Audit And Risk Committee Seminar 2025

Elevating Shareholder Value With Good Governance

22 January 2025

Top Risks

TOP RISKS

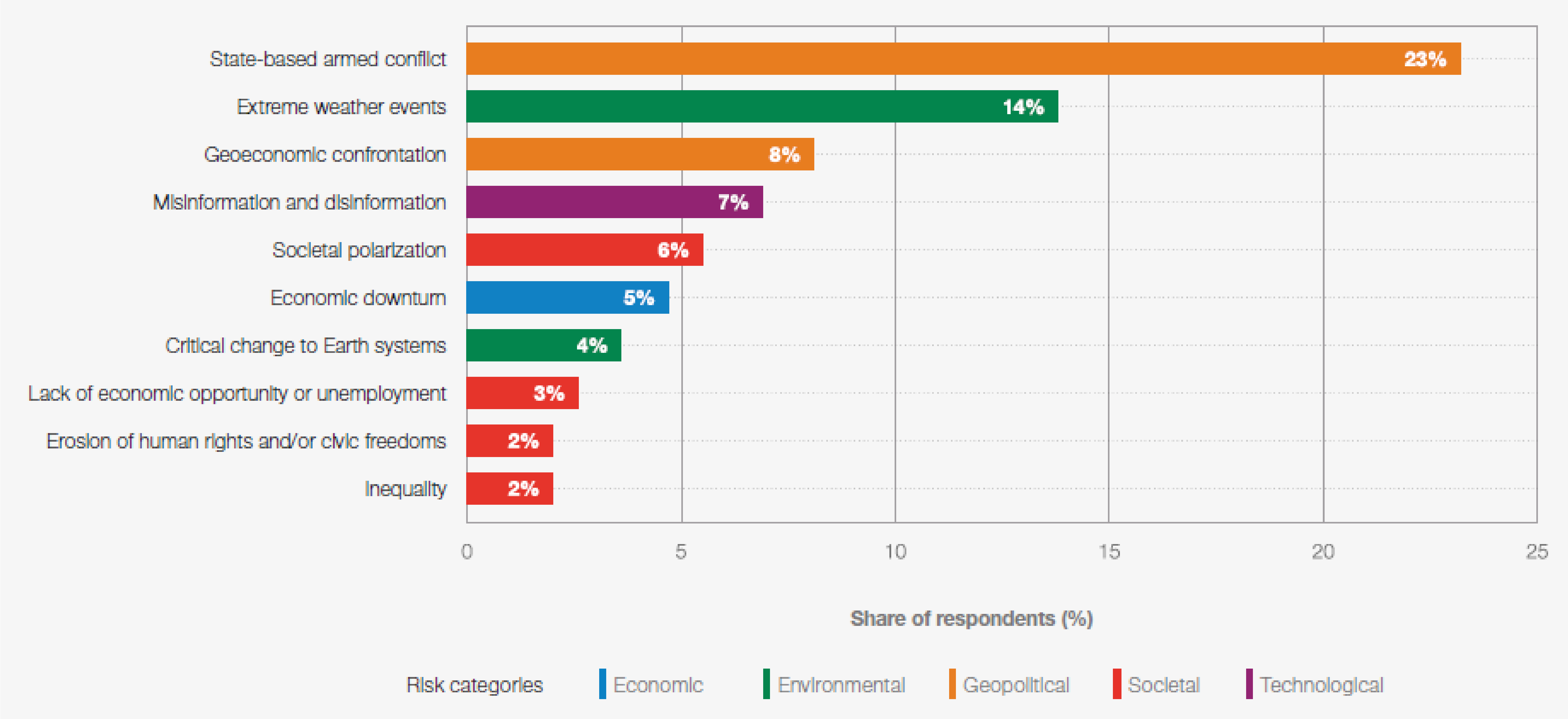
Which risk category is the most likely to pose the biggest threat to your Company in 2025?

1. Economic
2. Environmental
3. Geopolitical
4. Societal
5. Technological

WORLD ECONOMIC FORUM – THE GLOBAL RISKS REPORT 2025

- Covers findings of the **Global Risks Perception Survey 2024-2025** published in January 2025
- Collates responses from over 900 experts across academia, business, government, international organizations and civil society between September and October 2024
- Identifies **areas of key concern** and **approaches to drive action** on global risk reduction and preparedness

TOP 10 GLOBAL RISKS OVER THE IMMEDIATE TERM (2025)



TOP 10 GLOBAL RISKS RANKED BY SEVERITY OVER THE SHORT TERM (2 YEARS)

1st Misinformation and disinformation

2nd Extreme weather events

3rd State-based armed conflict

4th Societal polarization

5th Cyber espionage and warfare

6th Pollution

7th Inequality

8th Involuntary migration or displacement

9th Geoeconomic confrontation

10th Erosion of human rights and/or civic freedoms

Risk categories: Economic | Environmental | Geopolitical | Societal | Technological

TOP 10 GLOBAL RISKS RANKED BY SEVERITY OVER THE LONG TERM (10 YEARS)

1st	Extreme weather events	6th	Adverse outcomes of AI technologies
2nd	Biodiversity loss and ecosystem collapse	7th	Inequality
3rd	Critical change to Earth systems	8th	Societal polarization
4th	Natural resource shortages	9th	Cyber espionage and warfare
5th	Misinformation and disinformation	10th	Pollution

Risk categories: Economic | Environmental | Geopolitical | Societal | Technological

TOP 5 RISKS TO COUNTRY IDENTIFIED BY EXECUTIVE OPINION SURVEY

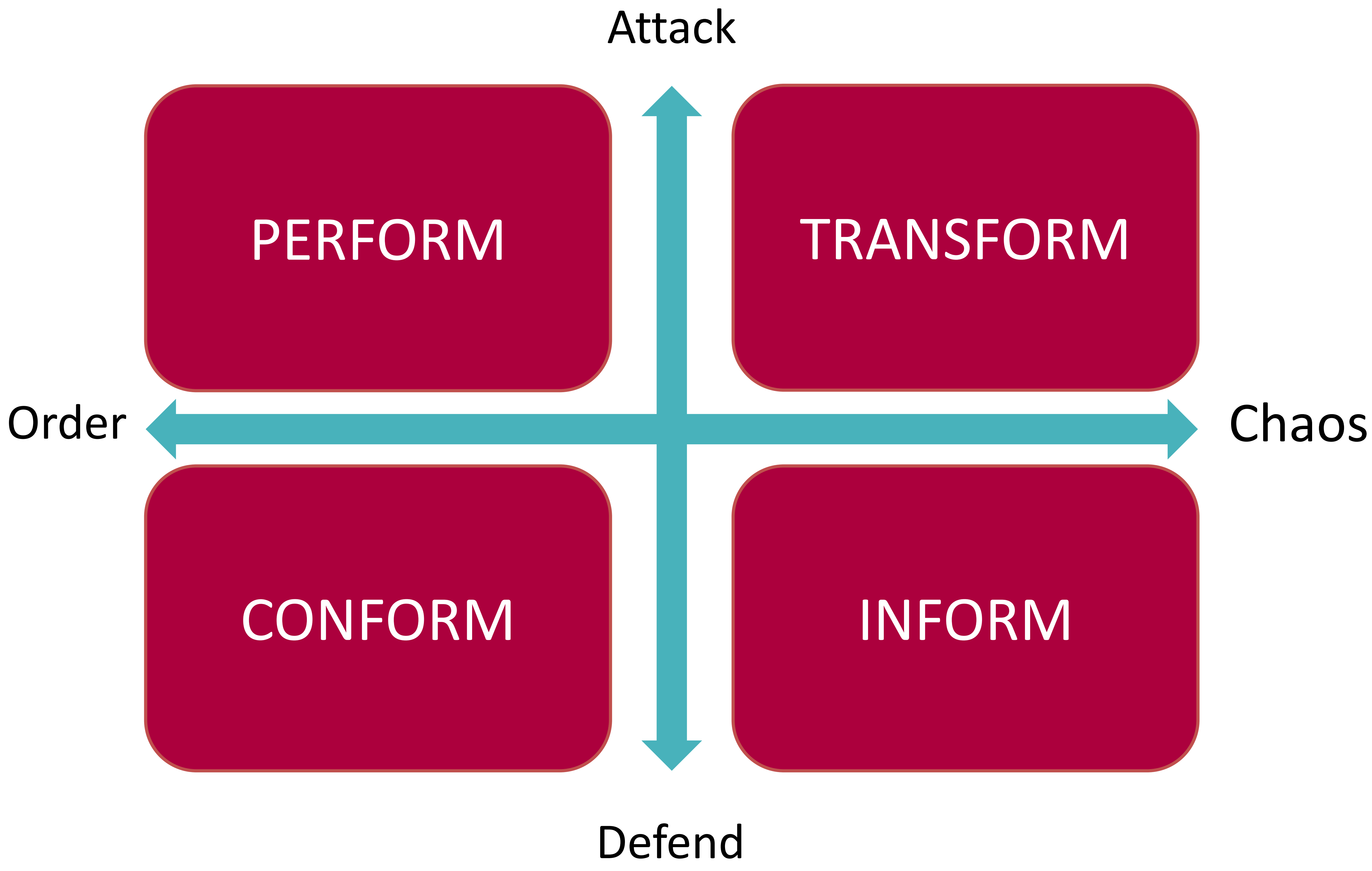
Singapore

1st	Labour and/or talent shortage
2nd	Economic downturn (e.g. recession, stagnation)
3rd	Inflation
4th	Cyber insecurity
5th	Adverse outcomes of artificial intelligence technologies

Risk categories: Economic | Environmental | Geopolitical | Societal | Technological

Corporate Governance

4 FORMS OF CORPORATE GOVERNANCE



Sustainability Reporting

SGX SUSTAINABILITY REPORTING REQUIREMENTS FROM FY 25

	Previous	New
Climate Reporting Framework	TCFD	**From FY 25** ISSB (climate-related requirements)
Scope for Climate Reporting	TCFD-identified industries: Mandatory Others: Comply or explain	**From FY 25** Mandatory for all
Other Primary Components	Comply or explain	**From FY 26** Mandatory for all
SR Publishing Timeline	Within 4 months after FY ends **or** 5 months if ext. assurance conducted	**From FY 26** Same time as annual report **or** 5 months if ext. assurance conducted

OVERVIEW OF ISSB STANDARDS

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

- IFRS S1 sets out the core framework for disclosure of sustainability-related financial information.

Conceptual Foundations

- Materiality
- Fair presentation
- Reporting entity
- Connected information

General Requirements

- Sources of guidance
- Location of disclosures
- Timing of reporting
- Comparative information with preceeding periods
- Statement of compliance

Judgements, Uncertainties and Errors

IFRS S2 Climate-related Disclosures

- IFRS S2 is a thematic standard on climate-related disclosures. It integrates and is consistent with the Taskforce on Climate-related Disclosures (TCFD) recommendations.

Governance

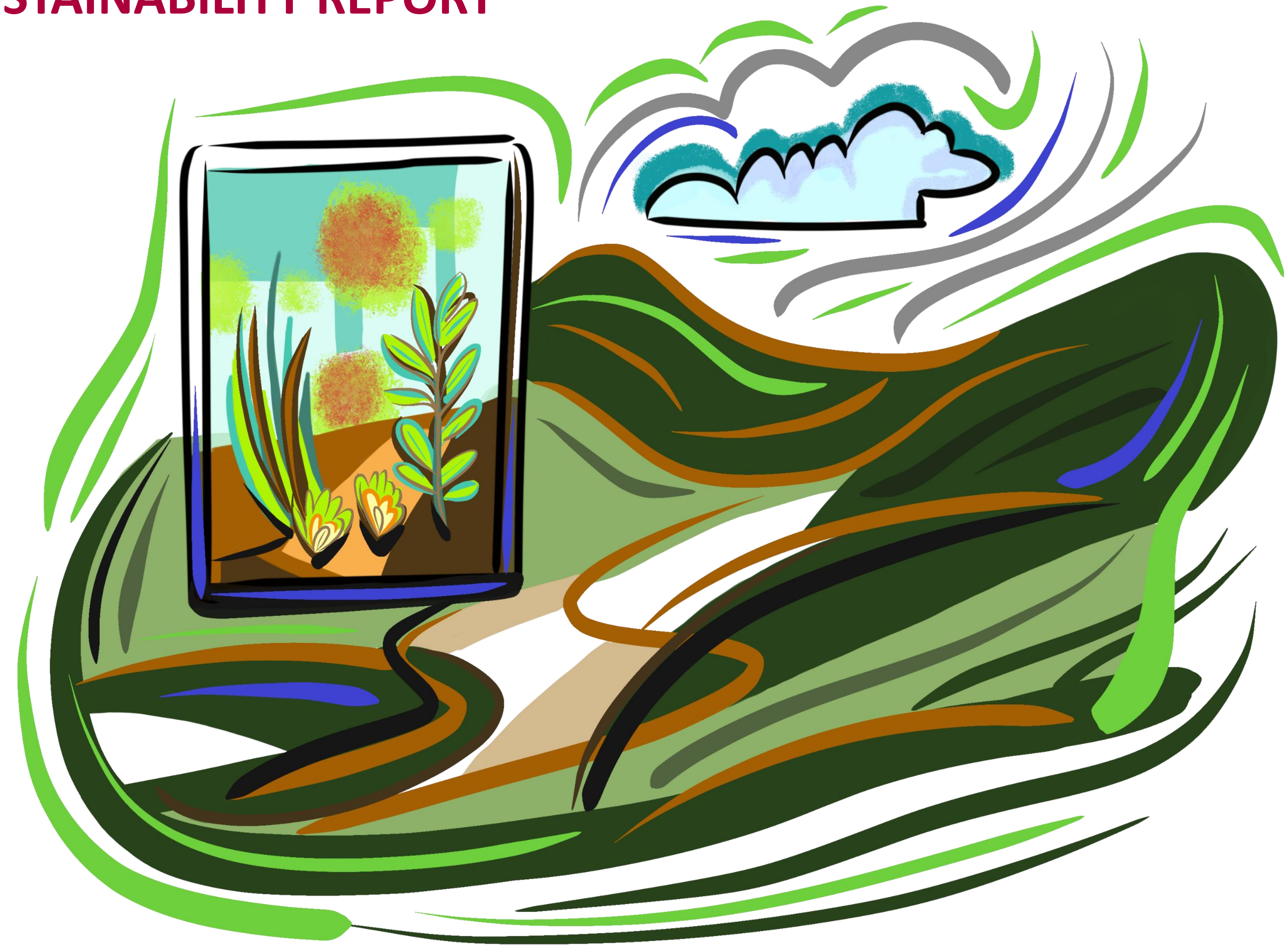
Strategy

Risk Management

Metrics and Targets

- Companies who report on the TCFD recommendations will be better prepared and have a smoother transition to climate reporting in accordance with the ISSB standards.

ILLUSTRATIVE SUSTAINABILITY REPORT



ILLUSTRATIVE SUSTAINABILITY REPORT

Based on the GRI Standards and IFRS Sustainability Disclosure Standards (Oct 24)

- Illustrates how an entity might apply the IFRS S1 and IFRS S2 requirements alongside GRI Standards, including reliefs
- Illustrative is also in compliance with SGX Listing Rules
- Aims to improve the robustness and quality of sustainability reporting for companies

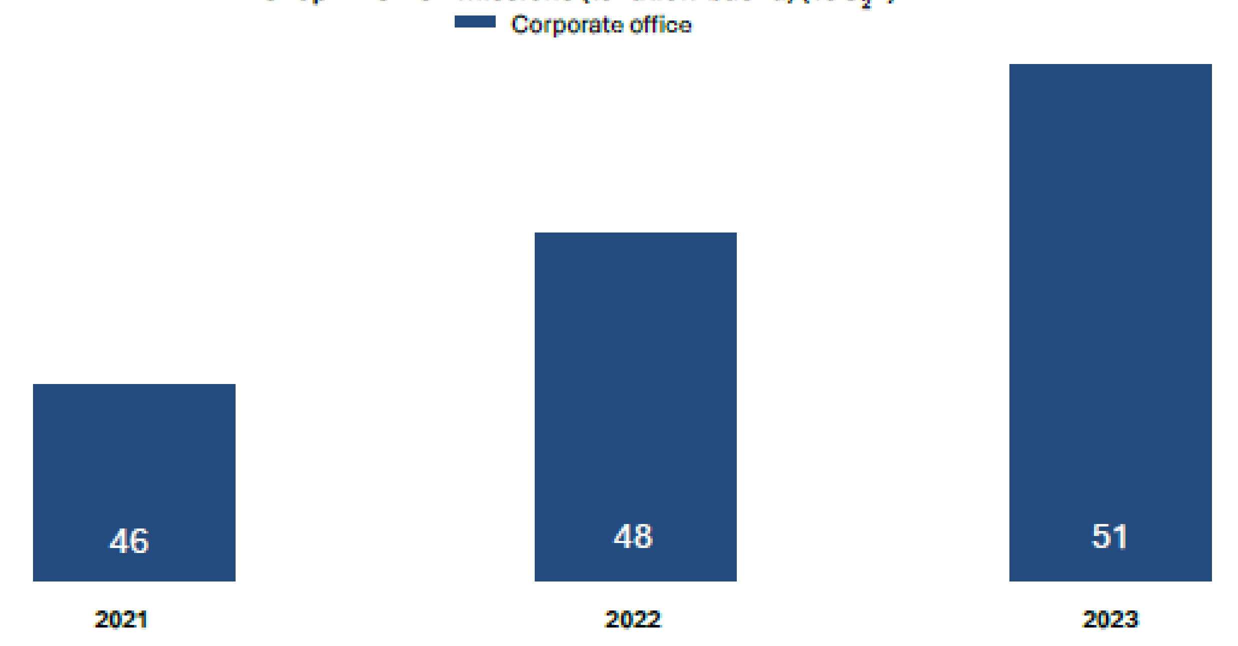
Download:

ILLUSTRATIVE SUSTAINABILITY REPORT
Example 1: Scope 2 GHG emissions

Scope 1 and 2 GHG emissions intensity (tCO_2e/m^2)			
2023		2024	2025
Target	Performance	Target	Target
In progress	0.0542	In progress	In progress

Reference
GRI 303, GRI 305-4, IFRS S1 (51(a)-(b)), IFRS S2 (33(g))

Scope 2 GHG emissions (location-based) (tCO_2e)



GRI 305-2-a, IFRS S2 (29(a)(i)(2)), IFRS S2 (29(a)(iv)), IFRS S2 (29(a)(v))

GRI

Disclosure 305-2 Energy indirect (Scope 2) GHG emissions

The reporting organization shall report the following information:

a. **Gross location-based energy indirect (Scope 2) GHG emissions in metric tons of CO2 equivalent.**

ISSB

Climate-related metrics

29 An entity shall disclose information relevant to the cross-industry metric categories of:

(a) *greenhouse gases*—the entity shall:

(i) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of *CO_2 equivalent* (see paragraphs B19–B22), classified as:

(1) *Scope 1 greenhouse gas emissions*;

(2) *Scope 2 greenhouse gas emissions*; and

(3) *Scope 3 greenhouse gas emissions*;

ILLUSTRATIVE SUSTAINABILITY REPORT
Example 2: Climate-related scenario analysis

For the financial year ended 31 December 2023, the identified physical and transition risks are assessed between two timeframes – Year 2030 for the medium-term and Year 2050 for the long-term. The selected timeframes are aligned with Singapore's national decarbonisation goals, which is consistent with TCFD (2020) recommendations.[11]

IFRS S2 (22(b)(i)-(iii)), IFRS S2 (10(c))

Macroeconomic effects of climate change such as changes to consumers demand pattern or distribution of income and industry costs affecting consumer demand are not quantified in this study, given the high uncertainty of the magnitude and timing of these effects.

IFRS S2 (22(a)(ii)), IFRS S2 (22(b)(i))

Based on our climate scenario analysis results, the dominant risks to Best Build are rising mean temperatures and risk of heatwaves and increase in business costs due to carbon price and increase in cooling consumption for both 2030 and 2050. As part of our climate scenario analysis, we have chosen two temperature alignments covering our operations in Singapore[12]:

IFRS S2 (22(b)(i))

- A lower temperature rise (1.5°C) scenario to cover transition risks; and
- A higher temperature rise (>3°C) scenario to test our current business resiliency.

The 1.5°C warming scenario is used to align with global goals to limit temperature rise (i.e., Paris agreement), and corresponds to a more stringent low-carbon transition scenario.

IFRS S2 (22(b)(i)(3))

The climate scenario analysis considers variables such as regulatory outlook, energy mix, technological advancement and consumer trends, to understand the strategic implications of climate-related issues.

The following physical and transition risks are applicable to all of our properties and business operations in Singapore. For more information on potential amounts that may be vulnerable to those risks, refer to AR 2023.

GRI 201-2, IFRS S2 (22(a)(iii)(1)), IFRS S2 (10(a)-(b))

Prioritised physical risks	Time horizons
◊ Rising mean temperatures and risk of heatwaves, resulting in increased cooling costs	Long-term
• Risk of flash floods damaging buildings and disrupting operations	Short-term
• Property insurance premiums rising due to increased risks of extreme weather events	Medium-term

ISSB

Climate resilience

22 An entity shall disclose information that enables users of general purpose financial reports to understand the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. The entity shall use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances (see paragraphs B1–B18). In providing quantitative information, the entity may disclose a single amount or a range. Specifically, the entity shall disclose:

(a) the entity's assessment of its climate resilience as at the reporting date, which shall enable users of general purpose financial reports to understand:

(i) the implications, if any, of the entity's assessment for its strategy and business model, including how the entity would need to respond to the effects identified in the climate-related scenario analysis;

(ii) the significant areas of uncertainty considered in the entity's assessment of its climate resilience;

(iii) the entity's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term, including;

(1) the availability of, and flexibility in, the entity's existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks and to take advantage of climate-related opportunities;

(2) the entity's ability to redeploy, repurpose, upgrade or decommission existing assets; and

(3) the effect of the entity's current and planned investments in climate-related mitigation, adaptation and opportunities for climate resilience; and

ILLUSTRATIVE SUSTAINABILITY REPORT
Example 3: Current and anticipated financial effects

Estimated financial effects (S$'m)	Current effects	Anticipated financial effects by time horizon (S$'m)		
	2023	Short Note 1	Medium Note 1	Long
Investment in climate adaptation and resilience measures (increase in assets and cash outflows from investing activities)	1.8	1.0 - 1.5	3.0 - 4.5	Note 2
Includes effects from:				
• Rising mean temperatures and risk of heatwaves, resulting in increased cooling costs	0.6	Note 3	Note 3	Note 2
• Risk of flash floods damaging buildings and disrupting operations	1.2	Note 3	Note 3	Note 2

GRI 201-2, IFRS S2 (15), IFRS S2 (16), IFRS S2 (19), IFRS S2 (21), IFRS S2 (29(e))

Note 2 – We are unable to estimate the anticipated financial effect due to long-term measurement uncertainty in the inputs and assumptions as a result of the lack of data available at present, including data about climate outcomes and the effect of those outcomes on Best Build. However, this is not applicable to current effects, and therefore we have disclosed estimated current financial effects. We will continue to monitor credible information to support the disclosure in this area. We expect that there will be a higher investment in climate mitigation measures as a result of physical risks anticipated to affect our properties, especially those in low-lying areas of Singapore.

Note 3 – The financial effects of individual risks are not provided as these effects are currently not separately identifiable.

GRI

Disclosure 201-2 Financial implications and other risks and opportunities due to climate change

The reporting organization shall report the following information:

a. Risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue, or expenditure, including:

i. a description of the risk or opportunity and its classification as either physical, regulatory, or other;
ii. a description of the impact associated with the risk or opportunity;
iii. the financial implications of the risk or opportunity before action is taken;
iv. the methods used to manage the risk or opportunity;
v. the costs of actions taken to manage the risk or opportunity.

Compilation requirements

2.2 When compiling the information specified in Disclosure 201-2, if the reporting organization does not have a system in place to calculate the financial implications or costs, or to make revenue projections, it shall report its plans and timeline to develop the necessary systems.

ISSB

Financial position, financial performance and cash flows

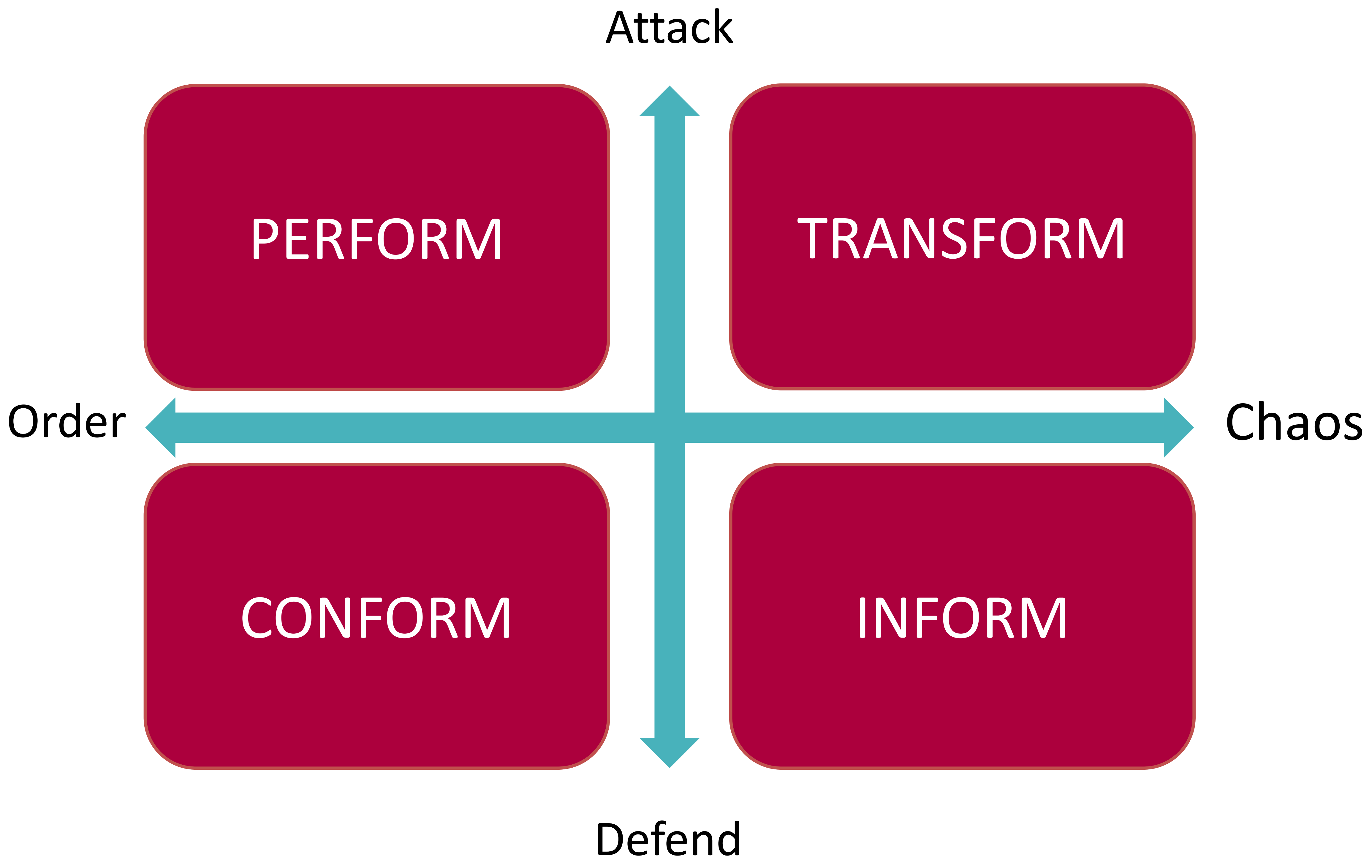
15 An entity shall disclose information that enables users of general purpose financial reports to understand:

(a) the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and

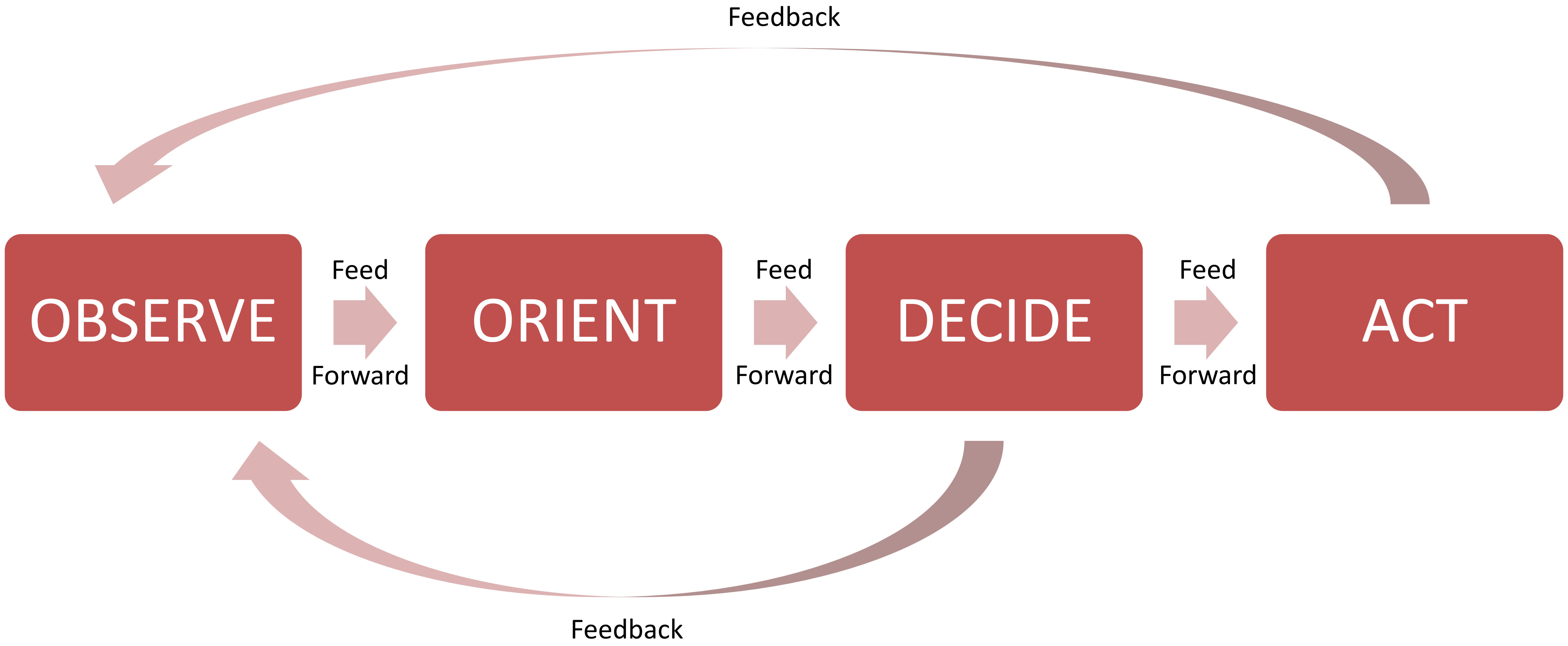
(b) the anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how climate-related risks and opportunities are included in the entity's financial planning (anticipated financial effects).

Shareholder Value

4 FORMS OF CORPORATE GOVERNANCE



OODA LOOP


Feedback
OBSERVE
Feed
Forward
ORIENT
Feed
Forward
DECIDE
Feed
Forward
ACT
Feedback

STOCK TAKE

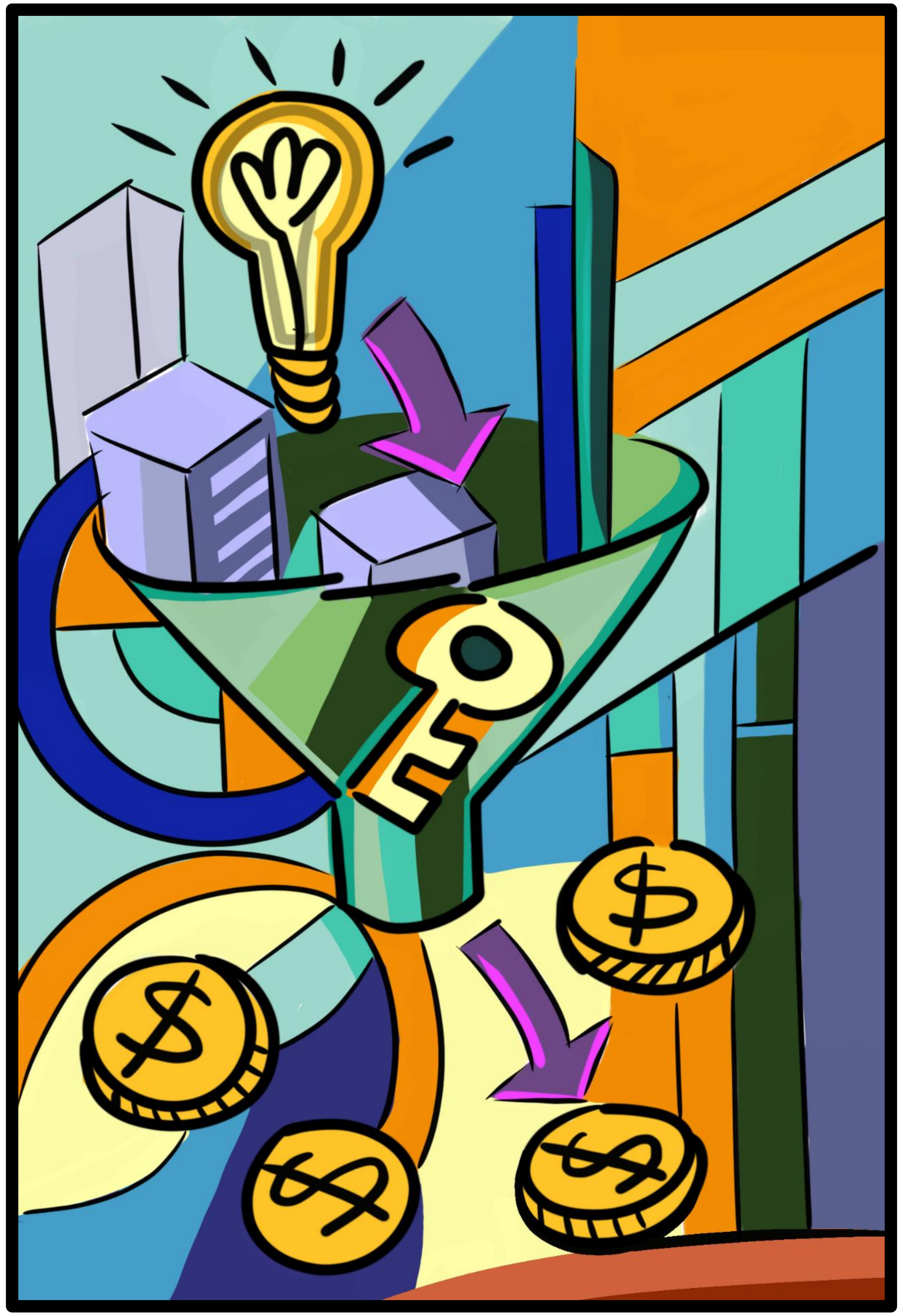
Business model	• Customer base and supplier profile • Characteristics of products and services	• Geographical reach • Revenue, costs and profit contribution of each business segment
Market environment	• Size of market • Market share • Penetration rate	• Characteristics of substitute products and services
Competitive advantage	Major factors of competitive advantage, such as technology, business model, reputation, human resources, economic capital	
Risks	Major factors such as macroeconomics, cross-industry or idiosyncratic risks	

PERFORMANCE METRICS

Market valuation	• Price-to-book (PB) ratio • Price-to-earnings (PE) ratio	
Capital efficiency	• Return on equity (ROE) • Return on invested capital (ROIE)	• Cost of equity (COE) • Weighted average cost of capital (WACC)
Shareholder returns	• Dividend amount • Dividend payout ratio	• Dividend yield • Total shareholder return
Growth	• Revenue growth • Operating profit growth	• Asset growth
Other financial indicators	• Asset portfolio • Debt ratio	• Free cash flow (FCF)
Non-financial indicators	• Board effectiveness • Board diversity	• Corporate culture • Protection of shareholder interests

EXAMPLES OF CORPORATE ACTIONS

- Expanding business, acquiring new contracts
- Strategic business reviews, asset divestment or acquisitions
- Share buyback
- Dividend distribution



Director Duties

ROLES AND RESPONSIBILITIES OF DIRECTORS

Directors' duties of care, skill and diligence

- Section 157(1) of Companies Act 1967: A director must at all times act honestly and use reasonable diligence in the discharge of the duties of his or her office

- All directors are held to **minimum objective standard** (i.e. standard of care, skill and diligence of a reasonable director)

- Standard is **not fixed** (depends on various factors such as his role in the company), but **will not be lowered to accommodate any inadequacies in knowledge or experience**

- Standard will be **raised** if director holds himself out to possess, or in fact possess, some special knowledge or experience

ROLES AND RESPONSIBILITIES OF DIRECTORS

Directors' duties of care, skill and diligence

- All directors, executive or non-executive, are subject to a **minimum objective standard of care** – to take reasonable steps to place oneself in a position to guide and monitor the management of company

- An **executive director** is likely to have more intimate knowledge of the company's business and operations

- A **non-executive director** should:
  - Keep updated of the company's business environment and issues that the company faces
  - Understand the company's business, financials and transactions
  - Query management as part of the supervisory role, especially when it is necessitated by circumstances
  - Exercise proper judgement of facts
  - Be familiar with the duties and responsibilities under the law and company's constitution

ROLES AND RESPONSIBILITIES OF DIRECTORS

Directors' duties of care, skill and diligence

- Director may delegate certain functions to the management. However, he or she must:
  - Exercise an adequate degree of supervision, and such duty of supervision is non-delegable
  - Investigate if red flags are raised
  - Directors cannot plead ignorance if circumstances warrant further inquiries

- Director may place reliance on professionals. However, he or she must:
  - Act in good faith
  - Must not rely uncritically on the professional advice
  - Make reasonable inquiry where required and assess reasonableness of such advice received

CASE STUDY


OFFICE OF
CHAIRMAN
EXECUTIVE DIRECTOR
CFO
STILL IN THE PROCESS
OF HIRING
CFO & FINANCE TEAM

CASE STUDY

Background

- In August 2021, Company announced cessation of CFO
  - Chairman and Executive Director would oversee the finance functions of the Group
  - Company would continue the process of finding a suitable replacement

- CEO, who had no experience or expertise in financial accounting matters, assumed oversight of finance functions on the Chairman’s behalf

- CEO’s personal assistant (PA), who was not accounting trained, put solely in charge of liaising with external service provider on financial accounting matters

CASE STUDY

Facts

- In January 2022, Board approved US$800,000 to be deposited with a trading platform for forex trading
- CEO's PA executed trading activities online, and kept record of trading positions and profit and loss
- In Q1 2022, Board approved withdrawals of US$300,000 from trading platform into Company's bank account
- During preparation of 1H 2022 results, CEO's PA incorrectly represented to external service provider that the $300,000 deposit was profit from forex trading activities (First Error)
- In 1H 2022, Company made realised losses of US$498,000 from forex trading, which were not reported in the 1H2022 results, as CEO was under the mistaken belief that the losses need not be recognised until the year-end to finalise overall trading position (Second Error)
- As a result of the First Error and Second Error, the Group's 1H 2022 results overstated its profit and loss position by S$1.1m (i.e. from actual net loss of S$890,000 to a reported net profit of S$205,000)

CASE STUDY

Assessment – Public Reprimand

- Chairman played dual roles, as the only Executive Director and key executive overseeing the Group's finance functions; he relied exclusively on the professionals and CEO without supervising the discharge of the functions

- CEO appointed an untrained personnel to deal, unsupervised, with the external service provider on financial reporting matters; he failed to escalate the forex trading losses nor provide any updates to the Board on the performance of the forex trading activities

- Independent Directors, as members of the Audit Committee, failed to act as effective check and balance
  - Did not exercise oversight on the finance function despite being aware that it was inadequately resourced
  - Failed to ensure that an appropriately qualified person was put in place to oversee the finance function (no replacement CFO had been appointed)
  - Did not enquire or request updates to the performance of the forex trading activities, although it was the Company's new core business and the CEO had not provided any updates
  - Internal audit report in June 2023 noted a lack of risk management oversight of the Company's forex trading activities, and lack of internal checks and reviews over accounting reporting by external service provider

Thank You!