

WELCOME AND OPENING ADDRESS
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AT THE ACRA-SGX-SID AUDIT COMMITTEE SEMINAR 2021

Distinguished guests
Ladies and gentlemen

Good morning. On behalf of ACRA and my fellow organisers, we welcome you to the 7th Audit Committee Seminar.

Background

2. The theme for this year, “Enterprise Resilience and Risk Management”, recognises that the corporate reporting landscape has undergone unprecedented changes. As we continue to deal with the impact of the pandemic and take stock of the lessons learnt and progress made, it is useful for us to reinforce the importance of high quality, independently assured information and governance to support the effective functioning of capital markets.

Strengthening Audit Committees

3. Audit committees play a critical role in upholding the quality of financial reporting. It is therefore important that companies have a good mix of audit committee members, with enough members having the necessary accounting and auditing knowledge. In our Financial Reporting Surveillance Programme (FRSP) report issued last year, we highlighted

four listed companies that were required to restate, re-audit and re-file their financial statements. Their pre-tax profits or losses were adjusted by one to eight times, and their net assets by 15% to 68%. Two other listed companies were required to make additional disclosures or restate their comparatives. Two out of these six companies did not have any member with accounting qualifications or experience in their audit committees.

4. Similarly, a recent study of audit committees led by Professor Ho Yew Kee found that 5.8% (or 38 out of 650) of companies did not have any financially-trained member in their audit committees – an increase compared to about 4.2% in 2015 when the study was last done. Professor Ho will share more results in the next session.

5. To equip audit committees with the capability to handle complex accounting issues, we urge companies to provide audit committees with sufficient guidance and support, including access to valuation experts and other consultants when needed. Importantly, the board should invest in and build a strong finance team.

6. To encourage companies to strengthen the diversity and independence of their boards, come 1 January 2022, directors who have served more than nine years in the company will be deemed non-independent under the SGX Listing Rules, unless their appointments have been approved via a two-tier voting process of shareholders. Companies with such directors will need to decide this year whether to refresh their boards or hold the two-tier vote. As Professor Ho will share later, a large proportion of audit committee chairmen and members had served in the

same companies for more than 10 years, indicating that there is room to bring in new independent directors.

Audit as the Additional Line of Defence

7. The assurance provided by an audit is crucial to reinforcing trust and reliability in financial statements. Audit committees should use the audit process as an independent line of defence and work closely with external auditors to address any change to the company's significant audit risks, evaluate the effectiveness of management controls and discuss why certain key audit matters are added or amended in the auditor's report. I encourage audit committees to use the ACRA Audit Quality Indicator (AQI) framework during these conversations to discuss the quality of auditors and their audits.

Initiatives to Drive Financial Reporting Quality

8. In ACRA, we will continue to do our part to raise the quality of financial reporting. We will work closely with fellow regulators and take strong enforcement actions against errant directors. Besides the four companies mentioned earlier that had their financial statements restated, several other companies are undergoing investigation, and their directors have been called in for statement taking.

9. Last year, I spoke about fostering voluntary compliance, where those regulated believe in the purpose of the regulations and that complying with the law is the right thing to do. Stakeholder education and engagement are integral parts of this agenda. Hence, at the onset of the

pandemic, ACRA had worked with ISCA to address challenges faced by the profession. We published practice guidance to help auditors and directors navigate key audit and financial reporting issues.

10. This year, we will embark on an audit adjustment study to examine audit adjustments made to the financial statements of Singapore’s listed companies. We will survey audit committee chairs and Chief Financial Controllers to gather their assessment of the finance function in their companies. We are pleased to have the support of the audit firms for the study, and they will be reaching out to you in the first quarter of the year. I look forward to your participation in the survey.

Conclusion

11. Amidst the backdrop of greater uncertainties, we need all stakeholders to raise their guard against corporate wrongdoings. I urge companies not to reduce their focus on corporate governance, financial reporting and audit matters because doing so may come at the expense of the longer-term interests of companies and the financial ecosystem.

12. On that note, I wish you all a fruitful session this morning, and a successful year ahead. Thank you.
