would not be sufficient.

Ernst & Young's 2011 Global Business Risk Report:

Access to credit was ranked no. 10 in the 2011 Global Business Risk Report.

- Many organisations continued to struggle to gain access to credit: 35% continued to report constraints on credit availability, while one in 10 reported challenges obtaining capital needed for major investment programmes. This suggests that the effects of the continued financial crisis, particularly in the Eurozone area, continue to have a significant impact on market liquidity.
- Strategies for managing credit access risks are relatively straightforward i.e.:
    - Direct capital market access
    - Obtaining support from the parent company

Risk number 4: Value chain

Value chain risks primarily relate to operating risks i.e. sourcing/procurement, manufacturing, distribution, logistics and customer support. Given the controllable nature of these risks, organisations should have controls in place to prevent their occurrence. Having a risk culture whereby risk management is practised as part of daily business operations by all levels of personnel would be critical in preventing the occurrence of this type of risk.

Ernst & Young's 2011 Global Business Risk Report:

In each sector, we asked our interviewees to identify not only the top 10 opportunities but also those which may emerge to top the opportunity lists in years to come. Number 18 on the list was the risk of new operational challenges which included value chain risks. This suggests that with the increased globalisation of operations, value chain risks will become more dominant given the potential difficulties in managing the wider geographic span of operations.

Risk number 5: Planning and resource allocation

Planning and resource allocation risks mainly relate to business and strategic planning and the related allocation of resources vis-a-vis these plans. Risks include poorly-designed plans and inefficient allocation of resources given the particular business environment an organisation operates in.

Ernst & Young's 2011 Global Business Risk Report:

Cost-cutting rated as the no. 2 risk in the 2011 Global Business Risk Report. This was indicative of the operating environment in which organisations were conducting their business i.e. in the wake of the financial/economic crisis.

In the same survey, we also asked respondents to rank the top 10 opportunities for their organisations. The no. 1 opportunity identified was improving execution of strategy across business functions. Factors enabling this opportunity included:

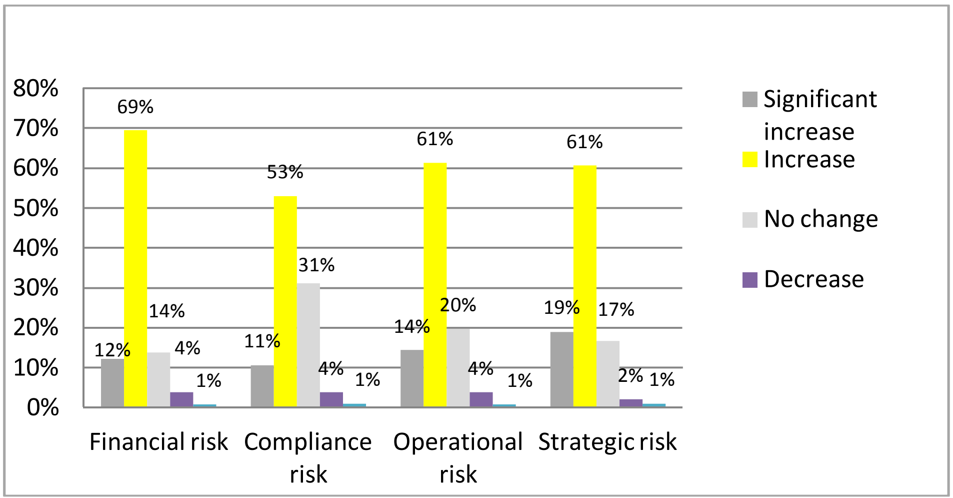
- Regular communication on vision, goals and strategy
- Strategy planning process involving all business functions
- Alignment of business unit actions with performance drivers

Overall view of the top five risks

Ernst & Young's view:

Overall, it appears that the key risks facing organisations are a combination of inherent and controllable risks. Organisations should have a balance of controls in place to manage internal risks that are generally controllable and external risk factors that are largely inherent, which could ultimately impede the achievement of business objectives.

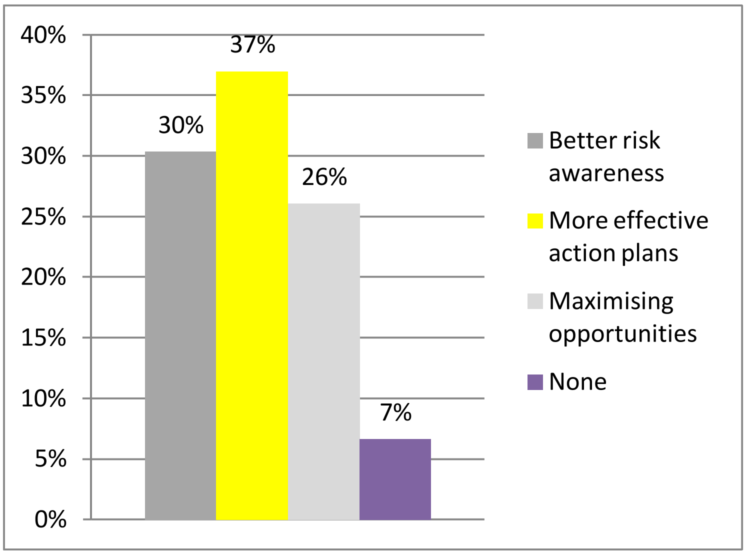
Do you expect the following risk categories to change in the next 12 months? If so, what is the degree of change expected?



NB: Participants were asked to select all applicable answers i.e. the responses were not mutually exclusive.

The majority of respondents were of the view that all risk categories would face an increase in the next 12 months with financial risks emerging from volatility in markets and the real economy being the highest.

Looking back over the past two years, how could your organisation have better handled the economic crisis? Please select all those applicable:



37% of the respondents indicated that more effective action plans should have been in place to better handle the economic crisis. Another 30% responded that better risk awareness would have better prepared their organisations to face the challenges, while 26% indicated that their organisations should have better maximised the opportunities the crisis presented via takeovers of distressed entities, built a bigger market share via capitalising on share of weaker competitors, and so on.

Ernst & Young's view:

The above views on the changing risk profile are consistent with market sentiment over the uncertainty of a potential double dip in the world economy. There is also increasing concern over compliance risk which is consistent with the seemingly increase in regulatory requirements and restrictions being imposed. With overall uncertainty over the economy, it is not surprising to note that respondents feel that strategic risks relating to customers, competitors and investors would also increase in the short term.

However, it is surprising to note that respondents were of the view that operational risks will also face an increase despite being largely within an organisation's control. Immediate measures should be taken to address this.

Lessons should be learnt from how organisations could have better handled the economic crisis to ensure that effective measures are in place to mitigate future calamities.

What lies ahead for risk management in Malaysia?

It is clear that risk management functions have a key role to play in today's turbulent economy. The results of this survey have confirmed the growing importance of enterprise-wide risk management in enabling Malaysian organisations to enjoy continuing success in today's business world.

Risk is now becoming the fourth dimension of business. People were the first dimension. Process became the second dimension during the height of the manufacturing era. Evolving technology formed the third dimension. Embedding risk as the fourth dimension of business has the potential to fundamentally transform how organizations connect risk to reward.

Contacts

Organisation	Name	E-mail	Telephone
Ernst & Young	Gladys Leong	Glayds.Leong@my.ey.com	(603)7495 8807
Ernst & Young	Philip Rao	Philip.Rao@my.ey.com	(603)7495 8763
IIA Malaysia	Nur Hayati Baharuddin	nurhayati@iiam.com.my	(603)9242 1148
IIA Malaysia	Sivamalar Thuraisingam	sivamalar@iiam.com.my	(603)9242 1148

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organisation of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit www.ey.com

FEA no. 07000460

The Institute of Internal Auditors ("IIA") Malaysia

About IIA Malaysia

IIA Malaysia is a non-profit professional organisation dedicated to the advancement and development of the internal audit profession in Malaysia. IIA Malaysia was established in 1977 as a Chapter of The Institute of Internal Auditors Inc. (Global IIA) and elevated to the status of a National Institute in 1988 when the membership exceeded the 500 mark. In July 1994, IIA Malaysia was incorporated as a Company Limited by Guarantee and since then, we have grown progressively in size and stature. Today, we serve more than 3000 members in Malaysia.

IIA Malaysia is affiliated to The Institute of Internal Auditors Inc (Global IIA), a worldwide body founded in 1941 by a small group of dedicated internal auditors who wanted an organisation that would represent their profession and provide educational activities and standards for the professional practice of internal auditing. Through our affiliation our members are able to share in a collective wisdom of more than 160,000 members in over 165 countries and territories.

The Institute maintains its motto "Progress Through Sharing" and in keeping with the spirit of sharing, we make it our responsibility to share with our members' information on new trends, latest internal audit techniques, regulatory and statutory requirements and the hottest issues affecting the profession.

For further information, please log on to our website at www.iiam.com.my