

# **KEYNOTE ADDRESS BY MR KENNETH YAP, CHIEF EXECUTIVE, ACCOUNTING AND CORPORATE REGULATORY AUTHORITY ON 14 OCT 2015, 9.10AM AT THE CPA AUSTRALIA CONGRESS 2015**

Mr Philip Yuen, Divisional President – Singapore, CPA Australia

Mr Adam Awty, Chief Operating Officer (Commercial), CPA Australia

Distinguished guests

Ladies and gentlemen

Good morning. It is my great pleasure to join you at today's CPA Australia Congress. I am delighted to be given the opportunity this year to deliver the keynote speech.

## **Importance of audits for market confidence**

2 The dangers of creative accounting have weighed heavily on financial markets, especially after high profile scandals at the turn of the century. The collapse of corporate giants such as Enron and Worldcom, and in their wake the fall from grace of audit firm Arthur Andersen, had jolted financial centres and governments to action. Some countries like the U.S. intensified Government regulation, while others like the U.K. opted to strengthen market-based regulation. Singapore opted for a balanced approach between government regulation and market-imposed discipline. We set the right standards, level the playing field with targeted enforcement, and urge market players to make the right choices.

3 That in a nutshell summarises ACRA's approach towards audit regulation. Government regulation cannot be the panacea to solving audit quality issues, and we recognise the need for complimentary market-driven measures to raise quality.

## **The concept of Audit Quality Indicators (AQIs) Disclosure Framework**

4 On this note, ACRA is pleased to introduce an Audit Quality Indicators (AQI) Disclosure Framework, to further raise the quality of audits on financial statements in Singapore. This AQI disclosure framework is a voluntary step to be undertaken by the big four audit firms when tendering or re-tendering for audit engagements. The

firms will provide data for eight indicators, both at the firm as well as at the engagement level, to help audit committees discern between the quality of audit teams. These indicators include practical and comparable data such as the hours spent by senior audit team members involved in the audit, relevant experience of the senior audit team members and results from internal and external inspections of auditors. I will not go into the specifics of the indicators as Professor Suwardy will cover them in his presentation. I would however like to provide you with a glimpse on why and how we decided to embark on the journey to set up a market-driven AQI framework.

### **Providing directors with an additional tool to fulfil their duties**

5 As a starting point, the company director is the most important stakeholder in the financial reporting value chain, as he is entrusted with the responsibility under the Companies Act to act honestly and use reasonable diligence in the discharge of the duties of his office. This includes ensuring that financial statements are true and fair and accord with accounting standards.

6 Over the past year, we have stepped up our Financial Reporting Surveillance Programme significantly. You may have read our inaugural report released two weeks ago, which highlights significant deficiencies in the financial reporting of a number of listed companies. Recognising that some directors may need to strengthen their financial reporting competencies, ACRA has worked with our professional partners to develop the Director Financial Reporting Essentials Course and engaged over 1,400 directors and company management at various seminars and talks on the expanded Programme.

7 In stepping up scrutiny on the role of directors, we have received feedback, especially from those serving on audit committees, that they are hampered by the lack of measures to help distinguish between audit firms based on quality. Audit firms of similar size and stature are often perceived to be the same, when in truth they are not. The visibility is even more limited from the investor's point of view, as the standard auditor's report does not reveal the complexity of the audit or the extent of audit procedures undertaken. From the feedback received, we perceived there was a pressing need to increase the level of transparency and to level the playing field, for the benefit of both audit firms and audit committees.

8 Indeed, the audit report as it now stands is somewhat of an enigma. Beyond its simple statement that the accounts reflect a true and fair view of the financial standing of the company, and the perceived reputation of the firm, there seems to be no ready way to determine the quality of the audit work, the competency of the partner engaged and the mechanics put into the audit to address high risk areas. The AQI framework seeks to bring out these hidden elements, and provides directors the means to discharge their duty to choose wisely among audit firms.

9 I would like to stress that the disclosure framework is not a silver bullet that guarantees high quality audits. Its aim is to deepen the conversation on audit quality between audit committees and auditors, by providing a comparable basis on which to assess the effort, experience and resources that an audit firm will bring to bear on a particular audit. It is also an easily referable basis on which to justify the final decision made. In that way, investors can better understand the thinking of the audit committee and rest assured that the appointment process is sound.

10 What audit committees should not do is to regard the AQI as the final arbiter on quality. Auditors should be given a chance to explain in full the value proposition they bring to the firm. Like any CV or referral letter, the AQI merely forms an objective and comparable basis for the interview process. It should not absolve audit committees from their duty to exercise independent professional judgement during the auditor evaluation process.

### **Singapore AQIs Disclosure Framework – First of its kind in Asia**

11 We are not alone in seeking to raise audit quality through the use of AQIs. Globally, there has been growing interest in developing indicators on audit quality. Organisations such as the Public Company Accounting Oversight Board (PCAOB), International Auditing and Assurance Standards Board (IAASB) and the US Center for Audit Quality (CAQ) have developed conceptual frameworks to measure audit quality. In 2014, audit firms in the US and Europe also took the initiative to publish AQI information in their individual public transparency reports. These trends indicate that the adoption of AQI frameworks are gaining traction internationally. And as we are a small and tightly-knit jurisdiction, we were able to distil the key aspects of what

has been discussed globally and implement the framework relatively quickly. Within Asia, Singapore is the first jurisdiction to launch an AQI Framework.

### **Development of AQI Framework in Close Consultation with Stakeholders**

12 Indeed, we look forward to benefiting from this framework very soon. Audit committees will be able to utilise the AQIs Framework from 1 January 2016 onwards.

13 I am proud to note that the AQIs Framework is a testament of the strong and symbiotic relationship between ACRA and the audit firms. The entire project was also made possible only with the strong support of our partners, CPA Australia and the Singapore Institute of Directors, both of which helped to facilitate extensive consultations with audit committees.

### **Critical success factors for implementing the Framework**

14 Going forward, the success of this pilot project will very much depend on three factors.

15 The first is how audit committees perceive and use the AQI Framework. To ensure that it is employed to the best possible effect, ACRA has teamed up with CPA Australia to produce an AQI guide for audit committees. The publication is also accompanied by a more detailed ACRA publication to assist audit committees on how to interpret and use each AQI.

16 The second is the commitment of audit firms to provide comparable AQI data. ACRA is publishing a second guide to assist audit firms in computing and preparing their AQI data, to ensure consistency and comparability. We will provide a sample presentation format, together with the definition and formula to facilitate preparation of each AQI. To supplement the data, firms are also allowed a narrative description to explain the differences in their operating structure, policies and processes. Finally, to ensure a level playing field, ACRA will perform sample checks during our regular inspections to ensure the reliability of the AQI data provided.

17 The third success factor is the extent to which the framework is requested for by audit committees. ACRA will be working with other stakeholders to promote

greater awareness of the framework. Together with SGX and SID, we will be issuing a joint letter to audit committees of all listed entities on SGX to inform them about the Framework. MAS has also expressed its support for this framework and will be encouraging banks to consider AQIs in their appointment and re-appointment of auditors. Finally, SID will support the effort by incorporating the framework into their series of Corporate Governance Guides, as well as their training courses for audit committees.

18 Going forward, I would urge all other audit firms to also come on board and voluntarily provide AQIs to their clients. A quality framework is after all of most use when it is voluntarily adopted. It is my hope that audit committees will see the value of AQIs and ask for them from every firm participating in the audit evaluation process.

## **Conclusion**

19 I am confident that the AQI framework will help audit committees level up their game and select the most experienced, the best-trained and the most well-resourced audit teams for their companies. It will bode well for Singapore's reputation as a transparent and trusted financial centre.

20 I would like to end off by thanking CPA Australia for graciously inviting me to open your annual conference, and I wish everyone a most fruitful day ahead. Thank you.