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Growth, Volatility and Expectations of Non-Executive Directors

CFO Conclave
24-26 November 2011

News of Volatile Environment is all around us

TOP FCCBS DUE IN NEXT 1 YEAR

Company	FCCB due (\$ mn)	Due date
BHEL	1025	2012-12-31
Tata Motors	700	2012-12-31
Jaya Steel	500	2012-12-31
Jai Prakash Asso	500	2012-12-31
JSW Steel	500	2012-12-31

Global Play Makes Arrest of Re Slide Hard for RBI

Rupee just 2% shy of record low; Hedging options available to cut losses: RBI Dy Gov

Corporate and national balance-sheets, battered by high rates and inflation, may see further dent

India Inc in the midst of a slump
 CMIE Sees Lower Growth In Consumer Durables, Other Sectors

Rupee on a Downhill Ride

Current Performance (%) against the US Dollar in 2012	
China	4.02
India	-0.13
Japan	-0.38
South Korea	-0.71
UK	-2.65
US	-3.98
Taiwan	-5.65
European Union	-12.16

Rupee Vs Dollar

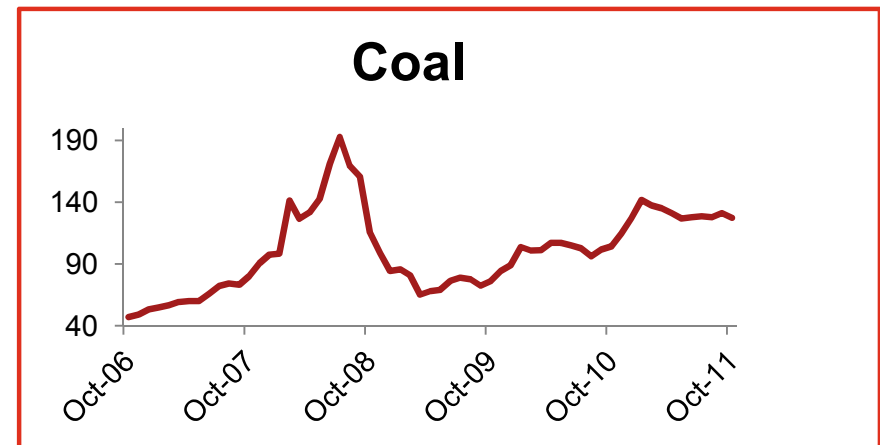
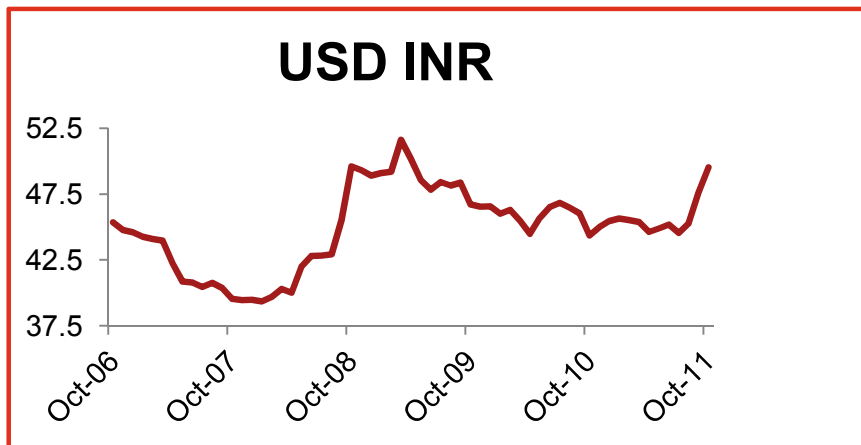
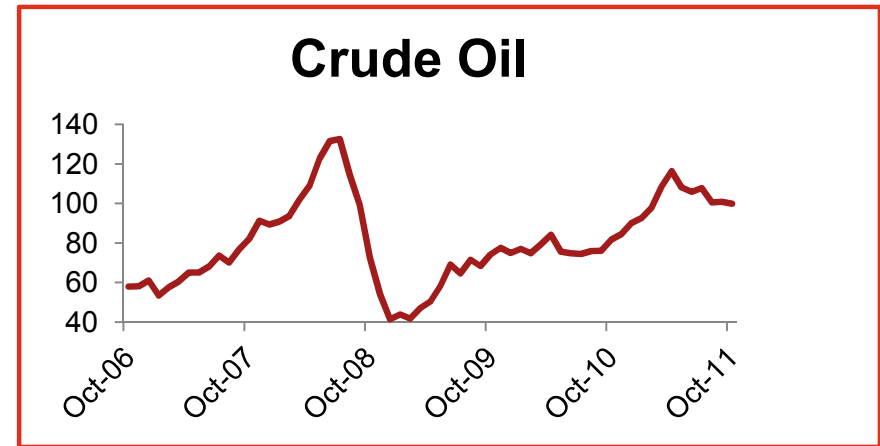
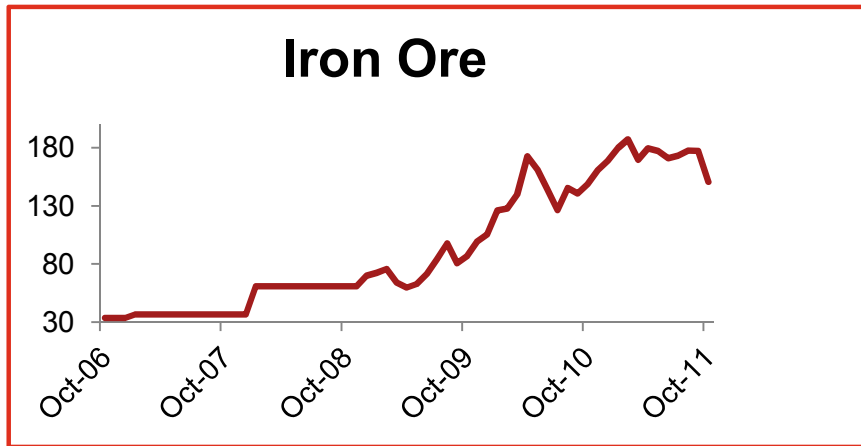


FCCB a new worry for India Inc

Bonds Worth About \$5.6 Billion Due For Redemption By December 2012

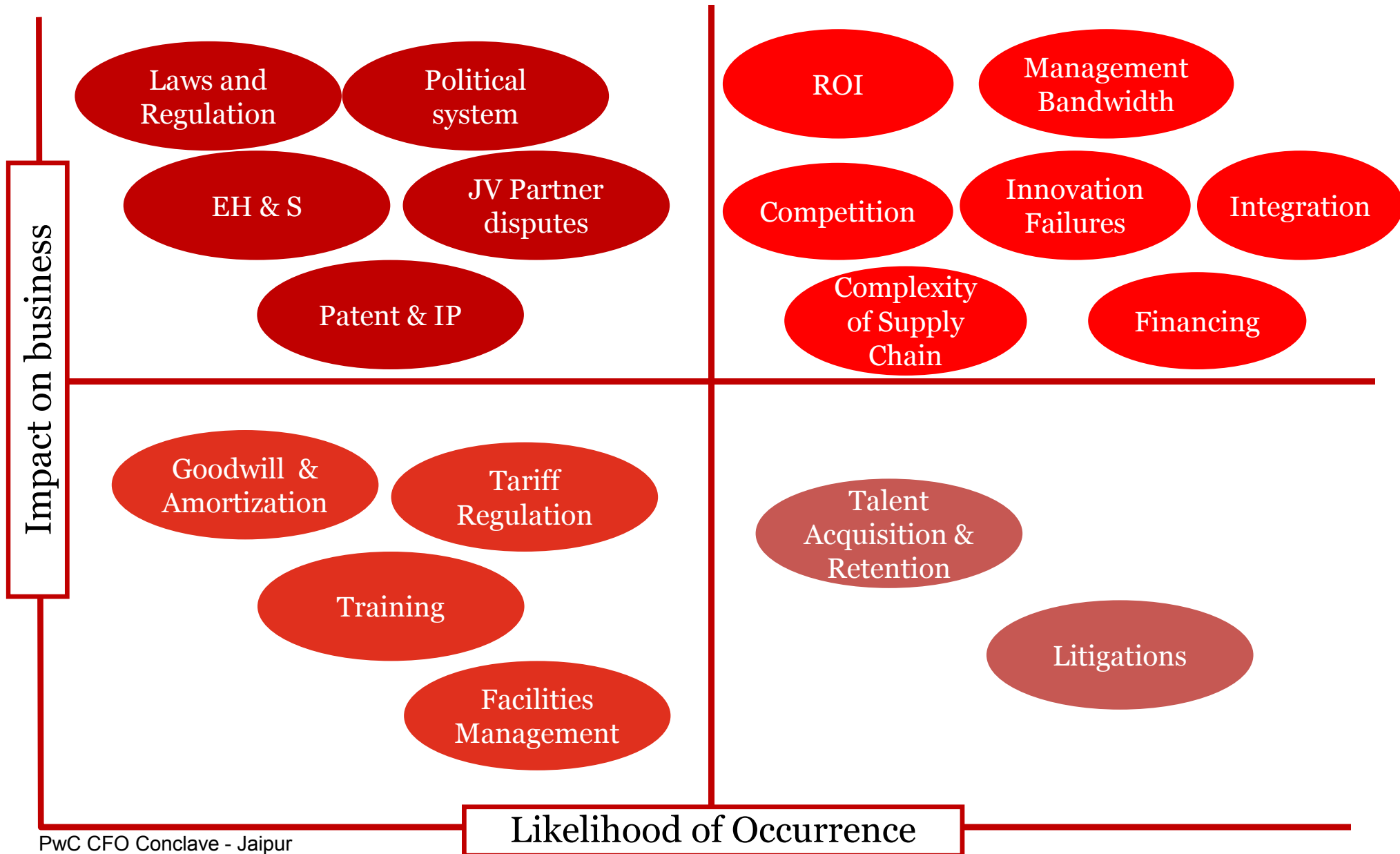
The biggest challenge for management and boards is to manage volatility risks and yet deliver growth and results.

Why is dealing with volatility risk a critical business priority?

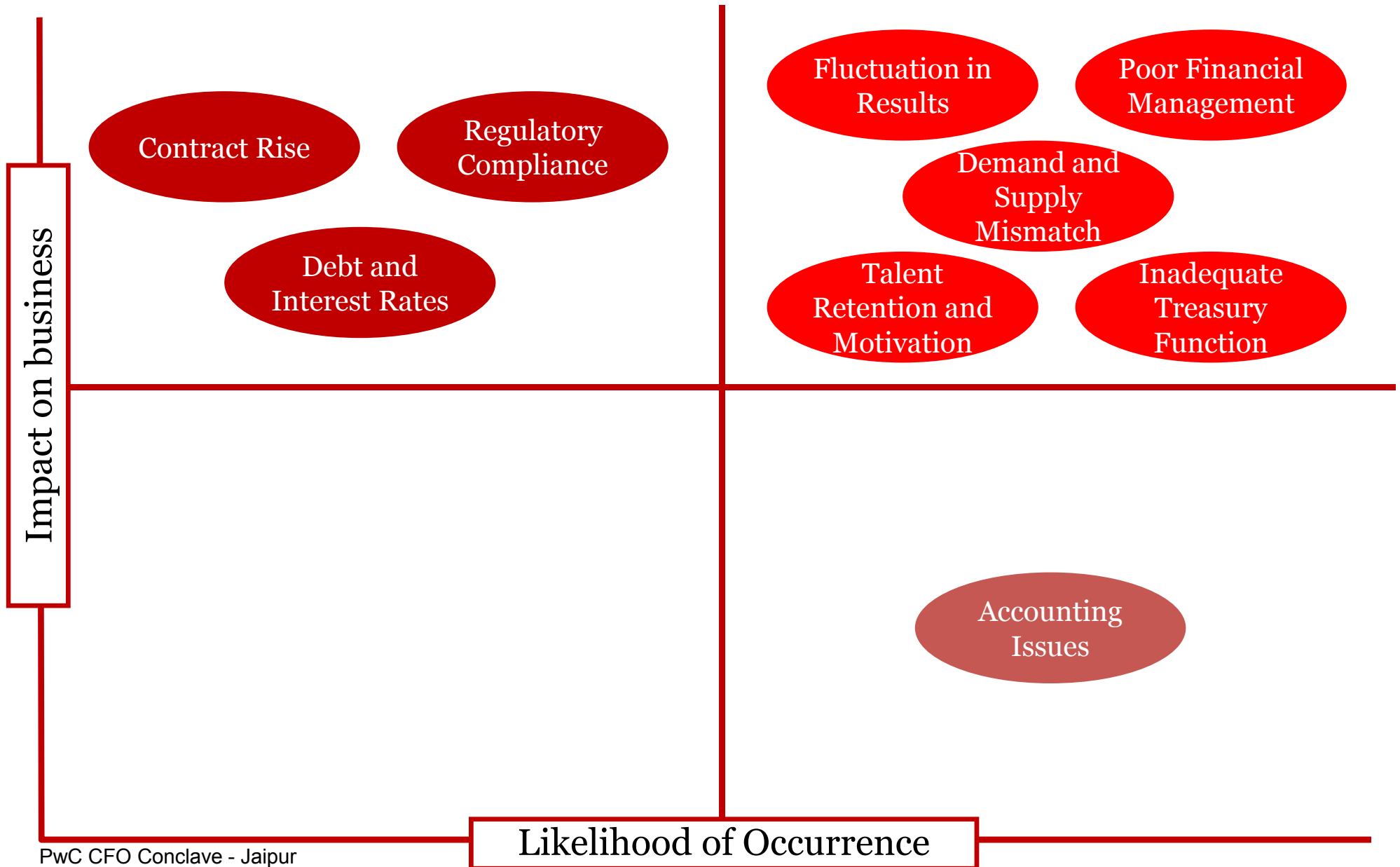


There is no indication that volatility situation will improve soon, and there is no quick fix.

Risk Mapping – Growth



Risk Mapping – Volatility



High Stakes for Management and Boards

Management is concerned because they are in the thick of things; Non Executive Directors are concerned because they are not in the thick of things!

The key to managing a downturn is the EFFECTIVENESS of actions, which can be hampered at times by a lack of factual understanding of the ground-level business situation and associated RISKS

PwC Survey-'Managing in Turbulent times

Managing of Risks therefore requires Management and Boards to work together through a constructive challenge process and with a well co-ordinated action plan.

Compliance with Regulation

Clause 49 requires proactive communication and management of Risks:

Clause IV(C)

“Board Disclosures-Risk Management”

“The Company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of properly defined framework”.

Clause IV(F)

Management Discussion & Analysis (MD & A) should include discussion on following matters....

- Risks and Concerns

Annexure IA

Information to be placed before Board of Directors

- Annual operating plans and budgets and any updates

Bridging the Gap – Risk Assessment & Internal Audit

Risk Assessment Framework



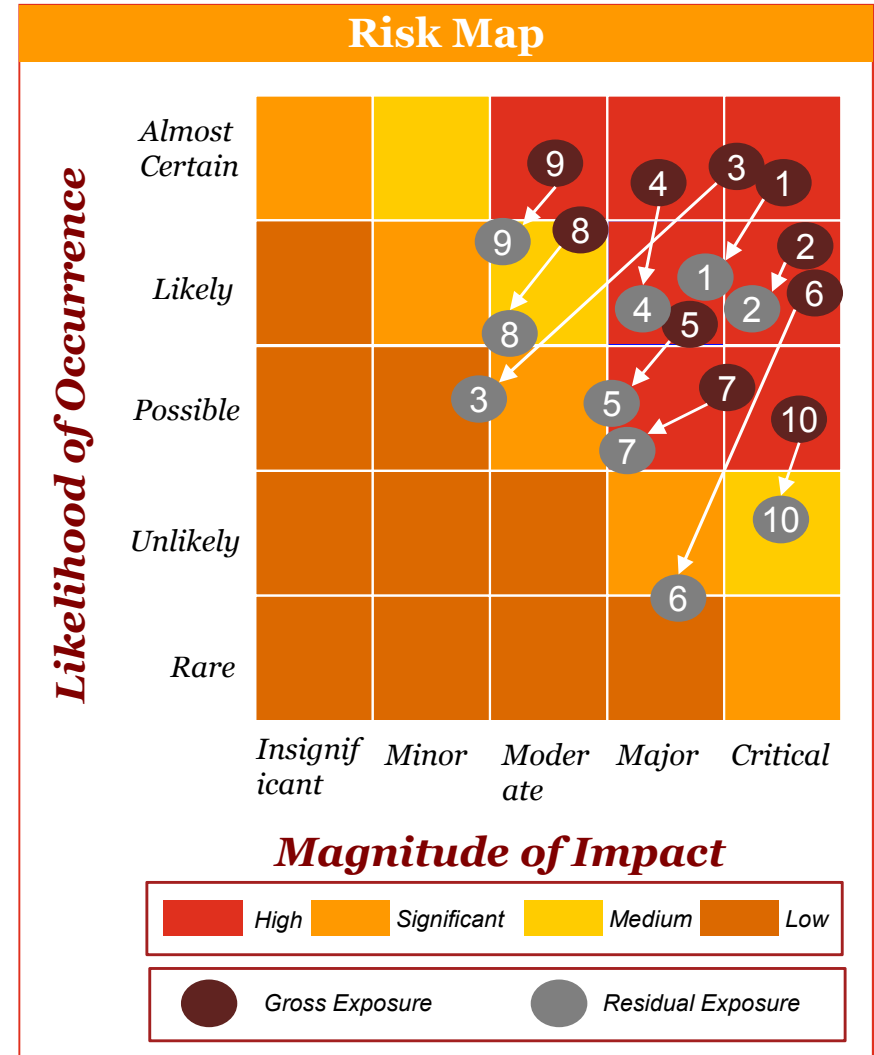
*A key expectation of the **Risk Assessment exercise** is to derive a **meaningful Audit Plan ...***

Top 10 Risks - Movement of Gross risk to Net Risk

Based on the existing controls likelihood and impact of the risk is arrived in the Risk Map thus giving us the gross and the residual exposure

Top 10 Risks – Growth & Volatility

- 1 Managing Integration Projects
- 2 Intensity of Competitor Action
- 3 Inability to attract & retain qualified/ experienced manpower
- 4 Inadequate/ inexperienced treasury function
- 5 Financing for growth / new projects
- 6 Procurement delays
- 7 Managing Stakeholders' expectation
- 8 Innovation failures
- 9 Loss of JV Partner
- 10 Litigations



Aligning Risk Assessment results to the Internal Audit Plan

The risk exposure identified in processes is categorized as high, medium or low and based on this the frequency of audit arrived at – higher the risk, greater the frequency of audit

Process	Sub-Process	Risk Category	Audit Plan*
Business Acquisition	Project Planning	High	High risk category, processes should be audited multiple times a year (at least once every quarter)
	Project Execution		
	Project Monitoring		
Litigations	Frivolous Tax Demands	Medium	Medium risk category processes may be audited every alternate quarter
	IPR Litigation		
Human Resource	Manpower Assessment & Planning	Low	Low risk category processes may be audited once a year

** Frequency of audit related to different type of risk category would vary from company to company*

Five Questions that Non Executive Directors should ask Companies to effectively manage Risks of Growth & Volatility

Do we have plans?

1

Can the executive show them to you, are they up to date?

Is the board on top of this?

2

Do they know the recovery priorities, what will happen in a crisis? Who does what and where?

Is the governance right?

3

Is risk management really co-ordinated at board level? Have accountabilities and assurance been defined?

Will the plans work?

4

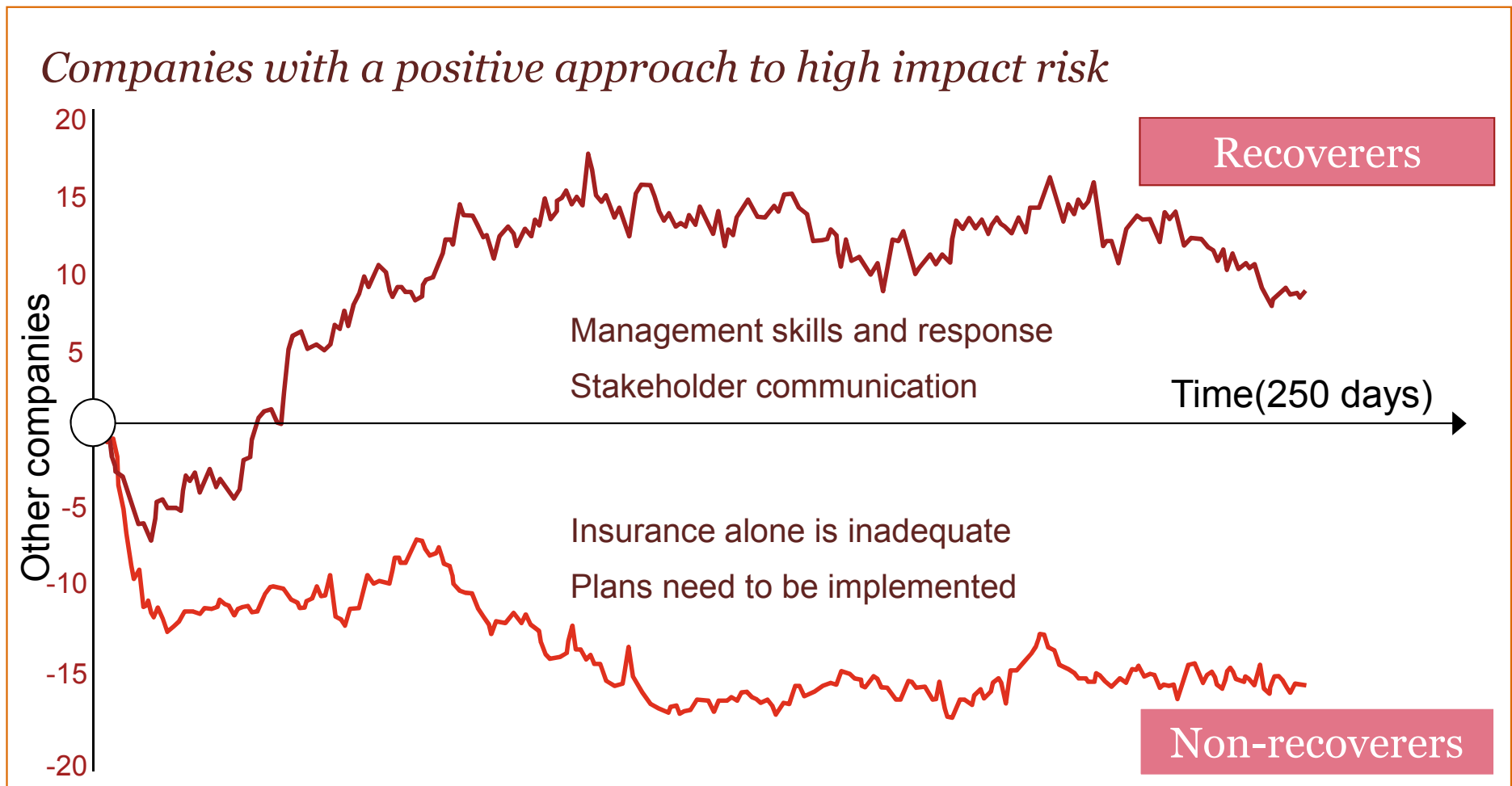
Have the plans been rehearsed effectively and regularly?

Are we spending wisely?

5

Are sensible choices being made between expenditure on different risk treatments? Can people explain how much is being spent on resilience and why?

Management's ability to respond to high impact risk events is valued by the markets



Source: Knight / Pretty 1996 - 2010

Questions to Consider



- Do organisations use an appropriate framework to document their top risks?
- Are organisations building a culture where risk is embedded in people's behaviour and actions rather than being treated as an additional layer?
- Is risk management given appropriate weightage in goal setting and performance appraisal of senior people?
- Is internal audit plan integrated with risk management framework to provide ongoing comfort to boards that mitigation plans are operating effectively?

Thank you!

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