The role of BOD in investment: practices & lessons learnt

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Part VI (D) – Key Functions of the Board

• Review and guide key corporate areas (strategy and risk).
• Monitor effectiveness of governance practices.
• Monitor management performance and succession planning.
• Aligning key executive and board remuneration with long term interest.
• Ensure transparent board nomination & election.
• Monitor and manage conflicts of interest.
• Ensure integrity of accounting and financial reporting.
• Oversee disclosure and communication.
The Role of the Board

Accountability
- Accountability to the Company, regulators/legislators, shareholders, and stakeholders
- Protection of shareholder rights
- Adequate transparency and disclosures
- Financial and non-financial information

Policy Formulation
- Creating vision and values
- Developing corporate climate and culture
- Monitoring the external environment
- Approving policy framework

Strategy and Stewardship
- Strategic thinking – Setting Company direction and risk appetite
- CEO/Executive selection and evaluation
- Succession planning

Oversight and Control
- Internal control and risk management
- Financial management and reporting
- Internal/External audit
- Compliance

Internal focus
- Short term
- Long term

Source: IFC

Think Ahead
BOD: roles & responsibilities in investment & financial decisions

- BOD has diversified expertise & experience
- Not all BOD have financial background
- BOD who have and do not have financial background has equal voting right
- BOD is responsible for his/her voting
- Business facing with significant loss/damage as the result of inaccurate voting means BOD has not fulfilled his/her role

BOD needs a proper thought process for a good decision!
- JVC listed on HOSE since 2011
- As of 31 Mar 2016, JVC increased capital few times with additional foreign shareholders. Chartered capital increase by 4 to 5 times reaching VND1,125 billion
- JVC is a holding company with Supervision Board, BOD and Management Board. There’s no committee under BOD nor internal audit function. Key shareholder group is family of the Chairman of BOD cum General Director
- BOD: 7 are cum Management Board; 3 reps of foreign shareholders, no independent BOD
- FSs audited during 2013-2015 revealed:
  - JVC had many transactions with related parties. There’s no info on related parties except for Triet Ton Tien company with main shareholders are wife/son/daughters of
  - Gross profit in audited FSs 2015 was VND 3.4 billion comparing to VND 69 billion in FSs prepared by JVC, enterprises management cost in audited FSs was VND1,159 billion which increased 60% compared to that in FSs prepared by JVC, additional provision was VND1,125 tỷ VND mainly for account receivables of related companies
- 21 Jun 2015, the Chairman of BOD cum General Director was dismissed with no publicising the reasons
- 23 Jun 2015, JVC announced that the CEO was detained for investigation of personal wrong-doings
Real case - JVC

- Prior to that, JVC is a popular stock with good profile such as full cap for foreign investors, average liquidity per day is USD 1 million, fair increase in revenue & profit, dividend ratio ranged from 15 to 20% for consecutive years

- Only in 2 weeks (10 – 24 Jun 2015), stock prices decreased from VND 22,000 per stock to VND 10,600 in closing session of 24 Jun, after 10 sessions of decreasing prices, resulting in market capitalization drop-out approximately VND1,200 billion

- From 15 Aug 2016, JVC stock was categorized as under special monitoring as the result of regular violations of disclosure in securities market.

BOD had no independent member; failed to oversee closely companies’ finance, investment and transactions with related parties as well as failed to supervise FSs and independent auditors resulting in asset loss and failed public disclosure.
BOD with investment & finance info

Investment
- Increase capital
- Scale-up, new investment project
- M & A
- Divest

Thought process
Questions for directors to ask management
Bad practices/Proposed solutions

Finance
- Financial status
- Financial Statements
- Internal audit
- Financial supervision
BOD: INVESTMENT

- Thought process
- Questions for directors to ask management
- Bad practices & proposed solutions
INVESTMENT- Thought process

Major capital investment decisions are not a single event but a decision process that involves:

- over time,
- understanding and influence of BOD on companies’ strategy development to implementation
- not only investment project in question but a wider risk culture of the company
- involving opportunities for BOD to question, challenge management on the investment proposal
- BOD equipped with sufficient info to be confident that management identify risk, develop risk mitigation plan & forecast investment gains

Ensure that executives are pursuing the right acquisition at the right time
INVESTMENT—Questions for directors to ask management

- How the potential acquisition’s business is in line with our vision and values?
- How do you think the price we will pay for does make sense?
- What is the structure of investment transaction?
- What are the connections with related parties?
- What is the impact of a potential acquisition on shareholder value?
- How do we finance this deal?

Source: ACCA report on Corporate Governance & Risk: A study of Board Structure & Process
INVESTMENT—Questions for directors to ask management

- What are the downside risks, such as loss of revenue or failure of proposed synergy benefits?
- Whether we do the full due diligence (legal, accounting and tax), for the deal?
- How we are comfortable to the valuation of the business?
- Who are external consultants to be involved in the deal?

Source: ACCA report on Corporate Governance & Risk: A study of Board Structure & Process
INVESTMENT – Bad practices & proposed solutions

**BOD lack of experience**
- Unable to oversee the implied motivation of management (such as personal motivation, cosmetic brush/falsify financial statements, etc.)
- Unable to oversee the risk of companies and individual BOD member

-> Gain experience, attend training courses, use external consultants

**BOD lack of info**
- Request provision of info sufficiently, honestly and objectively
- Request review of external consultants as relevant
INVESTMENT– Bad practices & proposed solutions

BOD is influenced by big shareholders/group benefits (including personal benefits)

- Require thorough understanding of role & responsibilities of BOD
- Increase in number and quality of independent BOD
- Ready to have objection vote or resign to mitigate risks for BOD his/her self
Guest Speakers

Ms. Sakshi Jawa – Chief People Officer, TIKI Corporation in Vietnam

Dr. Dang Pham Thien Duy – Lecturer

• 15+ years experience in HR field across Asia
• Former HR Director at Coupang (Leading Ecommerce company in South Korea)
• Former Senior HRBP at Amazon in India and Singapore
• Former C&B Head for Prudential Vietnam
• Ph.D. in Business Information Systems
• Assistant Professor of Information Technology in the School of Science and Technology.
• Competitive 2016 RMIT prize for Research Impact in the Enterprise Category & many other research and teaching awards.

THANK YOU!
BOD with financial supervision: Why & How

Mr. Le Vu Truong
Partner
ERNST & YOUNG Vietnam
FINANCE– Questions for directors to ask management

Financial Statements supervision

- Can you give us a brief overview of the process for preparing these financial statements, including the review processes?
- What has made you confident about the accuracy and integrity of the financial information reported?
- What were the areas requiring the most judgment and how did you mitigate any bias that may have affected these judgments?
- Was there tax compliance or consultancy during the year and what were the findings of these review and how are recommendations arising from these review being managed?

Source: ACCA report on Director’s responsibilities for Financial reporting
FINANCE—Questions for directors to ask management

Financial Position Supervision

• Request analysis & explanation of significant changes in specific items in financial statements comparing with that of previous year and that of plan (including evaluation on impact of material events/transactions to the specific items)

  E.g.: assets and short-term loan, long term loan, account receivables, account payables, inventories, fix assets, etc.

• Request explanation of significant changes in analysis ratio in financial statements

  E.g.: working capital turnover, inventory, account receivables, account payables, profit ratio, liquidity ratios, etc.

Source: ACCA report on Director’s responsibilities for Financial reporting
FINANCE—Questions for directors to ask management

Review profit & loss

- Changes in revenue, expenses, gross profit, financial income and expenses, other income and expenses
- Profit margin, if there’s improvement/better performance compared to previous period?
- Net profit, with the result for the period/year, how does it reflect performance for period/year

Review cash flow

- Cash flow from operating activities: what is the reason for the cash flow from operation is negative or smaller compared to previous period?
- Cash flow from investing activities if any for what activities and its assumptions in making investments

Source: ACCA report on Director’s responsibilities for Financial reporting
FINANCE—Questions for directors to ask audit committee and independent auditors

- Do you think the financial statements provide enough information to help users understand the organization and its performance?
- Are you aware of any attempts by management to inflate or deflate revenue or move to different accounting periods?
- What do you consider to be the key audit areas for this company?
- Does the audit firm, or member of the audit team, have any other relationships with management?
- What areas of management judgment did you not agree? What is the key risks of this FSs?

Source: ACCA report on Director’s responsibilities for Financial reporting
BOD: questions on IFRS adoption plan

- Vietnam IFRS adoption roadmap is expected to be announced by end of 2019: 2023 on voluntary basis and 2025 compulsory to bank, financial services, listed companies, large public interest companies, FDIs, SOEs with foreign loans

Questions for directors to ask management on IFRS adoption plan:

- What will impact on our business in terms of finance and human resources?
- How are we prepared for it to make sure we are well prepared and ready with the change?
- How is our internal resources sufficient to carry out the plan and adapt the change?
- Whether we are going to use external consultant to support us?
FINANCE— Bad practices

1. Errors in presenting FS
2. Errors in B/S
3. Errors in P&L
4. Errors in CF
5. Errors in consolidated FSs