ACCA

IOD Institute of Directors

Building Tomorrow's Boards®

RETHINKING RISK FOR THE FUTURE

– AN INDIA PERSPECTIVE

Think Ahead

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of 233,000 members and 536,000 future members based in 178 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation.

Find out more at **www.accaglobal.com**

About IOD

Established in India on 12 July 1990, the Institute of Directors (IOD) is an apex national association of Corporate Directors in India. Currently it is associated with over 30,000 senior executives from Govt, PSU and Private organizations of India and abroad.

IOD, India's activities extend from Boardroom Trainings, Researches, Publications, Board Advisory Services, Monthly Lectures to Workshops and networking of Members, Directors and Global Leaders through various National & International Conventions and platforms to debate the issues of topical interest, held in India, and abroad. The IOD, India's 'Masterclass for Directors' covers training in Corporate Directorship, and 'Golden Peacock Awards' in 14 different corporate disciplines, both have become global benchmarks. IOD has also setup a special wing called 'Organization for Non-Executive Independent Directors' (ONEID), mandated to look after the placement of Independent Directors in India.

Find out more at **www.iodglobal.com**

August 2021

RETHINKING RISK FOR THE FUTURE – AN INDIA PERSPECTIVE

Our research for *Rethinking Risk* reveals views from a range of Risk leaders including ACCA members working as risk professionals across the globe and in India: whether it is the governance, risk and compliance (GRC) perspective or those of finance teams and internal audit. Through these voices we get a fresh understanding of how risk management is evolving with the practice and principles of accountancy and what ways an accountancy background can shift the mindsets and behaviours needed to address the existential risks our organisations are facing today. Effective risk management is about creating a risk-conscious culture. Accountancy professionals need to reflect on the different roles they can play in fostering that and supporting their organisations in preparing for uncertainty and in achieving their objectives.

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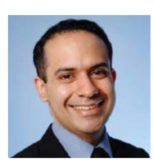

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Foreword

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The oversight, understanding and mitigation of risks in a volatile, uncertain, complex and ambiguous world have never been more important. The COVID-19 crisis has created a truly unprecedented crisis, which has impacted organisations across geographies and industries. Risk oversight and management have been catapulted from the wings to centre-stage. This rightly calls attention for promoting a stronger level of risk governance, and highlights the cultural and behavioural aspects of risks that are so fundamental to long-term performance.

Disruption preparedness is now on top of boards' agenda and many lessons have been learned on how effective risk management is put into practice. Building the right skills and capabilities in the workforce, understanding and aligning behaviours, developing leadership capabilities, and understanding in evolving corporate cultures are all vital.

As organisations become more focused on building sustainable business models, boards must also consider their preparedness for a myriad risks affecting their organisation and industry. Boards that have been agile, flexible and quicker to respond have been able to lead organisations through disruptions.

In this respect, this report is very timely and focuses on finance professionals' crucial role in helping boards understand and navigate these inter connected and emerging risks in today's more complex and uncertain world. Boards depend on data-driven analysis and diverse insights to make well-informed decisions to meet stakeholders' ever-changing expectations. Financial professionals with accountancy backgrounds can help them not only detect these risks before they become material, but also advise them on how to act and take advantage of the opportunities presented.

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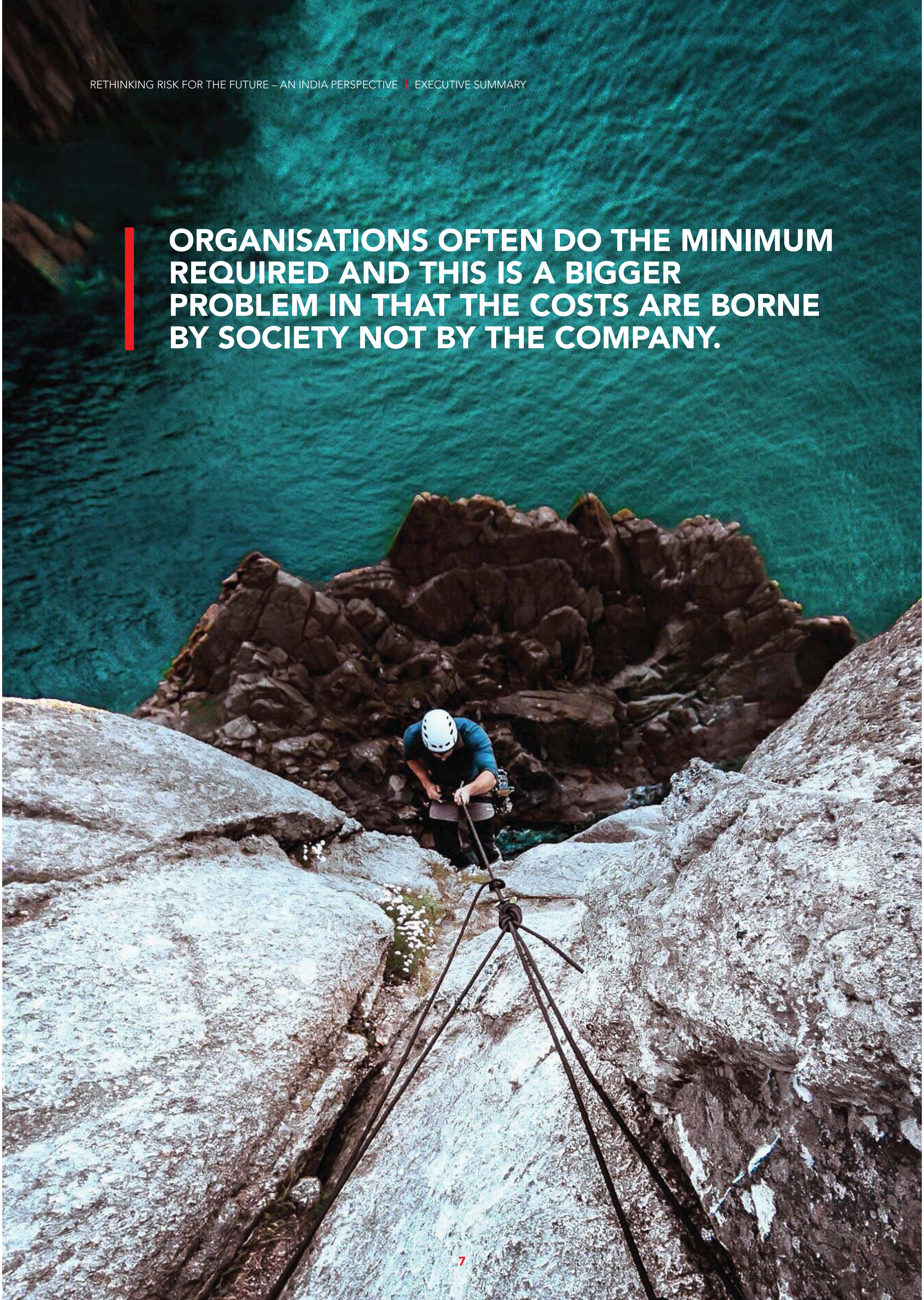
Executive **summary**

Risk management as we knew it has been dismantled by the ongoing pandemic, and accountants have been presented with an unmissable opportunity to reassess how they can add more value in this transformation to start by better informing boards. Accountancy is playing an increasingly larger role in helping boards find the missing links. For example, through their responsibility for reporting, accountants can provide deeper scenario analysis and optimise predictive analytics that generate more forward-looking insights for boards and senior management.

The role of accountancy in helping boards understand and effectively manage risk goes beyond reporting about the past. It involves using the information that they gather to plan for the future. Accountancy is becoming more engaged in risk advisory in the sense that they present their opinions to boards and in doing so help shape and change the corporate mindsets needed to survive and thrive in the new normal.

As guardians of information, accountants also understand business models and how best to organise the frameworks needed to help organisations achieve their objectives. They can therefore guide boards better on how to meet various stakeholder expectations and build the necessary trust that might be missing. The world was already going through enormous geopolitical, social and digital transformations before COVID-19 struck, but the level of uncertainty these changes pose along with the exigencies of climate change have been exacerbated by the global pandemic. Accountants can help boards understand what these emerging risks mean, and what their impact could cause. In particular, they can help companies attain more sustainable outcomes for long-term success by integrating environmental, social and governance (ESG) matters into their decision making and assessing ESG impacts on the financial, industrial, agricultural, and ecological systems on which they depend.

The accountancy profession can help unlock value for their organisations by looking beyond the financial, operational and systemic risks that have dominated since the global financial crisis (GFC) to help both boards and senior management learn about the sheer uncertainty of the external environment and its effect on business and stakeholders. Accountants need to measure these not-so-easy-to-quantify risks and provide decision makers with the narratives needed to plan and prepare. Each industry has its own inherent risks, but we have learned how ferocious the chain effects can become. The lack of visibility in supply chains, for example, has proved that risk cannot be departmentalised. It needs to be aligned and put into context for everyone in the organisation to understand and embrace.



ORGANISATIONS OFTEN DO THE MINIMUM REQUIRED AND THIS IS A BIGGER PROBLEM IN THAT THE COSTS ARE BORNE BY SOCIETY NOT BY THE COMPANY.

1. A **new dawn** for **accountancy**

The pandemic has exacerbated climate change urgencies, social inequalities and negative impacts of a shareholder-first mentality and forced the world to look at risk in new ways. It has also transformed corporate reporting and turned it into a more dynamic language for doing business. We all are risk managers who need to make better informed decisions about how we conduct ourselves and work together in creating a more resilient and sustainable world. Accountancy is fundamental to helping boards lead in this transformation.

Accountancy has become a multi-disciplinary profession that can add more value in the new norm by incorporating deeper scenario analysis and 'what ifs?' to help identify emerging and external risks before they materialise. Given the information that they gather, accountants should be organisations' natural storytellers, the ones who understand where the company is going and how it can adapt, diversify and progress. Accountancy professionals could be expanding their scenario analyses further by using more information from inside and outside the organisation and finding correlations to explore what could go wrong, how that might unfold over time, and what effects this can have on the company's various stakeholders. Scenario analysis needs to consider all possible uncertainties, including very unlikely eventualities. Accountants should be leading these evaluations, detecting how one risk affects another, so that finance and treasury teams can feed all potential risks into their stress tests and inform boards more about what the various outcomes would mean. Getting to grips with the risks and rewards of environmental and social phenomena and appreciating their interconnectedness requires significant lateral thinking, especially as today's world is changing at such a high speed. Expanding the narratives about these issues helps boards and senior management optimise their decision making.

New dynamic of corporate reporting

Professor Mervyn King, creator of South Africa's King IV Code of Corporate Governance and co-chairman with Michael Bloomberg of the Value Reporting Foundation, concludes that corporate reporting is not what it used to be and that accountants have the skills required to lead this transformation to save the planet.

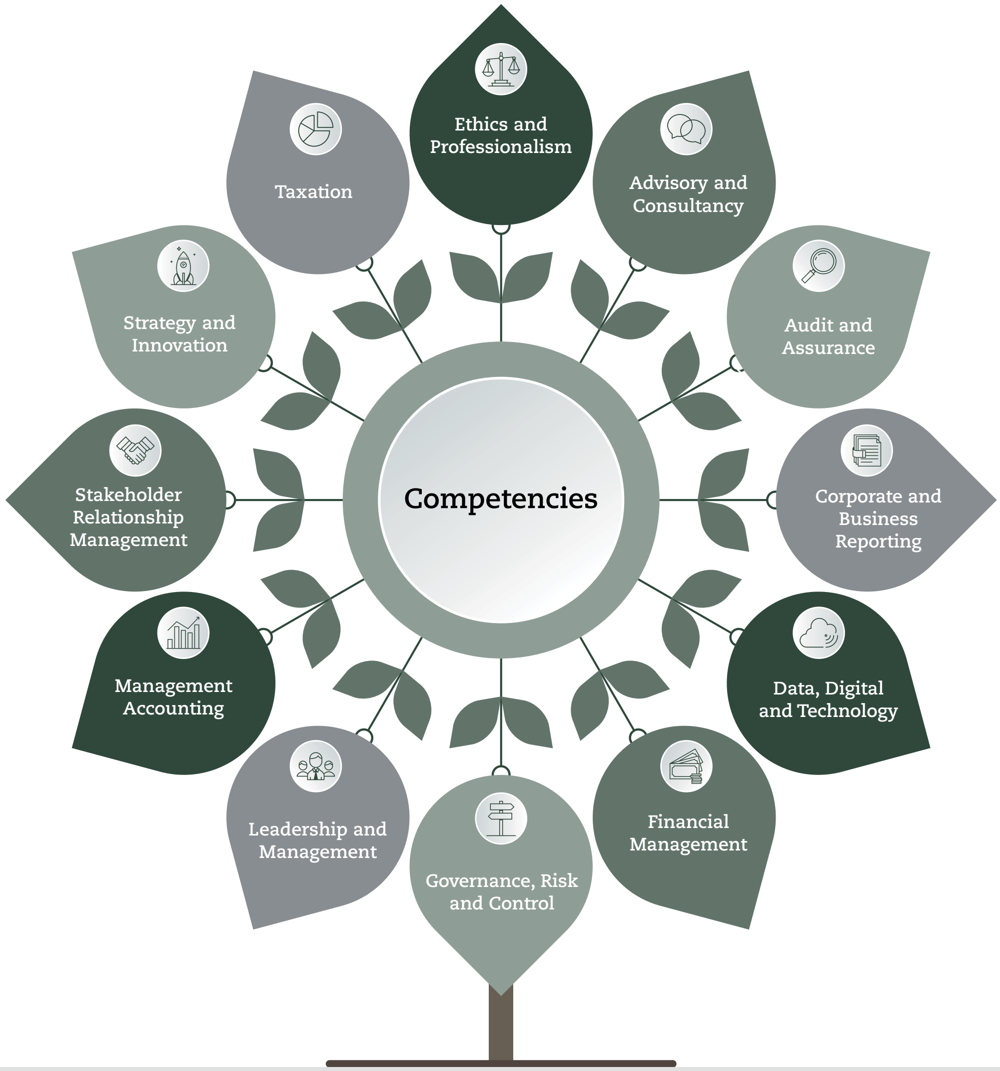
He sent this message to ACCA members in April 2021:

'There has been an exciting rebirth in accountancy because information is the lifeblood of boards in making judgement calls and being accountable. The more informed and transparent companies are, the more accountable they will be.'

Professor King, an honorary member of ACCA's Global Forum for Governance, Risk and Performance, believes accountancy professionals are the true 'gamechangers' in the C-suite given their professional training, which makes them well suited to be the 'chief value officers', persuading companies to act on environmental and social urgencies.

> 'IT IS A NEW DAWN FOR THE ACCOUNTANCY AND AUDITING PROFESSIONS BECAUSE THEY CAN LEAD ORGANISATIONS IN CHANGING THE MINDSET FROM PROFIT AT ANY COST TO VALUE CREATION, ADDING VALUE TO SOCIETY AND [ACTING IN THE] PUBLIC'S BEST INTEREST.'

FIGURE 1.1: Skill considerations for the risk professional



Ethics and Professionalism
Applying knowledge, sensitivity and judgement to act in accordance with fundamental principles of professional and personal ethical behaviour; ensuring the implementation of appropriate ethical frameworks, laws and regulation relating to business and promoting value in the public interest.

Advisory and Consultancy
Developing insight into both internal and external clients' business issues, providing expert advice, and adding value to the business or organisational function. Supporting clients' objectives and plans to improve, innovate and grow; identify efficiencies and respond to changing business conditions.

Audit and Assurance
Providing high quality audits by evaluating information systems and internal controls, gathering evidence and performing procedures to meet the objectives of advisory, audit and assurance engagements.

Corporate and Business Reporting
Preparing and communicating high-quality business reports to support stakeholder understanding and decision-making.

Data, Digital and Technology
Identifying opportunities and strategic options, using digital and data technology, to add value. Using appropriate technologies and tools to support business objectives and plans to improve, innovate and gain advantage; ensuring professional scepticism and ethics are applied when sourcing and using data and digital technologies.

Financial Management
Implementing effective investment and financing decisions within the business environment in areas such as investment appraisal, business re-organisations, tax and risk management, treasury and working capital management, to ensure value creation.

Governance, Risk and Control
Ensuring effective and appropriate governance, allowing evaluation, monitoring and implementation of appropriate risk identification procedures; by designing and implementing effective internal audit and control systems.

Leadership and Management
Managing resources and leading organisations effectively and ethically, understanding stakeholder needs and priorities.

Management Accounting
Assessing, evaluating and implementing management accounting and performance management systems for planning, measuring, controlling and monitoring business performance to ensure sustainable value creation.

Stakeholder Relationship Management
Managing stakeholder expectations and needs by aligning the organisation's objectives, engaging stakeholders effectively and communicating relevant information using all appropriate technologies.

Strategy and Innovation
Assessing and evaluating strategic options and identifying imaginative opportunities to improve performance and position; implementing innovative and cost effective solutions leading to effective change management and business process improvement.

Taxation
Complying with tax regulation and systems, communicating with relevant stakeholders to establish and ethically manage tax liabilities for individuals and companies, using appropriate tax computation and planning techniques.

FIGURE 1.2: Climate risk reporting

Conceptual Framework for Financial Reporting
Sets out the purpose of general purpose financial statements to provide financial information that is useful for investors, lenders and other creditors in making decisions relating to providing resources to the entity

3.3 Information in other statements and notes about:

i. recognised assets, liabilities, equity, income and expenses including information about their nature and about the risks arising from those recognised assets and liabilities;

ii. assets and liabilities that have not been recognised, including information about their nature and about the risks arising from them

Questionnaires and scoring to help companies, investors, cities, states and regions measure and manage their environmental impacts

C2 management processes for assessing risks and opportunities

W7 water-related outcomes of climate-related scenario analyses to inform its business strategy

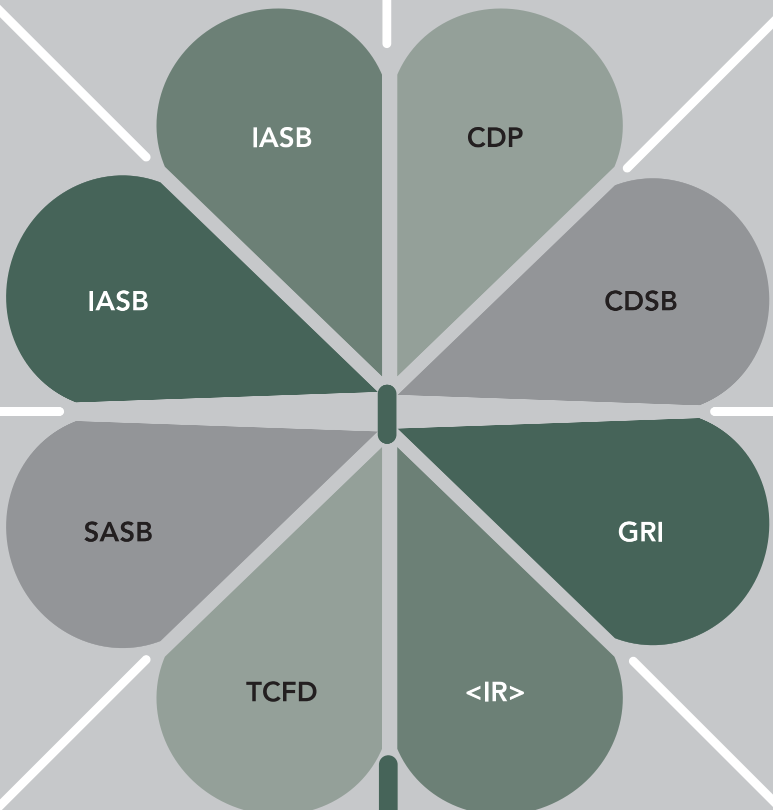
F2 Processes and procedures for forest-related risks

W3 Processes and procedures for water-related risks

Practice Statement 1 Management Commentary
Broad, non-binding framework for the presentation of management commentary that relates to financial statements that have been prepared in accordance with IFRS Standards

24 information essential to an understanding of the entity's most significant resources, risks and relationships

29 clear description of most important resources, risks and relationships that can affect entity's value and how those resources, risks and relationships are managed



CDSB Framework
Scope on climate, environmental and natural capital and financial implications for climate risks. Useful for investors, lenders and other creditors or capital providers, but may also satisfy other stakeholders' needs

REQ-02 disclosures on management's environmental policies, strategy and targets, including the indicators, plans and timelines used to assess performance

REQ-03 Disclosures explain material current and anticipated environmental risks and opportunities affecting the organization

SASB Standards
Industry-specific standards aiming to facilitate the disclosure of sustainability information that is financially material, decision-useful, and cost effective SASB's Standards Application Guidance, Section 5.0, suggests that for disclosure topics in the in Standards, companies disclose the entity's process to identify, assess, and manage topic-related risks, and how these risks are integrated into the entity's overall risk

GRI Standards
Public sustainability reporting on an organization's economic, environmental and/or social impacts and contributions, positive or negative, towards the goal of sustainable development

102-30 Effectiveness of risk management processes

RBC-1 Statement on sustainable development strategy

TCFD Recommendations
Industry-driven recommendations for climate-related financial disclosures, aiming to ensure that the effects of climate change become routinely considered in business and investment decisions

Risk management

Disclose how the organization identifies, assesses, and manages climate-related risks

Describe the organization's processes for identifying and assessing climate related risks

Describe the organization's processes for managing climate-related risks

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management

International <IR> Framework
Integrated reporting promotes a more cohesive and efficient approach to enable a more productive allocation of capital

4.23 Specific risks and opportunities that affect organization's ability to create value over the short-, medium- and long-term, and how the organization is dealing with them

4.24 Identify key risks and opportunities specific to the organization, including those that relate to the organization's effects on, and the continued availability, quality and affordability of, relevant capitals in the short-, medium- and long-term

*The IASB is undertaking a project to revise the Practice Statement on Management Commentary. The summary provided here relates to the Practice Statement that is applicable at the time of writing, which was issued in December 2020.

2. **Failing** to **address sustainability**, the **biggest risk** of all

In the new dawn of accountancy, and with the acceleration of existential risks, financial teams can add more value in helping boards address the biggest risk of all – failing to address sustainability. There are many ways financial professionals with accountancy backgrounds can help boards and senior management foster a sustainable company culture and it starts by looking at the bigger picture, keeping long term values and stakeholders' needs in mind.

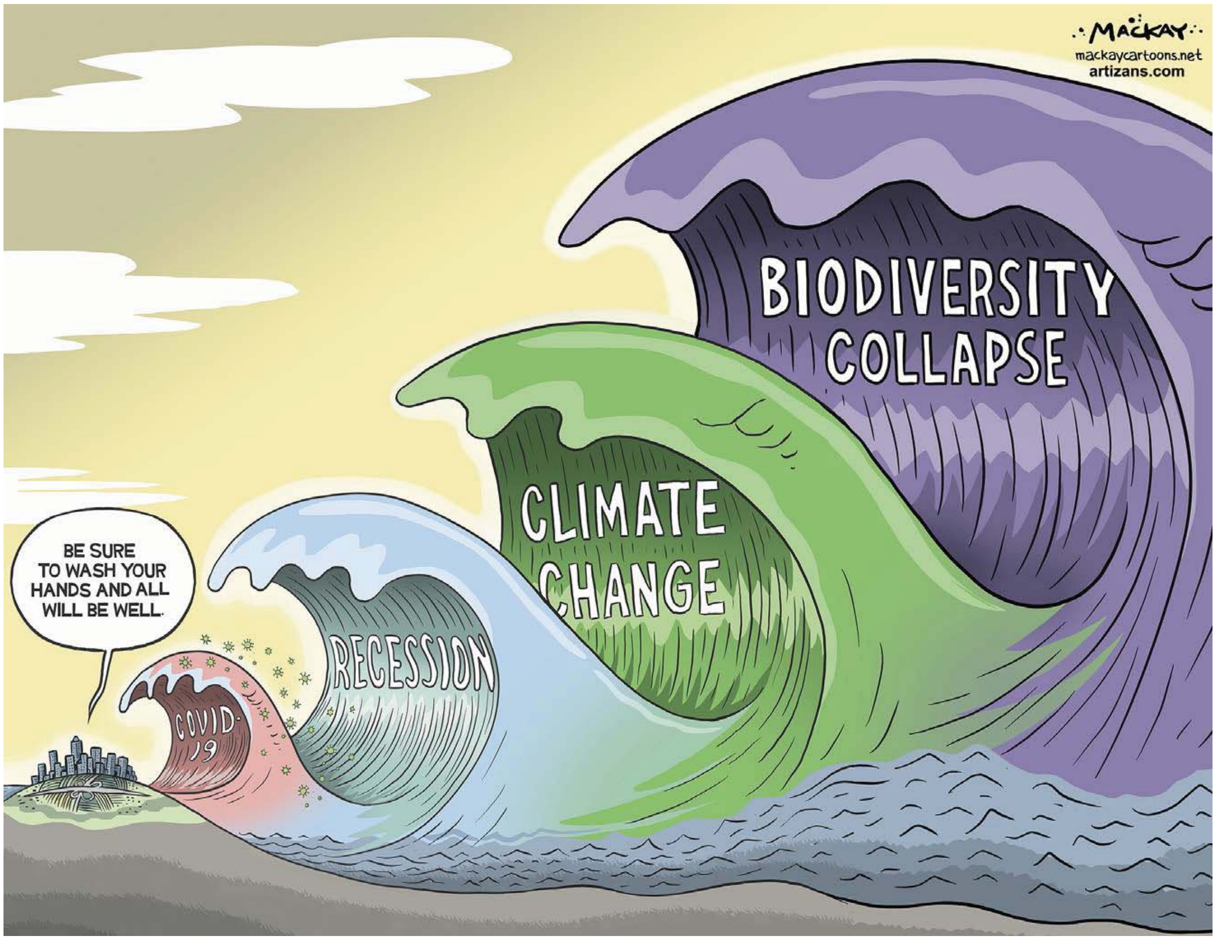
Stakeholder mapping is an effective exercise that involves identifying, analysing and prioritising the groups that have a stake in your organisation's activities. Stakeholder mapping can help boards and other decision makers understand stakeholder groups' expectations better and ensure that they consider the most impactful issues. Our research has found that while an increasing collective action driven by institutional investors and prudential regulators in India and around the world has produced a keener awareness of environmental and social matters, organisations are not taking as much action, for example, on net zero pledges as shareholders and stakeholders would now expect. This is often because the necessary mindset from the top, the board and senior management, is not evident.

Once stakeholders' needs are considered, companies can identify both the risks that can damage the business as well as the external, systemic risks that the company's activities can exacerbate for society at large, for example, with their GHG emissions or potential gender pay gaps. The role of accountants in creating applicable matrices to measure these risks is crucial for understanding the impacts and opportunities pertinent to their companies and in providing the transparent information that shareholders and other stakeholders are demanding. These measurements are the basis for setting the right objectives and deciding on which reporting frameworks can help to achieve them. If firms can measure the risk, then they can improve and optimise business decisions affected by it.

Accountants also cannot overestimate the importance of how they communicate these risks and opportunities to their boards because materiality is becoming an ever more powerful driver of strategy and risk management. Accountants can help the board and senior management understand materiality, as materiality itself also evolves, while driving the development of the key KPIs needed to work out how the company is doing and key risk indicators (KRIs) to uncover what might hinder its performance in the future. By evaluating the ESG concerns most relevant to the company and assessing the resources required to manage them, accountants can provide decision makers with the insights needed to prioritise the risks and opportunities that matter most.

Managing risk and sustainability requires a set of values that must be embraced in both top-down and bottom-up fashion if ESG issues are to be addressed successfully. Accountants must be involved in cultivating this cultural mindset by making sure boards and senior management are well-informed and that the appropriate systems are in place to ensure that the organisation and its stakeholders are adhering to the same values.

FIGURE 1.3: The biggest risk of all is failing to address sustainability



Source: "Collapsing biodiversity is another looming wave of destruction" by Graeme McKay, Artizans Entertainment Inc.

3. **ERM's** evolving **doors**

Our research found that the pandemic has shown the business benefits of addressing risk from an enterprise-wide perspective. Although finding organisations with established ERM frameworks were few and far between in India, the many that say they look at risk more laterally and in an integrated way were able to respond to the pandemic with more speed and suppleness. We have also seen how even those in India just starting to build an ERM framework were able to recognise if not leverage on the opportunities that the crisis presents.

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Overall, we believe a successful ERM framework allows an organisation to detect future risks and opportunities. By using the right KPIs and KRIs, organisations with an enterprise-wide risk focus not only optimise the decisions they make about risk appetite and future strategy, but also can measure the effectiveness of ERM itself.

Every organisation is different, so financial professionals are best advised to use their own scoring and assessment strategy as a guide for determining the most relevant indicators. Finding the most important KRIs can be especially challenging today given that so many of the risks are intangible and hard to measure. KRIs should be based on any signal that suggests the company could be harmed or headed in the wrong direction and lose value as a result. Areas to consider in developing KRIs include compliance; business objectives; performance metrics; previous losses or incidents; stakeholder commitments; and various risk assessments, such as audits, self-assessments and stress tests. Once all the KPIs and KRIs are gathered, the next step is to whittle down the broader picture into a core set of measurements that warrant continuous monitoring. Accountants play a key role in both reporting on the KPIs and KRIs and providing more analysis on them. It is important that accountants clearly articulate to boards how these measurements should shape the organisation's strategy. The board and senior management are not only interested in what risks the finance team sees, they also want to know the team's views about the consequences should these risks materialise.

ACCOUNTANTS CANNOT OVERESTIMATE THE IMPORTANCE OF HOW THEY COMMUNICATE THESE RISKS AND OPPORTUNITIES BECAUSE MATERIALITY IS BECOMING AN EVER MORE POWERFUL DRIVER OF STRATEGY AND RISK MANAGEMENT.

4. **Governance** in the **new universe** of **risks**

One of the primary roles of boards is protecting the interests of stakeholders by ensuring that the relevant risk controls and frameworks are in place, and they cannot do this successfully if accountants are not giving them accurate and reliable information for planning and strategising for the future. The crisis has reinforced the importance of accountancy in also providing crucial advice to boards about how risk governance structures are (or are not) helping organisations achieve their objectives in the post-pandemic environment.

Around the world, not least in India, we have seen a renewed attention to the importance of good risk governance and how structures should be applied more practically in a way that suits an organisation's objectives and the risks inherent in its activities. Structures, such as the risk appetite statement, are designed to be guides, not handbooks, and boards have learned that they need to be more proactive to ensure that these tools help address the tougher challenges of managing stakeholders' changing needs.

We have seen that management at companies with even the largest market capitalisations can become disconnected from their long term objectives. Boards could be asking more questions about the business risks to ensure, for example, that supply chain management is aligned with operational risk objectives, and accountancy professionals can add more value in this respect by ensuring a better flow of information between the first two lines of the three lines of defence by a) providing additional insights on the risk reporting requirements themselves and b) encouraging more alignment across business units.

In 2020, the Institute of Internal Auditors (IIA) revised the Three Lines of Defence Model that it first published in 2013 (IIA 2013; BDO UK 2020) to help define the roles, responsibilities, and relationships between internal audit and operational management, risk management and compliance function. The updated version, which the IIA now refers to as The Three Lines Model, can provide, when applied practically, integrated assurance that the organisation is under control and on track to achieve its goals. It still is not a black-and-white template, and we believe that in today's world boards need to consider the modes of accountability as much or more than the lines of defence.

PRAGMATISM AND FLEXIBILITY WITHIN THE ORGANISATION ARE WHAT IS NEEDED TO MANAGE THE EXISTENTIAL THREATS THAT WE'RE SEEING TODAY AND THE BOARD SHOULD BE DRIVING THAT.

5. Board composition and diversity of thought

Both the ACCA and IOD continue to advocate together that board composition and diversity of thought are also important ingredients for managing risks effectively and not missing the opportunities that they present. The pandemic forced many to reconsider their policies for board succession planning and processes for appointing new directors to ensure they have the right people for the job and represent the range of stakeholders and top priorities.

The COVID-19 crisis has proved how essential diversity is for better decision making and we can see that it does not stop at gender or ethnicity. Social and professional diversity, where board members have varied backgrounds, is proving very important in making sure risks relevant to the organisation are being addressed properly. Diversity of thought helps boards detect the gaps in their planning and assessments of the risks connected to climate change, digital disruptions and protectionism, for example. It is important to appoint directors relevant to the company's line of business and customer-base, but it also is crucial to have members with different backgrounds asking hard and unexpected questions.

Having diverse points of view helps the board committee to create more in-depth narratives about the problem of risk versus uncertainty by trying to ascertain what the consequences would be if a given risk materialised, including estimating what the financial impact would be. 'If we're managing risk, and we know the range of potential outcomes, our job is to figure out which one of those is most likely. But if we are dealing with uncertainty, and we don't know the range of potential outcomes, probability analysis and statistics have nothing to tell us about it. We are living in an uncertain world, and that's why we need to start thinking about what could happen and creating those narratives,' one ACCA non-executive director member attests.

As the IOD has also discussed in many events this past year, board evaluations are increasingly being linked to long term performance. In other words, assembling a team of intelligent, well-meaning directors does not always guarantee the board will work effectively in exercising their governance and risk oversight responsibilities. In IOD's experience of evaluating many Boards across business sectors, regular board and board committee evaluations can help boards set and achieve the objectives best suited for the organisation, basis the market it operates in. It also finds that on account of the board evaluation process, boards are able to steer their activities to align with the mission of the company, thereby increasing board effectiveness as a whole.

Whether such evaluations are conducted externally or as self-assessments, we find that those who commit to conducting them regularly benefit from: more efficient board operations, improved decision making, increased clarity of roles and responsibilities, greater accountability of board members, stronger leadership, and improved teamwork and communications.

Boards can use evaluation reports to improve accountability and communications and ensure that the organisation is progressing in the right direction and meeting its objectives efficiently. Self-assessments of boards or individuals should not be a 'tick the box' exercise and while there is no perfect template, self-assessment is an opportunity for continuous improvement. Since there is no prescriptive methodology, boards can design the process to meet their own relevant objectives and tailor evaluation methodologies to their current circumstances. Indeed, one recurring message in our member engagement for this report is that accountants must do more to help spot the gaps between what the board is striving for and how it currently operates.

BOARDS MUST MOVE AWAY FROM THE INGRAINED NOTION OF RISK AS A LOSS AND TREAT UNCERTAINTY AS AN OPPORTUNITY TO EXCEL.

6. Audit and Risk Committees: To be or not to be separate

In ACCA's Rethinking Audit & Risk Committees virtual roundtable, held in January 2021 and co-hosted with the Professional Risk Managers' International Association (PRMIA), members debated the different cases for creating separate risk committees and moreover how to do it (ACCA2021b) for those non-financial corporates that are not regulatorily required to do so.

One non-executive board member and audit and risk committee chair at a listed company in the UK said that, in his view, more organisations believe that risk oversight is much more effective with the combined audit and risk committee than with separate committees. 'If you go back to the role of the audit committees, it is to ensure that business objectives are achieved. This is underpinned by the internal control framework, which includes compliance and makes sure that we are delivering those strategic objectives. It also includes internal and external verification, so if you look at it from that perspective, it is difficult to disaggregate that as the two naturally come together to provide board assurance.'

One thing certain is that the board is accountable for risk whether there is a separate board committee for risk or not, and organisation must decide and clearly define what their risk oversight objectives are. Banking has had the independent capital adequacy assessment process requirement for some years now, and if you include the risks of the pandemic that we are seeing now in the operational risk space, they have been in the 'too-difficult to measure' pile for a long time. So, in terms of the effectiveness of the risk committee of a financial services firm, it's fair to say that it will always be difficult to manage a crisis through one board committee only.

The overall consensus of ACCA members globally is that pragmatism and flexibility within the organisation are what is needed to manage the existential threats that we are seeing today, and the board is who should be driving that. There is also no one-size-fits-all approach because there are many factors, such as the size and complexity of the organisation and its business interests. The other aspect is organisational because 'you've got to cut your cloth to meet your means' so you can argue that it makes sense for some boards to combine risk and audit into one committee even if they are technically two separate lines of defence.

Either way, a separate risk committee or combined risk and audit committee should be looking at those risks that have escalated and those that have been reduced, with particular emphasis on what the consequences could be if any of these risk materialise. It also is important that members of these committees ask themselves why these risks are reducing or increasing and understand what impacts these trends may have on the organisation in future.

In many ways, the pandemic has proved the mutual dependence between audit and risk management and that it makes sense to see how the two committees can work together more closely to help organisations meet their objectives. Accountants are crucial in this case because risk and audit committees rely on accurate information and analysis to effectively manage risk. 'I think the pandemic and increased focus on climate change financial disclosures, particularly TCFD [the Task Force on Climate-related Financial Disclosures] which links risk with financial disclosures, have brought audit and risk together more whether there are two separate committees working together or one combined,' another ACCA member added.

What can be learned from the pandemic, from a risk governance perspective, is that the board itself is accountable for assuring that the organisation is operating within its risk appetite and that emerging risks are being identified. Boards need to make sure these existential and catastrophic risks are being monitored and that plans to address them are in action. Quality data-drive analysis from accountants is as important than ever in helping boards effectively do that.

BOARDS NEED TO MAKE SURE THESE EXISTENTIAL AND CATASTROPHIC RISKS ARE BEING MONITORED AND THAT PLANS TO ADDRESS THEM ARE IN ACTION.

7. Operational resilience and the unthinkable

The operational challenges brought on by the COVID-19 crisis have forced boards to rethink what it means to be resilient. It is imperative that boards and senior management address emerging risks that can hinder the business from fulfilling its commitments to customers and other stakeholders. Accountants are trained to understand how business models work, so they should make sure the necessary measures are in place and the right questions asked.

Some ACCA members interviewed for this report referred to the importance of legal agreements and thinking about contracts they have with various stakeholders and third-parties in building resiliency and business continuity. One ACCA member in Bengaluru says companies in all sectors in India have been considering their options for ensuring business continuity. 'A supermarket, for example, is not active during the lockdown, but they still have to pay the rent. An Act of God legal provision could be contended to avoid paying those rental amounts since the property wasn't actually being used due to circumstances out of the hands of either party. Although most of these contentions would not stand in a court of law, legal risk, or the importance of having a tightly knotted contract, is something companies are waking up to and considering more comprehensively now than before.'

He also attests that regulatory change management is becoming an integral layer in best-practice risk frameworks and businesses of all sizes are also having to think about macro risks, and how the public sector is going to pay for the pandemic bills and in what ways that may affect them, for example.

Another member in Southeast Asia emphasised how the whole world's risk profile is changing and says that standard setters and regulators will also be thinking about their impacts on society. 'Fintech was unregulated for years amid all the innovation, but now authorities are recognising the data privacy issues and we can see that they are concerned about how artificial intelligence and other technologies could be biased. We should expect more regulatory change management for these converging sectors.' We can see that in this new norm successful applications for virtual banking licences will become increasingly challenging, for example.

Operational resiliency is another risk journey that must be defined from the top, by the board, and include the engagement of all business units and people working within them. The lesson learned is that operational resilience demands long term investment of resources and time. By focusing on critical activities and testing their processes, controls and documentation, boards can start laying valuable foundations for a more resilient future. Accountants can help their organisations with this by creating specific metrics for the tolerable levels of operational disruption. These should be measures that identify potential harm to consumers or market participants; business integrity; policyholder protection; safety and soundness; threat to financial stability (PwC 2020). Metrics are crucial because without them boards and senior management cannot assess the impact tolerances of their organisations and therefore know what needs improving.

In an interview, one ACCA member from a global pharmaceutical company said that accountants who can successfully marry industry expertise with technology will be the biggest value adders. 'The critical success factor will be the deployment of digital technology in identifying emerging risks. In the past, everybody in accountancy, especially, was more in an after-it-happened mode, and in a mindset of finding out why something that happened. Auditors would focus on identifying historical root causes, for example. Now business leaders are saying this is not good enough because we need you to tell us about any risks signals before the risks materialise. They need to have an indication of where the weaknesses in the chain are, so they can make decisions to remediate the risks ahead of the impact. This is where digitally empowered risk monitoring comes in with vast quantities of data that can now be mined. For risk management, finance and audit functions, the key will be to having teams of openminded flexible thinkers who can adapt to all kinds of new situations and are comfortable utilising technology.'

ACCA members around the world have also been calling for more scenario analysis and boards are also saying they need better interpretations of them. While this would never have predicted the pandemic, organisations that go further into the 'what ifs?' mode do learn more about emerging risks and therefore would have been better prepared.

As with all risk journeys, the challenge is in getting the necessary board and senior management commitment. Accountants can help by making sure there is a 'value-adding' mentality across business units rather than just keeping the head of risk management and audit and risk board committees happy. Otherwise, senior management will not pay attention and will not be proactive. An ACCA member from a small agricultural tech company in Eastern Africa said brainstorming has proved to be the best risk methodology: 'We are a team of only 15 people, but we want everyone to share their thoughts on what risks we should be concerned about. There are new risks popping up all over the place, so we all need to own it.'

Panellists on ACCA's Rethinking Risk for the Future Roundtable in India in July 2021 agreed it is imperative to look at risks through a different lens and consider new parameters for this post-pandemic era. They explained that operational resilience planning has become more dynamic, and how those companies looking hard at how new reporting requirements can help boards become more prepared for the future will be the organisations that achieve long term performance.

ACCA members in India attested that operational resilience has become the subject of day-to-day discussion for both boards and executive teams. One member in Mumbai who was interviewed for the report, said: 'COVID-19 changed the way we think about risk because the inconceivable has now become conceivable and the impact of that has enabled us to look at business continuity in a way that traditional risk models would not always allow.'

India discussion takeaways – Empowering risk-conscious corporate cultures

If there's one key lesson worth paying attention to this year, it's that those organisations with strong risk cultures will be better prepared for future disruptions than those without. In our research for *Rethinking Risk for the Future*, we found that ACCA members at organisations which had already been integrating risk into their decision making were not only able to respond to the Covid-19 crisis with more speed and suppleness, but also were in a better position to leverage on the unmissable opportunities that rapid digitalisation and climate change present.

Lt General JS Ahluwalia, the President of the Institute of Directors, in his inaugural address at ACCA's Rethinking Risk for the Future in India roundtable panel discussion held in July 2021 and available now on-demand, expanded on the crucial role of boards in setting the appropriate tone in this respect. He explained how it is the board's duty to empower their organisations to take on the 'right' risks and manage the nuances and challenges of these fast-changing times more effectively.

'Boards need to exercise more foresight. Given the velocity and interconnectedness off the risks we face today, they must be engaging with senior management more and scanning the horizon with them on a constant basis. It is important that boards understand the full range of risks impacting their organisation and making sure that risk and sustainability are not only driving strategy but also every decision that senior managers make. There needs to be more strategic and integrated thinking about how they prepare their businesses for the future and remain resilient in this fast-changing world,' he said.

Rising expectations of institutional investors and regulators have been getting boards to ensure their strategies are more aligned with the United Nations' 17 Sustainable Development Goals, and panelists at the Rethinking Risk for the Future in India roundtable discussed how new requirements set by the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI), are encouraging decision makers at larger, listed companies in India to instill the mindsets necessary to address these existential risks of today and, indeed, consider the consequences of failing to do so.

Mr. Shailesh V. Haribhakti, FCA Chairman – Western Region, Institute of Directors, India Board Chairman – Blue Star Ltd., L&T Finance Holdings Ltd., Future Lifestyle Fashions Ltd. and NSDL e-Governance Infrastructure Ltd.; and Independent Director on multiple Boards mentioned 'Risk management is the most rapidly evolving activity in corporate India today and the impact is transformational and visible. The three risks that organisations in India are actively managing currently are climate change including energy transition, water management, and land use change; cybersecurity including data governance, data leak prevention, effective disaster recovery, protection of key infrastructure assets, and effective fire walling; and health, safety and well-being of human capital including defining purpose, ensuring engagement and innovation, structuring for collaboration and continuous development.

Key risk mitigators being deployed include Simulations, SOP definition and upgrade, digitalisation, waste prevention and circularity, energy conservation, green energy use, waste heat recovery, autonomous vehicles, alternative fuel usage, benchmarking, intensive and tailor made reskilling and continuous communication.

India discussion takeaways – Empowering risk-conscious corporate cultures

In an interaction, **Mr. Jyotin Mehta Chairman – Audit Committee, Linde India Ltd and Independent Director in multiple companies** mentioned, 'The pandemic has undoubtedly set the world thinking very differently on risks of disruption and tested the resilience of companies to operate, sustain and grow during challenging times. As is the case with all risks, the pandemic also brought us opportunities of doing business differently, and perhaps more efficiently. Simultaneously, it brought about the much-required focus on the wellbeing of the workforce and human resources policies around flexible and hybrid workplaces. It forced companies and individuals to deploy and embrace technology to make life more convenient. It tested the reliability of logistics. It gave regulators an opportunity that during tough times, they would go all out and support the economy to remain steady to weather the storm. It set local authorities and governments thinking on the adequacy of health infrastructure. The flexible work schedules threw up new possibilities for exploring the second innings for erstwhile 'professional housewives'. Restrictions on travel and transport underscored the importance of green initiatives and perhaps made automotive companies relook at the EV revolution. Overall, while we lament the excruciating pain that the world and individuals were forced to go through, we also acknowledge the positive contribution that it made in accelerating the new economy. In conclusion, it taught the corporates, the society, the institutions and individuals that testing times don't last forever, but the lessons learnt should not be forgotten and we should all strive to make this world a better place to live.'

Vijay Muralidharan, ACCA, an Associate Director in Deloitte's Risk Advisory Practice, explained how enterprise risk management (ERM), although newer to corporates in India, has come to the fore because, if applied practically, it can allow organisations to see the bigger picture and provide a unified platform for oversight and accountability. He along with his fellow panelists provided examples of how companies in India are beginning to realise the business benefits of addressing risk from an enterprise wide-perspective since doing so only in silos has proved to be ineffective in today's complex environment. 'What we are really talking about is addressing the known unknowns, and helping companies understand just how material these can become. Companies can be taking advantage of the unprecedented opportunities that these risks, global shifts and new reporting requirements present because ignoring them could be biggest risk of all,' he asserted.

He also noted how those companies that can demonstrate sustainable outcomes are the ones able to attract investment and more efficient financing. 'Environmental, social and governance (ESG) are redefining risk management and that is why we are advising clients on extended enterprise risk management because there are so many external risks that companies need to understand and act on. If they do not have the knowledge or visibility of these risks, then they cannot change the mindsets needed to adapt and survive the dynamic shifts happening around the world,' he said, adding that SEBI's recent amendments to its Listing Obligations and Disclosure Requirements (LODR) regulations underline how holistic approaches to risk management are crucial to improving corporate governance standards of listed companies.

Suman Murthy, ACCA, a former Business Risk Advisor at Grant Thornton, Bengaluru who recently joined Deloitte's Finance Transformation Practice, explained how different industries in India were affected by the Covid-19 disruption and how accountants can help their organisations incorporate more risk analysis into their planning and budgeting. 'The pandemic proved how pervasive business disruption can be. For example, we see how important healthcare workers are to the economy in a whole new way now,' she pointed out.

She also discussed how regulations are expected to change more rapidly across all sectors in India as markets shift and stakeholders' needs change. 'Organisations will need to think about what these new requirements mean and why they are put in place. The fintech industry in India is another example since its growth has picked up even more pace since the Covid-19 crisis started. We expect the RBI to continue to enhance its reporting requirements regarding data protection and the safeguarding of end-users,' she added.

However, Murthy stressed that there is no one size fits all solution to managing risk, addressing sustainability and adapting to the changing external environment. 'It cannot be a tick box, it really needs to be a mindset that drives the company's long-term performance' she concluded.'

Conclusion

Boards today realise that risk can no longer be managed in isolation and accountants, given their skills and professional duties, are in a privileged position to help them build more effective and ethical enterprise-wide approaches to risk management in this faster-moving world we live in today. As guardians of information, accountants can help boards not only detect and better understand the emerging risks and opportunities facing them, but also foster the mindsets needed to think more long term.

Accountancy professionals can optimise their storytelling skills in new ways by creating more dynamic metrics and reporting methodologies. Accountants should be taking on a more advisory role in explaining the facts and possibilities behind the numbers, breaking them down and putting them into context for their board and the broader organisation.

Given our long standing friendship and shared ambitions, ACCA and IOD India believe there is an unmissable opportunity for both company directors and accountants in India to encourage more collaboration and collective action on ESG matters by working with public policymakers and partnering with leaders to help grasp how digitalisation and new technologies can help avoid harm to people and the planet.

Boards and accountants play such vital roles in building trust in today's digital society by ensuring information is accurate and transparent. Accountants should work to reverse the ingrained notion of risk as purely a negative and instead recognise it as an opportunity to create value and resilience. Reflecting on their competencies, accountancy professionals must reassess their role in the world as stewards of reporting, which can and must be used to promote changes in behaviour and encourage the attitudes needed to build a more sustainable future. By receiving more insightful information, company directors can drive the mindsets needed to build a healthier, fairer, more resilient and prosperous future for companies and communities in India and around the world.

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Glossary

Business Continuity Planning:
The process of creating plans, processes, policies or anything that can be used in the prevention and recovery from a threat or disruption to an organisation's operations and activities

Business Risk:
A threat to an organisation's ability to achieve its goals and performance targets

Compliance Risk:
The current and prospective risk to earnings or capital arising from violations of or nonconformance with laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards

Controls:
Methods that preserve the integrity of important information, meet operational or financial targets, and/or communicate management policies

Consequence:
The outcome of an event that has an effect on objectives or the organisation's environment. This is a factor in a risk score

Enterprise Risk Management:
A risk management process that uncovers risk on an enterprise-wide basis. ERM tracks progress over time, uses heatmaps and other reports to provide insight and transparency. It standardises the risk assessment process so that the entire organisation is using one scale and platform rather than silos

Framework:
A set of criteria that detail how to best protect an organisation and help it achieve its objectives and purpose. It provides detailed and structured processes for completing risk management activities

Governance:
Processes and structures implemented to communicate, manage, and monitor organisational activities

Key Performance Indicator (KPI):
A measurement with a defined set of goals and tolerances that gauges the performance of an important business activity

Key Risk Indicator (KRI):
A proactive measurement for future and emerging risks that indicates the possibility of an event that adversely affects business activities

Likelihood:
The probability of a risk occurring. This is a factor in providing a risk score

Mitigation:
The necessary steps, or action items, to reduce the likelihood and/or lessen the impact of a potential risk once it is identified or has materialised

Monitoring:
To consistently review and observe. In risk management, this is key to knowing whether current controls are effective or need re-evaluated

Operational Risk:
The risk arising from the execution of an organisation's business processes and/or the risk of loss resulting from failed or inadequate internal processes, systems, people, third-parties, or other entities

Reputation Risk:
The current and prospective risk to earnings or capital arising from negative public opinion or perception

Residual Risk:
Risk remaining after considering the existing control environment

Risk Appetite Statement:
A high-level statement that broadly considers the risk levels that management deems acceptable and affordable to shoulder

Risk Assessment:
The prioritisation of potential business disruptions based on the impact and likelihood of occurrence; includes an analysis of threats based on the impact to the organisation, its customers, other stakeholders

Risk Score:
Is attained by calculating several factors, such as threat level, criticality, gap score, and consequence. Its purpose is to inform on the severity of a risk and provide insight on how to properly allocate resources

Risk Tolerance:
A metric that sets the acceptable level of variation around organisational objectives and provides assurance that the organisation remains within its risk appetite. Compared to risk appetite, it is narrower in scope than is risk appetite, and sets acceptable levels of variation around business objectives. It is also more actionable than risk appetite because it is not as high-level

Strategic Risk:
The current and prospective risk to earnings or capital raising from adverse business decisions, improperly implemented decisions, or lack of responsiveness to industry changes

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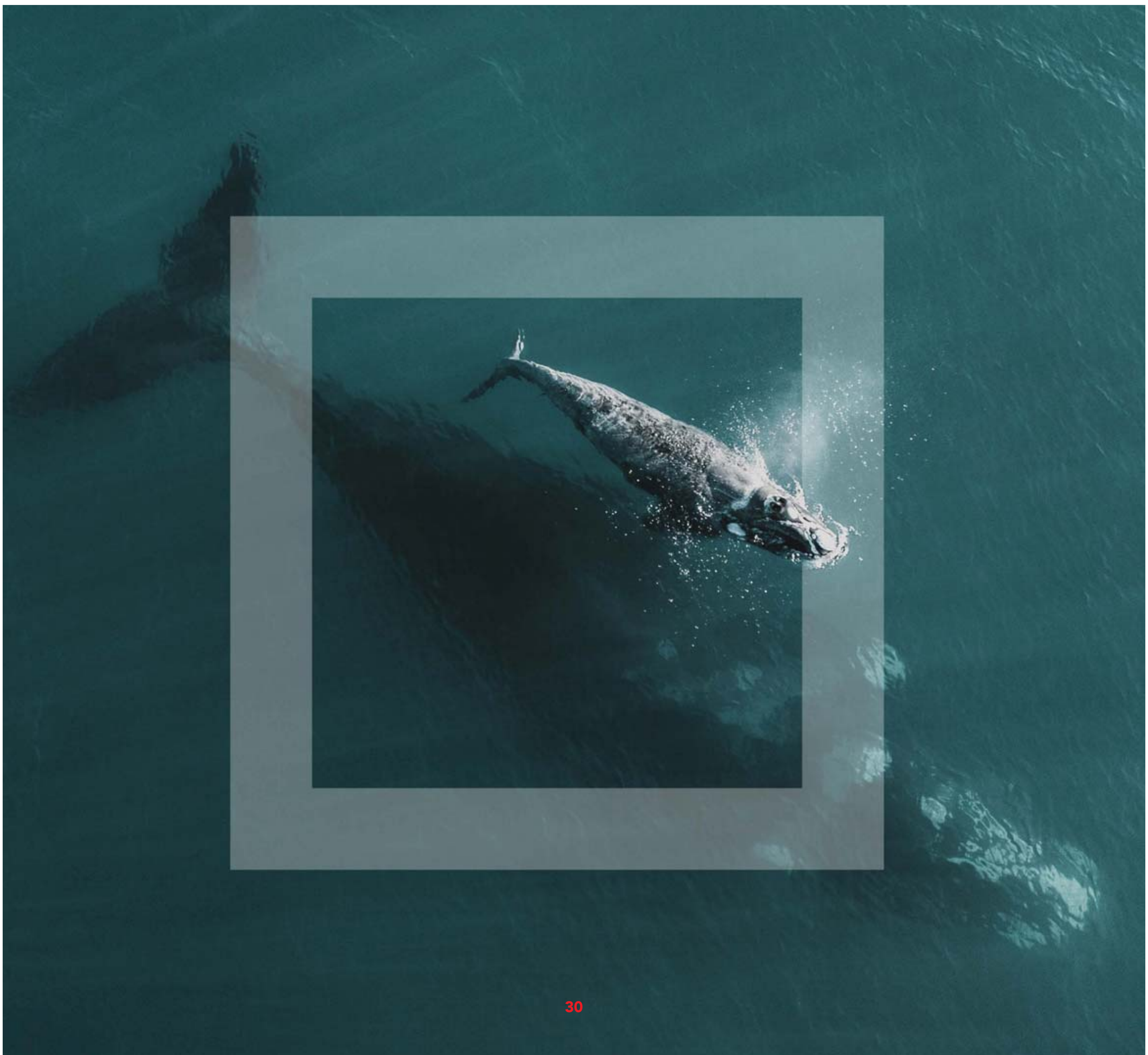

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