

**KEYNOTE SPEECH BY MS INDRANEE RAJAH,
SENIOR MINISTER OF STATE FOR LAW AND FINANCE,
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Mr Gerard Ee, President of the Institute of Singapore Chartered Accountants

Ms Lim Soo Hoon, Chairman of the Accounting and Corporate Regulatory Authority

Distinguished guests

Ladies and gentlemen

Introduction

1. Good morning. Thank you for inviting me to the Singapore Accountancy Convention 2016.

2. This year's event is significant as it is the first time that ISCA and ACRA are jointly organising this convention. ACRA's annual Public Accountants Conference has been merged with this year's Singapore Accountancy Convention, reflecting the importance of audit in the accounting profession's public standing and relevance. I am pleased to know that there are over 900 participants at this year's convention. The strong showing highlights the profession's commitment to uphold the quality of its services and standards. This bodes well for our drive to transform the Singapore accountancy sector into a leading global accountancy hub.

3. We're in an uncertain global economic climate, where corporate governance and accounting scandals have rocked some capital markets, and we should never take for granted the confidence that investors have in the quality and integrity of audits and financial reporting in Singapore. It remains a key global competitive advantage for Singapore and it is one that we must continue to safeguard and uphold.

High Quality Audits and Financial Information Crucial for Investor Confidence and Market Growth

4. Since audit inspections were first introduced in Singapore a decade ago, ACRA, with support from ISCA and other key stakeholders, has sought to further raise the quality of audits and financial reporting in Singapore. One significant audit development is the adoption of the enhanced auditor reporting standards for Singapore, which will take effect from January 2017. The new standards require auditor's reports of listed entities to go beyond the present binary pass-fail paradigm to be more nuanced and express the auditor's view on key audit matters, or KAMs in short.
5. This will give investors access to more information on specific, critical areas in a company's financial statements. With this information, they will be able to engage more actively with directors, management and even auditors at shareholders meetings.
6. In this way, we hope to encourage greater shareholder activism in Singapore. In a recent NUS business school study commissioned by ACRA and ISCA, over 200 retail and institutional investors were surveyed for their views on financial reporting, audit, and corporate governance. The study shows that investors continue to value reliable financial statements above company announcements, analyst reports and other sources, for making investment decisions. Significantly, many also wanted even more pertinent information on a company's financials to be made known.

7. I am therefore pleased to announce that ACRA is working with ISCA and SIAS to develop a guide for investors to explain the disclosures under the enhanced auditor's report. The guide will also help investors understand how they can use these enhanced audit disclosures to obtain greater insights into the company's financial statements. The guide is slated to be issued early next year, in time for the next annual cycle of AGMs traditionally held in March and April.
8. Let me also urge directors, audit committees and company management to respond to these changes with more insightful disclosures. Likewise, auditors should be prepared to engage in upfront and more robust conversations with management and audit committees as they discuss KAMs, in particular, how the KAMs would be described and eventually communicated in the auditor's report. The NUS Business School study shows that the number of investors expressing confidence in financial statements increases close to five-times when the statements are audited. This is an opportunity for auditors to re-emphasise the value of audit to investors.
9. In countries such as the UK, which have already adopted these new standards, the additional insights offered by the enhanced auditor's reports have been welcomed by investors. More regular dialogues have also taken place between auditors, audit committees and investors. This is particularly important for investors of smaller listed companies where there are fewer sources of other information available.
10. It's therefore encouraging to note that there have also been some early adopters of the enhanced auditor reporting standards amongst the business community. These include the Singapore Exchange, SingTel, Singapore Airlines and UOB. I commend their commitment towards greater transparency in corporate reporting.

Audit Committees Urged to Ramp Up Engagement with Investors

11. Apart from wanting more information on a company's financial statements, the NUS Business School study further highlights that investors want more engagement with audit committees. With dual oversight of management's financial reporting and the audit process by internal and external auditors, audit committees play a pivotal role in ensuring the quality of audits and financial reporting of the company.

12. Investors have indicated that they would like audit committees to explain their basis for selecting auditors. More than 80% of investors surveyed also want audit committees to use audit quality indicators (AQIs) when evaluating appointment of auditors. In this regard, ACRA introduced an AQIs disclosure framework¹ in October last year. The framework contains eight comparable audit quality markers that can be used to gauge the quality of the audit firm and audit engagement. Although voluntary, I am happy to note that the Big-4 audit firms have committed to provide the AQIs to their clients. What more – some of the firms beyond the Big-4 have also voluntarily shared their AQI information when asked. I strongly encourage all mid-tier firms to adopt this practice as well, as the request and provision of AQIs evolves into a norm for all audit committees.

13. Since its introduction, ACRA has received feedback that many audit committees have been paying greater attention to AQIs relating to the experience and time spent by senior audit members of the audit engagement. Greater expectations about the audit are now being set, communicated and agreed upfront with the auditor.

¹ In 2015, ACRA introduced AQIs Disclosure Framework, comprising eight quality markers that correlate closely to audit quality, aimed to help audit committees evaluate and select their auditors. The voluntary Framework is available from 1 January 2016.

14. From ACRA's audit inspections, ACRA has noted that there have been measurable improvements in some key AQIs at the audit firm level. These include staff retention rates as well as time spent by engagement partners and engagement quality control reviews partners on the audit. This year, ACRA has also set six AQI targets to further help audit committees better assess whether the auditors meet the mark. One such AQI target is for the audit engagement partner and manager hours to be at least 20% of total hours spent by the audit team in an engagement. I believe that such targets will spur firms to achieve better audit quality.
15. Besides communicating more in terms of auditor selection to investors, I would also like to urge audit committees to consider providing a commentary on financial reporting issues in the company's annual report. The United Kingdom has already introduced audit committee reporting in its Corporate Governance Code, in tandem with the introduction of the enhanced auditor's report which it had adopted in 2012.
16. The audit committee commentary, coupled with the enhanced auditor's report, allows investors to hear about the company from both perspectives - 'inside-out' and 'outside-in'. Audit committees and auditors should hence view these efforts to increase transparency and quality of financial reporting as opportunities to deepen investor relations and communications. Investors in turn benefit from more informed perspectives for decision-making.
17. I am pleased to note that as members of the Corporate Governance Oversight Committee, ACRA, the Monetary Authority of Singapore and the Singapore Exchange would also like to further raise the corporate governance bar by encouraging Singapore listed companies to embrace and adopt reporting by audit committees on financial reporting matters in the annual report.
18. ACRA will also be monitoring the issuance of audit committee reports by companies. And to help audit committees prepare for these changes, the Singapore Institute of Directors will be issuing a third edition of the Guidebook for Audit Committees in Singapore in early 2017.

Maintaining a Healthy Balance across the Three Pillars of Market Governance

19. These initiatives to support greater shareholder activism and strengthen market disclosures are part of our continual drive to keep a healthy balance between regulation and laws, market discipline, and responsible investors ensuring sufficient scrutiny before decisions are taken.
20. On the regulatory front, the study has also shown that investors value regulatory measures aimed at improving the quality of audits and financial statements.
21. Later this morning, ACRA will be releasing audit inspection findings from its 10th Practice Monitoring Programme annual public report. The report will also highlight some key insights gleaned from a decade of audit regulation experience.
22. I will touch on two key observations from the report which have significant bearing on the audit profession. First, audits of listed entities have shown significant improvements over the years. Comparing the 2016 results to 2015, there was a 27% reduction in the percentage of inspected audit engagements with at least one finding. This is no mean feat when one notes that the International Forum of Independent Audit Regulators has just set a reduction target for members to achieve a 25% reduction in 4 years' time. I commend the audit profession for a good start towards achieving this target and urge the profession to sustain these improvements by continuously upholding high standards of audit quality.
23. Second, ACRA has also found that while the sector has shown overall audit improvements, a small segment of the profession has not kept pace. Over the last ten years, there continues to be high incidence of recurring audit deficiencies in certain areas, particularly in the non-listed companies segment. Of key concern are public accountants who have failed to improve their work despite being re-inspected and given the opportunity to remediate in several

occasions. This in turn casts an undeserved reputational pall on the entire profession and impedes market transparency.

Raising the Audit Quality Bar

24. To deter repeated audit deficiencies and uphold market transparency, ACRA will be publishing on its website the names of public accountants who fail a second or revisit inspection and who are issued a hot review or restriction order. This will be effective for inspections commencing on or after 1 April 2017. It is an extension of the current audit regime which already publishes the names of public accountants whose licenses have been suspended or cancelled for serious audit deficiencies found during ACRA's inspections.
25. I would like to stress this is not meant to be a punitive measure. Public accountants found to be deficient in their initial inspections will be given an opportunity to improve and rectify these deficiencies before a revisit inspection takes place.
26. This new regulatory measure will also help level the playing field for the vast majority of public accountants who perform their audit roles competently and make continuing efforts to maintain high audit quality levels. This will also benefit market stakeholders, such as audit committees, who would be better informed before engaging the services of an auditor.
27. I am also pleased to note that ISCA will also be issuing a new audit manual that will provide practical advice on how to adopt a risk-based audit approach as well as understand and effectively apply the Singapore Standards on Auditing. The manual will be made available without cost to all audit firms by the fourth quarter of this year.

Conclusion

28. Ladies and gentlemen, the upcoming developments bode well for Singapore's efforts to further raise the quality bar for financial reporting and audits. Let me conclude by re-emphasising that investors can and should play a positive role in the financial reporting ecosystem by driving demand for high quality financial reporting, and audit as well as quality oversight by audit committees.

29. On this note, I wish all of you a very fruitful and successful convention.