Olivia F. Kirtley, President
"Good Governance, Integrity and the Accountant" [30 min keynote]
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Acknowledgements:

- Prof. Avianti, CA, CPA, member OJK Board of Commissioners, Chair Financial Services Authority of the Republic of Indonesia (OJK) Audit Committee [opening remarks]
- Dr. Muliaman D. Hadad, Chair OJK Board of Commissioners [welcoming speech just prior to OFK]
- Ladies and gentlemen - Good morning.

- On behalf of the International Federation of Accountants (IFAC) I am honored to be here with you this morning and speak with you in this beautiful historic venue, Indonesia's National Museum.

- And I am delighted to be speaking with you on a topic that I have been involved in for many years: corporate governance.

- I have seen the evolution of corporate governance in many parts of the world over the last 20 years –
    - beginning with the Security and Exchange Commission's Blue Ribbon Committee on Improving Audit Committee Effectiveness in the late 1990s where I testified,
    - to the changes made to listing exchange rules for Boards and governance structures of their listed companies in response to various corporate failures and financial crisis,
    - to today, where many countries and jurisdictions are examining how their governance principles and practices should and can be strengthened.

- The past few years have challenged companies and boards in quite serious ways. In the midst of the global financial crisis, the importance of strong corporate governance, integrity and business ethics was brought to the forefront.

- Even today, if I say the names *Volkswagen*, *Toshiba*, *Tesco*, *Olympus* or *FIFA*, the connotation associated with those entities is much different than it was even little more than a year ago – and weaknesses in their governance have been central to their problems.

- As President of IFAC, I lead an organization that consists of over 175 members such as IAI in 130 countries, representing almost 3 million accountants. Our entire profession views corporate governance as a critical link in the financial reporting supply chain and essential to the success and sustainability of any organization – regardless of size or mission.

- But my personal perspective on this is not only from inside the accounting profession; it is also greatly colored by my experience inside the boardroom.

- Over the past 20 years I have served as a non-executive director of several publicly listed companies, and on the boards of many other organizations of all types. I have seen the difference robust governance can make to enhance decision-making in ANY organization.

- As CEOs, CFOs and Indonesia's senior leaders, I submit to you that embedding strong governance into the DNA of each of your organizations is one of the most important things you can do as a leader.

- Indonesia is the world's 16th largest economy and one of the largest economies in the South Asian region. While economic growth has weakened in recent quarters, it is expected to strengthen in 2016, based on anticipated increases in public spending, improved confidence and an expansionary impact from the depreciation of the rupiah.

- I understand that future development will likely be aided by infrastructure enhancements, particularly to alleviate bottlenecks in transport and logistics, and electricity and water treatment, as well as other investment plans.

- So in some respects, the economic outlook for Indonesia is mixed to somewhat positive. But many challenges remain. There is always more to do.

- Taking Indonesia and its businesses to the next level is going to require a strong, decisive, and embedded governance and risk structure. All organizations—large and small, public and private—must care about it.

- Indonesia is making strides to bolster corporate governance. And while your mandate as the regulatory authority for Indonesia's financial markets is relatively new, the Financial Services Authority [Financial Services Authority Republic of Indonesia] (OJK) has been at the forefront of strengthening governance in this country.

- Last year, OJK, in cooperation with the International Monetary Fund's International Finance Corporation, published the first edition of the Indonesia Corporate Governance Manual (CG Manual) to benchmark existing standards and practices in Indonesia with internationally recognized best practices.

- And we await further developments regarding the formation of the ASEAN Economic Community (AEC), whose members are expected to adopt and improve laws and regulations pertaining to economic activities including corporate governance.

- The accountancy profession has long been an active advocate for good governance. In 2007, just prior to the financial crisis, IFAC commissioned a global governance survey of more than 340 leaders in financial reporting, including standard setters, regulators, investors, company managers, directors, and auditors.

- This pre-crisis survey identified that progress had been made in improving governance since the corporate financial scandals early in the decade. But it found that more needed to be done in some key areas. Those areas included:
    - Improving corporate ethics and the "tone at the top"; (something we've heard cited in commentary about a number of the recent corporate financial scandals)

- Linking remuneration structures to long-term sustainable performance;
- Moving away from legalistic compliance – or a checklist mentality – to principles-oriented oversight and management; and
- Improving financial reports by making them more transparent

- A follow up report in 2008—again before the full effects of the global financial crisis were being felt—highlighted other governance issues that needed to be addressed:
  - Risk and control systems were too narrowly focused;
  - Business models were not sufficiently integrated with overarching governance and sustainability;
  - There was a lack of safe harbor protections for those charged with governance in some parts of the world; and
  - There was a great need for better governance in public sector organizations.

- As Indonesia becomes a more internationally integrated economy, your commitment to good governance is going to be essential to Indonesia's success.

- In the U.S. and Europe, there are many new governance rules and regulations companies and Boards must comply with.

- But more regulation is not an adequate answer – it is <u>mindset</u> and <u>commitment</u> that enable effective governance.

- Several years ago, in the aftermath of the financial crisis, I attended a London meeting with 20 corporate directors from the largest global financial institutions. Most of them were audit and risk committee chairs.

- It was our second meeting to discuss common governance challenges and how best to carry out our control and risk oversight responsibilities.

- An analogy provided by one participant asked what train we wanted to ride to the future:
  - one that devoted time and resources to upgrading infrastructure and systems OR

- one that continued to operate in basically the same way as it did before the last disaster, with just a few added checkpoints and reports along the way.

- The point was simple:
  - we all need to devote much more time to developing systems and infrastructure upgrades rather than writing plans about disaster recovery programs – or so-called “living wills” that many financial institutions are required to prepare.

- In my consultancy business and as a faculty member of The Conference Board Directors Institute, I have worked with public company board members to help them gain new insights and learn new techniques to better carry out their governance responsibilities - Or in the words of the prior example - to improve their systems and infrastructure.

- They are most appreciative of what I call “take away” items from these sessions:
  - ways to improve the quality of information they receive,
  - questions they should be asking,
  - follow-up techniques, and
  - processes to improve effectiveness.

- And the Boards I have joined, I have not always been comfortable with information flow and oversight processes that I initially found in place - but without exception, they quickly agreed to make changes to improve the organization’s accountability and transparency with the Board.

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- In the time I have with you today, I would like to highlight three areas that I have found can really move the needle toward stronger and more effective governance:
  - the role of executives and boards in corporate governance reform;
  - the tone at the top; and
  - the role of the professional accountant

1. Executives as well as boards have critical roles to play in corporate governance reform

- I will begin with competency.

- First and foremost, Boards and their committees must challenge themselves. They must conduct an assessment of their adequacy and qualifications for protecting and representing their investors and stakeholders.

- Boards must be willing to honestly assess themselves—as a group and each director individually—and ask:
    - Do we truly understand the business, the issues, and the risks?
    - Are we equipped to effectively represent our stakeholders?
    - Are we sufficiently informed and able to understand the implications of basic judgment calls?
    - Do we have the courage, knowledge and experience to offer credible challenge?

- It is hard for people to answer "no" to these questions, so I emphasize the "understand" point. If any director doesn't understand the business model, the risk, the transaction, the market, then that is a problem.

- Directors must be equipped to ask the tough questions about:
    - Not only about specific transactions, expenses, revenue streams, or new initiatives ;
    - But about whether they have the right people on the Board
    - Or if Board "renewal" is required – to seek new board members with relevant experience and commitment, in order to achieve deeper understanding

- The need to assess and challenge oversight governance structures and Board composition was highlighted by the global financial crisis – especially in the area of RISK.

- One critical lesson that was reinforced was that it is not possible to have good governance without strong risk management oversight processes.
- I dare say that if we had done a survey in the aftermath of the Asian financial crisis and prior to the global crisis in 2008, and asked: What industry has the best risk management models and disciplines?
  - We would have gotten a strong vote for financial services,
  - yet the crisis – led by liquidity and interdependence – still happened.

- So what is the message? Risk management is a long, long way from good in many organizations.
- Will new regulatory risk management rules at the systemic level protect investors and the public interest? NO
- Each entity must build its own models and capacity to address risk areas.
- Boards, senior management and accountants are all on the hook here.
- Directors must have high expectations **and** increased knowledge of the business to make meaningful progress.
  - This is an area where we have "miles to go" before we get to the right place.
  - And true leaders need to be leading the march, not watching from the sidelines.

- I think working with internal and external auditors, along with "industry experts" will be necessary to make this happen. Simply setting up a Risk Committee is not the answer.
- Initial steps must be taken, and those of us in this room must lead:
  - 1) to make risk management and oversight a priority,
  - 2) to make risk assessments and mitigation action plans a consistent Board agenda item – not an occasional one, and

    - 3) AND to monitor mitigation steps and assess their effectiveness.

- We must ensure there is meaningful progress in advancing risk oversight –

- This is essential for effective corporate governance.

2. Governance within the management structure is also critical

- As executives and senior leaders, we must challenge ourselves and our organizations to gain a deeper understanding of complex business models and issues.

- We must set “a tone at the top” for effective good governance and integrity throughout the organization.

- As with effective Board governance, it begins with continually examining whether the right people with the right skills are working in the critical risk and control areas:
    - within operations (first line of defense),
    - accounting, finance, risk management (second lines of defense)
    - and internal audit (third line of defense).

- As business models and business complexity changes, we must ask:
    - Do our employees have technical skills, and deep operational understanding and experience?
    - Do we have the right mix of people and skills?

- If management teams and employees cannot comfortably explain the overall picture of business direction, the effect of decisions, and assess enterprise-wide risks, then how can a board member do their job effectively?

- This may seem to be an oversimplification, but we need to challenge our business and staffing models.

- We cannot ride into the future of a rapidly changing world with mismatched people skills and knowledge
- We must be vigilant about asking –Do we have the right people to provide insights and information for good decision-making across the enterprise?

3. Professional accountants are uniquely qualified and stand ready to help

- Three years ago, I was part of a Corporate Governance Study Group sponsored by the Rockefeller Foundation. Our mission was to examine governance gaps and suggest ways to bridge those gaps.
- During one of our meetings, the Dean of Columbia University Business School, made the following observation: "There are three kinds of gaps that boards must address: gaps in information, gaps in oversight, and gaps in expertise."
- I am convinced from many years serving on boards that the accounting profession is uniquely positioned to help companies address those gaps.
  - Information is our business.
  - Industry and financial expertise are our core competencies.
  - In many countries, audit committees and our profession initially led the way for improved corporate governance—as the OJK is doing now. The accountancy profession stands ready to help organizations understand the essential elements, structures, and processes for strong corporate governance.

- Not only do professional accountants have the training and competencies that can provide valuable input to this process, but it is ALSO in OUR best interest to play a significant leadership role.

- Effective governance leads to transparency and high-quality information that enables professional accountants to do a better job. It is essential that our profession is involved at every level of corporate governance.
- We often think of our involvement from the perspective of accounting firms or of professional accountants working in business, but the expertise of the profession is needed both outside and INSIDE the boardroom. I assure you, accountants make very good directors!
- "Financial expertise" and "professional skepticism" are two of the most important factors in effective board and oversight functions. These are at the core of highly developed professional accountant competencies.
- At the end of the day, effective governance comes down to knowing what information is needed, and then having honest, frank and informed discussions on significant issues and risks. Speaking out and asking the tough questions. Professional accountants can contribute greatly to this discussion – both as participants and facilitators

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- In summary, I would like to leave you with three "take-aways" regarding the leadership role you can play in strengthening corporate governance in Indonesia… and a challenge.

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- First, the "take-aways":
- **#1 - ADVOCATE -** for strong corporate governance. Be interested in all aspects of governance, initiate dialogue on its most effective forms, and share experiences – with each other, across organizations and industries.
- **#2 - EVALUATE** - Consider conducting a "governance review"– and identify improvement opportunities (much like companies do internal control reviews).
    - o Seek out what has been effective elsewhere,
    - o highlight existing gaps in company practices and

  - create an action list to bridge those gaps.

- This would create immediate value for individual companies, and benefit the national economy.

- And please remember that the accountancy profession in Indonesia is well positioned to help address any gaps.
  - They have the strategic skills that will add value.
  - Welcome and embrace their advice on how to strengthen your risk management systems.
  - Leverage their skills and expertise - and utilize them as trusted advisors as you evaluate a broad range of corporate issues and challenges.

- **#3 - PARTICIPATE -** We all need to lead by example - including inside the boardroom, as board members, demonstrating effective information flow, constructive challenge and strong accountability processes.

- The competency and expertise of new board candidates has escalated to the top of the list as the world recovers from financial crisis.

- Today's boards seek qualified candidates with strong relevant experience including risk management, internal controls and executive compensation structures and incentives.

- You can help fill these needs as part of Board "renewal" efforts.

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- **And now for my challenge**.

- Each of you can contribute greatly to reaching the next level of governance effectiveness.

- As Indonesia's pubic, corporate and academic leaders, you have the gravitas to take this message forward to wider audiences, to advocate for strong corporate governance—and to help others see what that looks like through your own examples.

- You have the power to impact economic growth on a very broad scale – not just your own bottom line.
- ***You must not only have good intentions - you must act intentionally.***
- Thank you for the opportunity to join you this morning.