

A Study of Audit Committees of Listed Companies in Singapore 2020

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Objective

**To provide a snapshot of the state of the
ACs in listed companies in Singapore and
to track the longitudinal progression of the
ACs over time**

Coverage of the Study

AC attributes:

- i. Composition of ACs;
- ii. Qualifications of AC members;
- iii. Experience of AC members

Regulations and best practices

Current and new issues facing ACs

- i. Disclosure on the roles of AC
- ii. Resource adequacy
- iii. Workload of AC
- iv. Disclosure on KAMs
- v. Impact of digitalization
- vi. Impact of Covid-19

Table 1 : Attributes of Sample

| Companies | 2020 Study |
|--------------|-------------------|
| ≥S\$500m | 141 (21.7%) |
| <S\$500m | 303 (46.6%) |
| Catalist | 206 (31.7%) |
| TOTAL | 650 (100%) |

| | |
|-------------------------------|------------------|
| Financial Institutions | 26 (4.0%) |
|-------------------------------|------------------|

| | |
|-------------------------|--------------|
| Directors in ACs | 2,129 |
| Unique Chairmen | 467 |
| Unique members | 1,213 |

Executive Summary – Pertinent Trends

- **Decreasing trend in “busy” directors**
- **Progress in gender diversity**
- **Increasing size of AC (except Catalist companies)**
- **Improving Composition of ACs**
- **Deep accounting / auditing expertise**
- **Lengthening tenure of AC members (9-year Rule)**
- **Increasing AC scope of work**
- **Usefulness of Key Audit Matters (KAMs)**
- **Impact of Digitalisation and Covid-19**

“Busy” Directors

Table 2 : Distribution of the Number of Chairmanship and Membership of ACs Held by Individuals

| Chairmanship of AC | 2020 Study | 2015 Study | 2011 Study |
|--------------------|-----------------------|-----------------------|-----------------------|
| 1 | 355 (76.0%) | 345 (71.6%) | 323 (70.2%) |
| 2 | 69 (14.8%) | 74 (15.4%) | 72 (15.7%) |
| 3 | 24 (5.1%) | 40 (8.3%) | 27 (5.9%) |
| 4 and above | 19 (4.1%) | 23 (4.7%) | 38 (8.2%) |
| TOTAL | 467 (100%) | 482 (100%) | 460 (100%) |

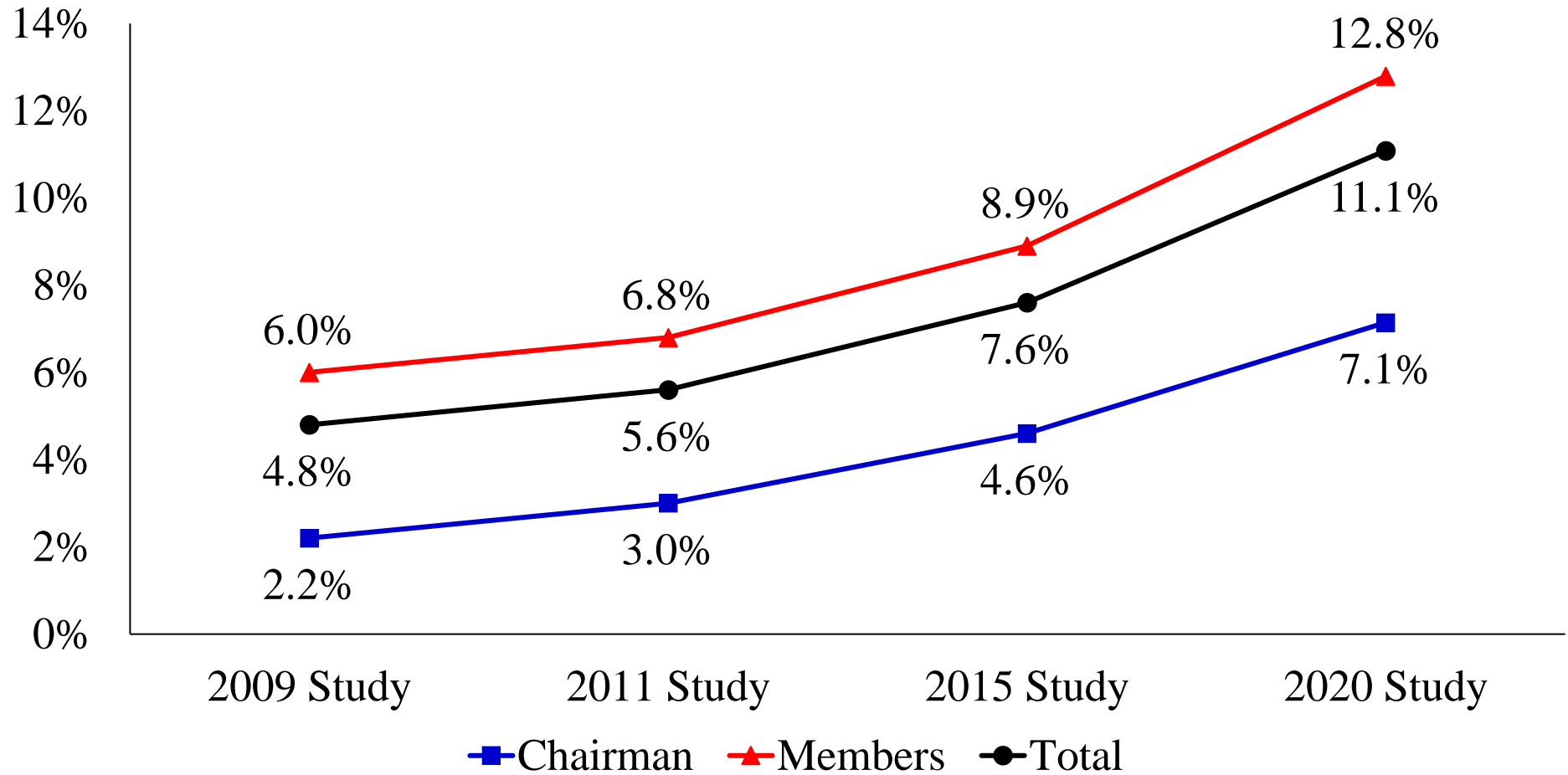
- Single chairmanship is increasing
- Busy chairmanship is decreasing

| Membership of AC | 2020 Study | 2015 Study | 2011 Study |
|--------------------|-------------------------|-------------------------|-------------------------|
| 1 | 1,016 (83.9%) | 1,047 (82.9%) | 1,026 (81.6%) |
| 2 | 141 (11.4%) | 140 (11.1%) | 153 (12.2%) |
| 3 | 44 (3.7%) | 48 (3.8%) | 43 (3.4%) |
| 4 and above | 12 (1.0%) | 28 (2.2%) | 36 (2.8%) |
| TOTAL | 1,213 (100%) | 1,263 (100%) | 1,258 (100%) |

- Single membership is increasing
- Busy membership is decreasing

Gender Diversity

Figure 1 : Percentage of AC Memberships who are Female



**Female AC membership reaching 15% in 2025 (extrapolating the current trend) :
Is this good enough?**

Size of AC

Figure 2 : Percentage of AC having Four or More Members

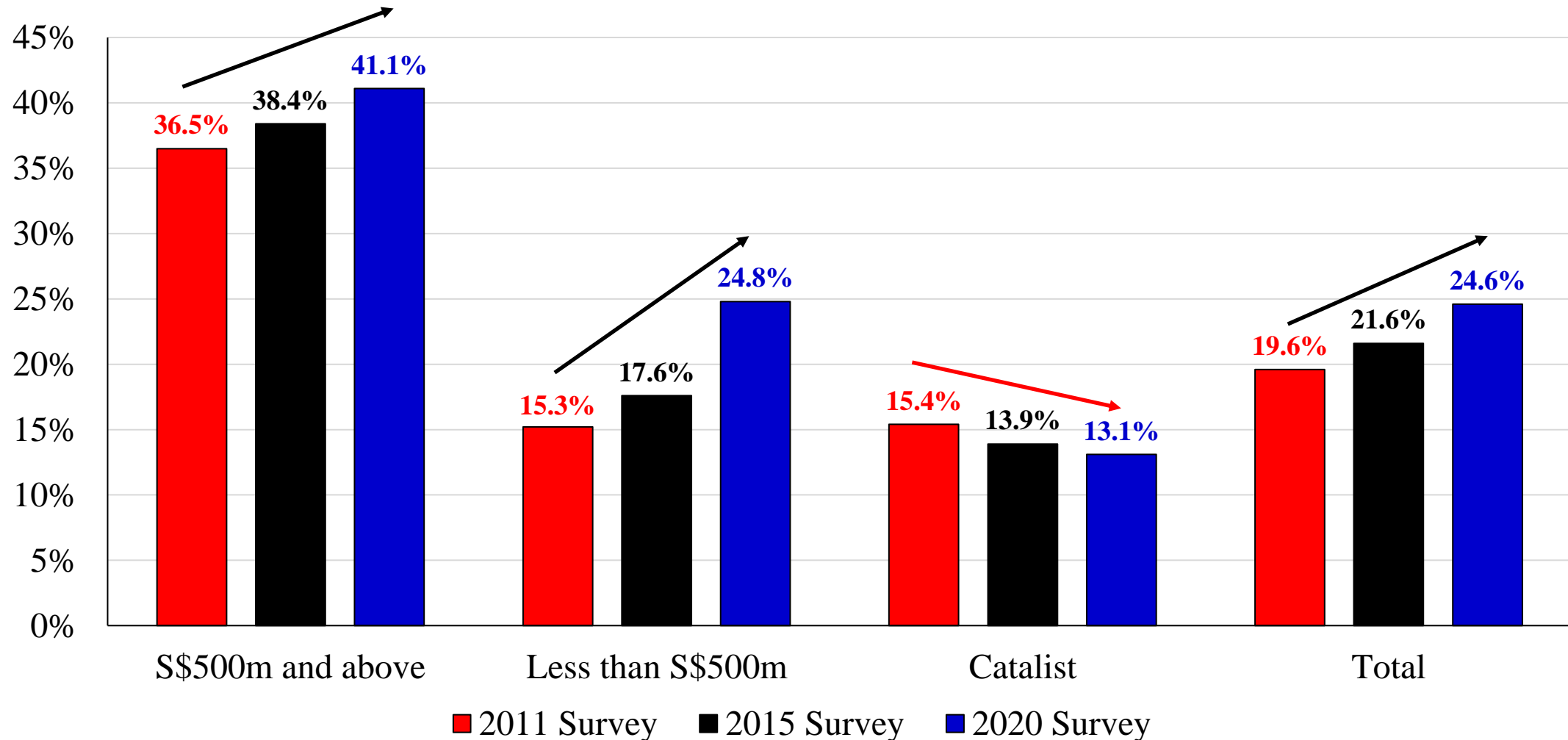


Table 3 : Distribution of AC Memberships

| Overall | 2020 Study | 2015 Study | 2011 Study |
|-----------------------------------|--------------------|--------------------|--------------------|
| One Member in AC | 0 (0%) | 0 (0.0%) | 1 (0.1%) |
| Two Members in AC | 14 (2.2%) | 14 (2.0%) | 5 (0.7%) |
| Three Members in AC | 476 (73.2%) | 548 (76.4%) | 576 (79.6%) |
| Four or more Members in AC | 160 (24.6%) | 155 (21.6%) | 142 (19.5%) |
| TOTAL | 650 (100%) | 717 (100%) | 724 (100%) |

Companies Act and CG Code 2018 require AC to have at least 3 members

Composition (Independence) of ACs

Table 4 : Types of Directors in the ACs

| Directors Type | Chairmen of All Companies | | | Members for All Companies | | | Total for All Companies | | |
|----------------|---------------------------|-----------------------|-----------------------|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2020 Study | 2015 Study | 2011 Study | 2020 Study | 2015 Study | 2011 Study | 2020 Study | 2015 Study | 2011 Study |
| ID | 642 (99.8%) | 706 (99.2%) | 718 (99.3%) | 1,256 (84.5%) | 1,302 (81.4%) | 1,281 (78.6%) | 1,898 (89.1%) | 2,008 (86.9%) | 1,999 (85.0%) |
| NED | 1 (0.2%) | 6 (0.8%) | 1 (0.1%) | 204 (13.7%) | 259 (16.2%) | 285 (17.5%) | 205 (9.6%) | 265 (11.5%) | 286 (12.2%) |
| ED | 0 (0.0%) | 0 (0.0%) | 3 (0.4%) | 24 (1.6%) | 38 (2.4%) | 41 (2.5%) | 24 (1.1%) | 38 (1.6%) | 44 (1.9%) |
| AD | 0 (0.0%) | 0 (0.0%) | 1 (0.1%) | 2 (0.1%) | 1 (0.1%) | 19 (1.2%) | 2 (0.1%) | 1 (0.0%) | 20 (0.8%) |
| Others | 0 (0.0%) | 0 (0.0%) | 0 (0.0%) | 0 (0.0%) | 0 (0.0%) | 4 (0.2%) | 0 (0.0%) | 0 (0.0%) | 4 (0.2%) |
| TOTAL | 643 (100%) | 712 (100%) | 723 (100%) | 1,486 (100%) | 1,600 (100%) | 1,630 (100%) | 2,129 (100%) | 2,312 (100%) | 2,353 (100%) |

ID – Independent Director

NED – Non-Executive Director

ED – Executive Director

AD – Alternate Director

CG Code 2018 Provision 10.2 requires all AC members to be non-executive directors

Table 5 : Companies which have Executive Directors in their ACs

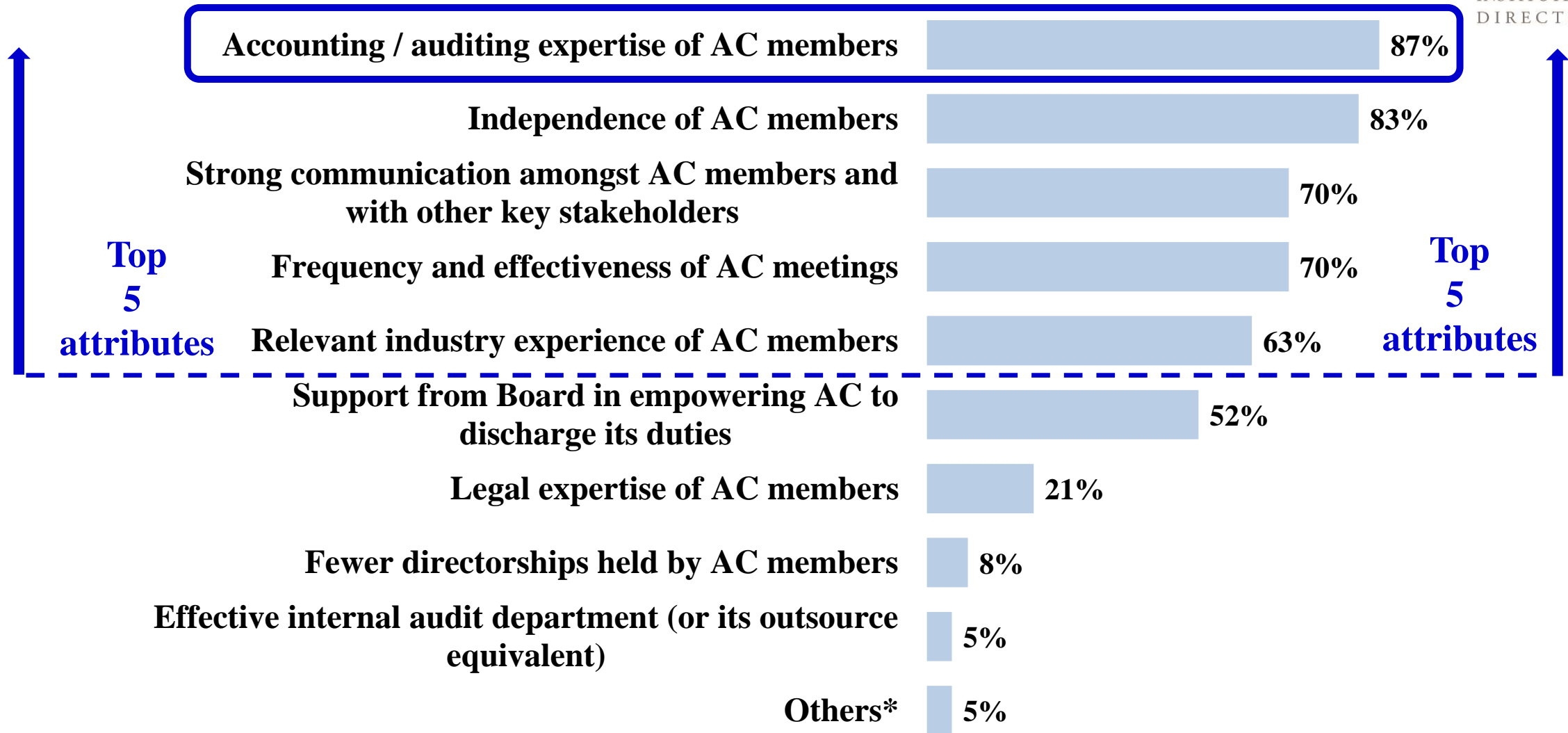
| No of Members in the AC | 2020 Study | | | | | 2015 Study | | | | |
|-------------------------|------------------|---|----------|-----------|----------|------------------|---|-----------|-----------|----------|
| | No. of Companies | Proportion of Executive Directors in the AC Members | | | | No. of Companies | Proportion of Executive Directors in the AC Members | | | |
| | | 20% | 25% | 33% | 50% | | 20% | 25% | 33% | 50% |
| 2 | 14 | 0 | 0 | 0 | 0 | 14 | 0 | 0 | 0 | 0 |
| 3 | 476 | 0 | 0 | 17 | 0 | 548 | 0 | 0 | 18 | 0 |
| 4 | 129 | 0 | 5 | 0 | 1 | 137 | 0 | 15 | 0 | 1 |
| 5 | 29 | 0 | 0 | 0 | 0 | 15 | 3 | 0 | 0 | 0 |
| 6 | 2 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| 7 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| TOTAL | 650 | 0 | 5 | 17 | 1 | 717 | 3 | 15 | 18 | 1 |

23 companies

37 companies

Deep Accounting / Auditing Expertise

Figure 3 : Key Attributes of an Effective AC



**Others include the ability to ask relevant questions to the Management, personal motivation, diversity and adequate resources.*

Table 6 : Summary Statistics of AC Members who Are Financially-Trained

| No. of Financially-Trained Members in AC | 2020 Study | | | | 2015 Study | | | |
|--|-------------------------|-----------------------|-----------------------|-----------------------|-------------------------|----------------------|----------------------|----------------------|
| | ≥S\$500m | <S\$500m | Catalist | Total | ≥S\$500m | <S\$500m | Catalist | Total |
| | Number of Companies (%) | | | | Number of Companies (%) | | | |
| 0 | 11 (7.8%) | 17 (5.6%) | 10 (4.9%) | 38 (5.8%) | 4 (2.4%) | 18 (4.4%) | 8 (5.6%) | 30 (4.2%) |
| 1 | 39 (27.7%) | 96 (31.7%) | 59 (28.6%) | 194 (29.8%) | 43 (26.2%) | 128 (31.3%) | 31 (21.5%) | 202 (28.2%) |
| 2 or more | 91 (64.5%) | 190 (62.7%) | 137 (66.5%) | 418 (64.4%) | 117 (31.1%) | 263 (40.1%) | 105 (46.5%) | 485 (39.3%) |
| TOTAL | 141 (100%) | 303 (100%) | 206 (100%) | 650 (100%) | 164 (100%) | 409 (100%) | 144 (100%) | 717 (100%) |

Critical to have Financially-Trained AC members

It is important for companies to assure the investing public that there are “financially-trained” individuals in the AC.

Tenure of AC Members

Table 7 : Number of Years AC Members have been with the Companies

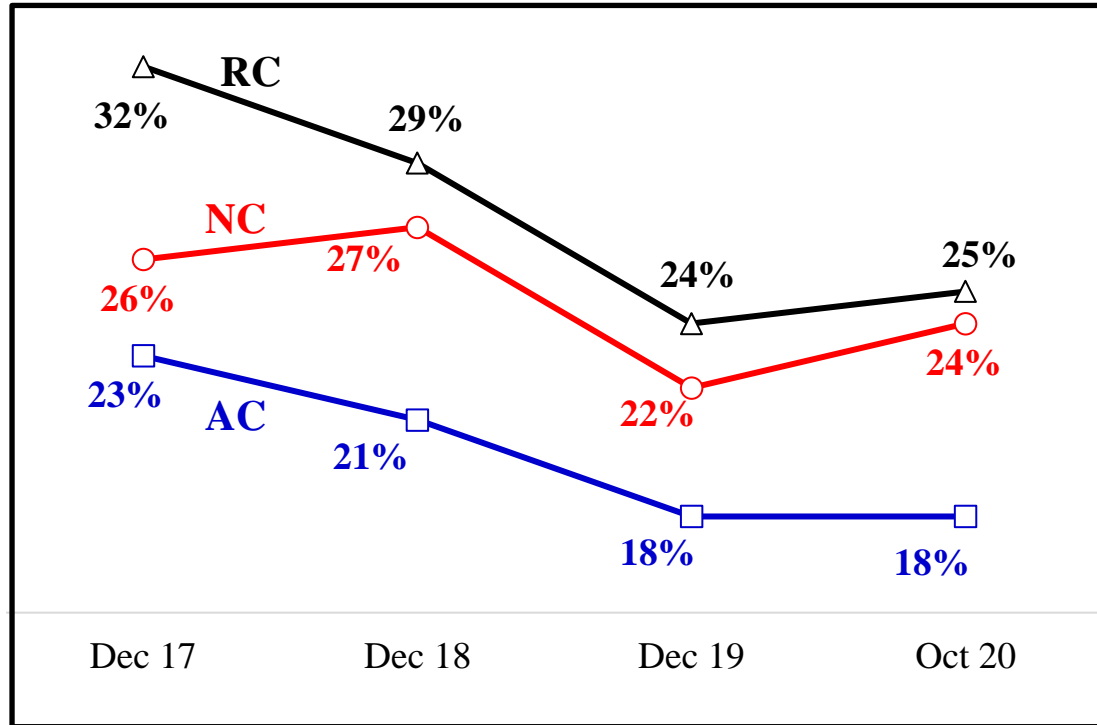
| | 2020 Study | | | 2015 Study | | |
|-----------------------------------|------------------------|-------------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| | Chairmen | Members | Total | Chairmen | Members | Total |
| Less than or equal to One year | 11 (1.7%) | 45 (3.0%) | 56 (2.6%) | 132 (18.5%) | 358 (22.4%) | 490 (21.2%) |
| More than One Year to Five Years | 232 (36.1%) | 600 (40.4%) | 832 (39.1%) | 207 (29.1%) | 519 (32.4%) | 726 (31.4%) |
| More than Five Years to Ten Years | 186 (28.9%) | 450 (30.3%) | 636 (29.9%) | 213 (29.9%) | 409 (25.6%) | 622 (26.9%) |
| Greater than Ten Years | 212 (33.0%) | 384 (25.8%) | 596 (28.0%) | 150 (21.1%) | 281 (17.6%) | 431 (18.6%) |
| Insufficient Information | 2 (0.3%) | 7 (0.5%) | 9 (0.4%) | 10 (1.4%) | 33 (2.1%) | 43 (1.9%) |
| TOTAL | 643 (100%) | 1,486 (100%) | 2,129 (100%) | 712 (100%) | 1,600 (100%) | 2,312 (100%) |

***32.3% of AC members have greater than 9-year tenure**

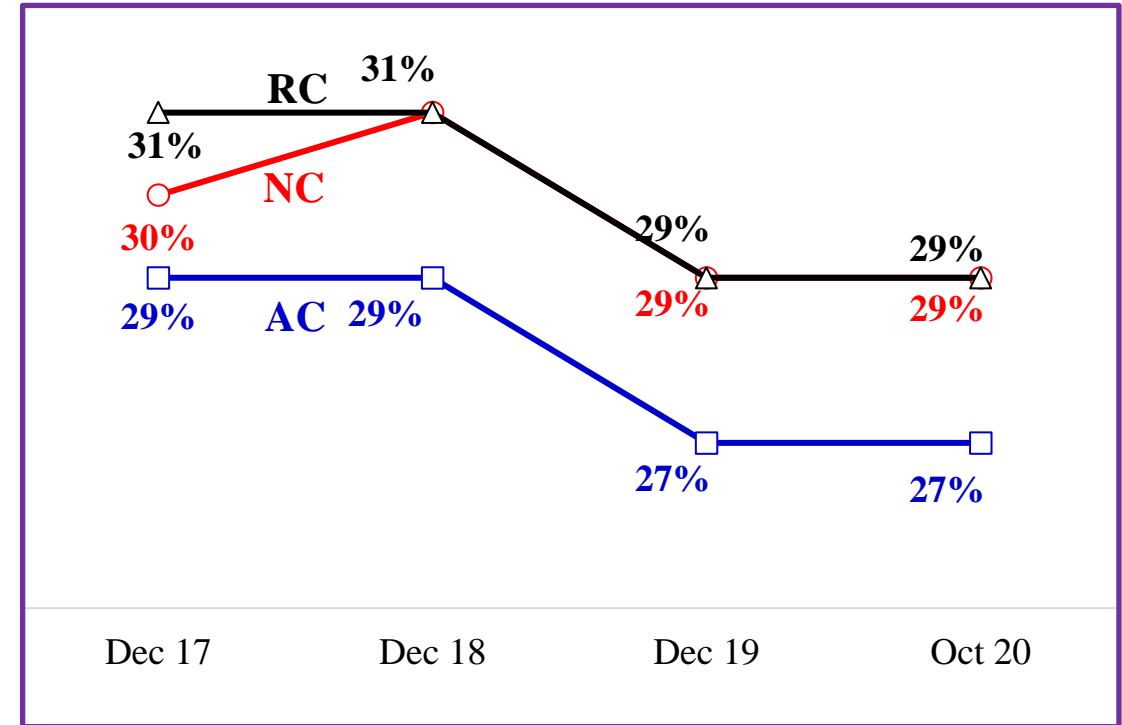
Come 1 January 2022, the 2-Tier voting system will kick in for non-ID

Proportion of LSID in RC, NC and AC, from 2017 - 2020

Top 100 Listed Companies



All Primary Listed Companies



LSID : Long-Serving Independent Directors (“LSID”) – Directors who have served on the boards ≥ 9 years

Source : Council for Board Diversity

Increasing AC Scope of Work

Table 8 : Opinions on Workload of AC

| | Strongly Disagree (1) | Disagree (2) | Neutral (3) | Agree (4) | Strongly Agree (5) | Average |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|------------|
| I find that AC is taking on more responsibilities as compared to the past. | 1 | 1 | 11 | 61 | 52 | 4.3 |
| | 0.8% | 0.8% | 8.7% | 48.4% | 41.3% | |
| I feel that the AC is taking on responsibilities beyond the scope of what is expected as set out in Provision 10.1 on the duties of the AC in the Code of Corporate Governance 2018. | 1 | 12 | 25 | 62 | 26 | 3.8 |
| | 0.8% | 9.5% | 19.8% | 49.2% | 20.6% | |

69.8% opine that “AC is taking on responsibilities beyond the scope of what is expected”.
42.8% of the participants feel that there is a dilution of the ACs’ work on financial reporting.

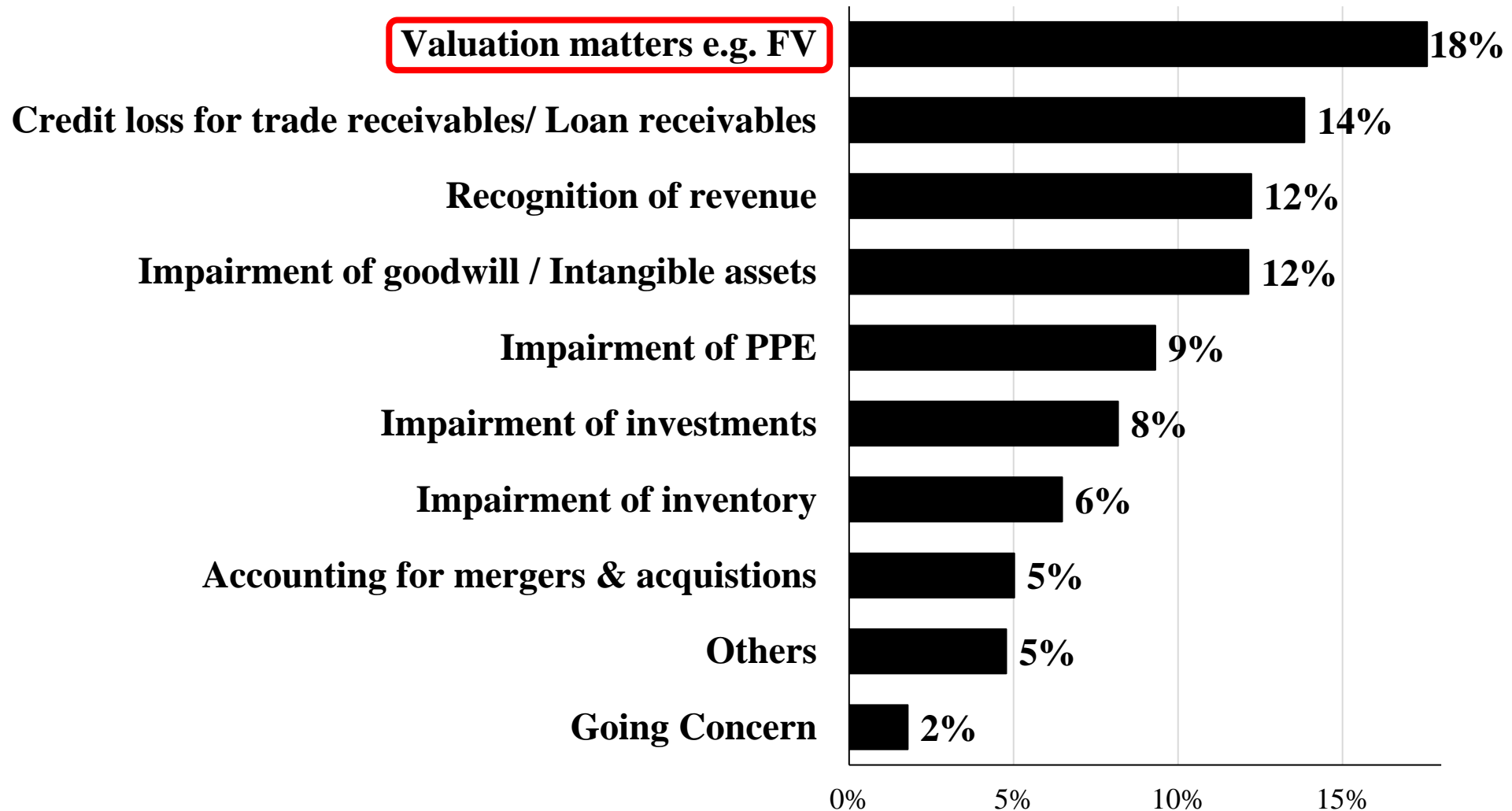
Key Audit Matters (KAMs)

Table 9 : Number of Companies with KAMs by Size Categories

| No. of KAMs | ≥\$500m | <\$500m | Catalist | Total |
|---|-------------------|-------------------|-------------------|-------------------|
| 0 | 2 (1.4%) | 27 (8.9%) | 22 (10.7%) | 51 (7.8%) |
| 1 | 47 (33.3%) | 76 (25.1%) | 77 (37.4%) | 200 (30.8%) |
| 2 | 51 (36.2%) | 117 (38.6%) | 67 (32.5%) | 235 (36.2%) |
| 3 | 25 (17.7%) | 57 (18.8%) | 25 (12.1%) | 107 (16.5%) |
| 4 | 13 (9.2%) | 21 (6.9%) | 11 (5.3%) | 45 (6.9%) |
| 5 | 2 (1.4%) | 5 (1.7%) | 3 (1.5%) | 10 (1.5%) |
| 6 | 0 (0.0%) | 0 (0.0%) | 1 (0.5%) | 1 (0.2%) |
| 8 | 1 (0.7%) | 0 (0.0%) | 0 (0.0%) | 1 (0.2%) |
| No. of companies | 141 (100%) | 303 (100%) | 206 (100%) | 650 (100%) |
| Average number of KAMs per company | 2.1 | 1.9 | 1.7 | 1.9 |

83.5%

Figure 4 : Top 10 topics reported in KAMs



Digitalisation & Covid-19

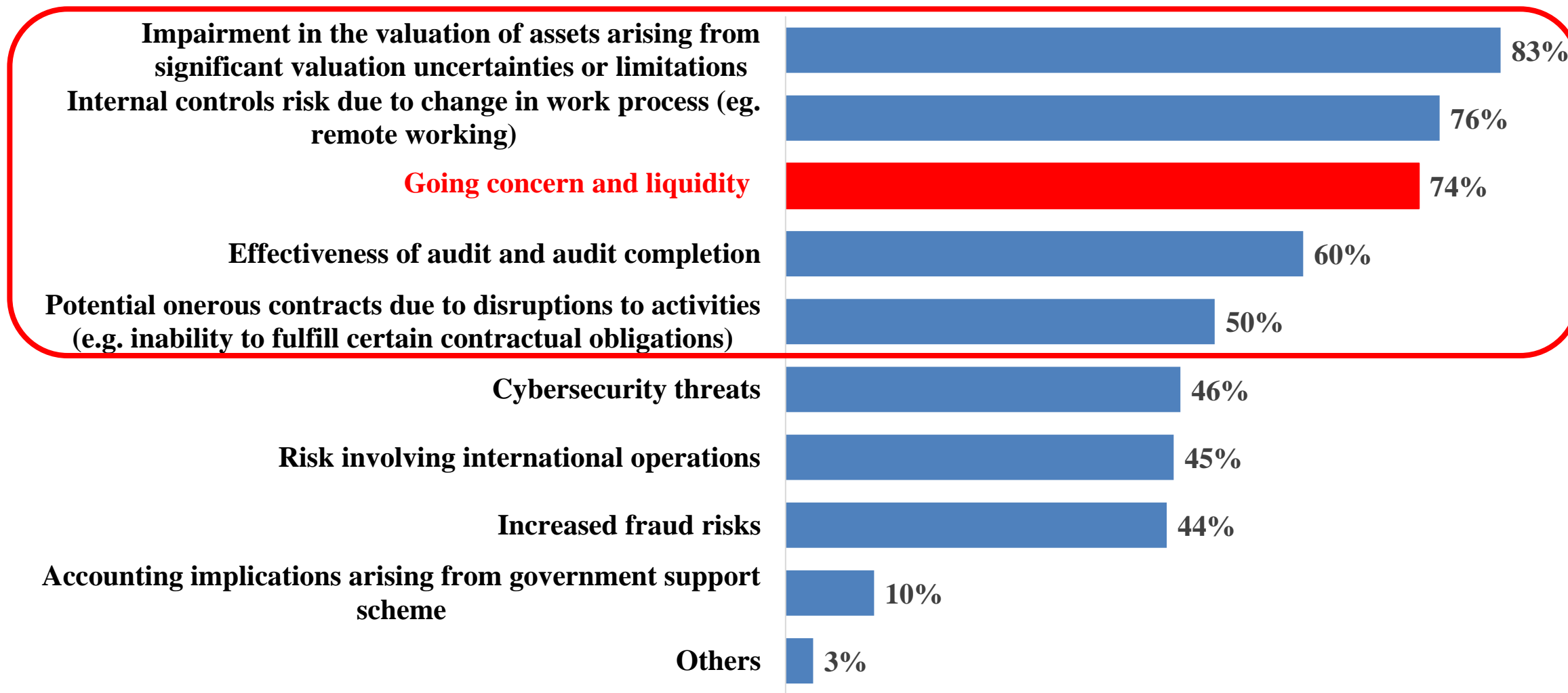
Table 10 : Opinions on Impact of Digitalisation

| | Strongly Disagree (1) | Disagree (2) | Neutral (3) | Agree (4) | Strongly Agree (5) | Average |
|--|----------------------------------|-------------------------|------------------------|----------------------|-------------------------------|----------------|
| I view the use of digital tools by the external auditors to be very important to provide assurance on the effectiveness of the audit work. | 0 | 3 | 36 | 72 | 15 | 3.8 |
| | 0.0% | 2.4% | 28.6% | 57.1% | 11.9% | |
| I have been briefed by the external auditors concerning their digital approach in the external audit. | 0 | 17 | 34 | 66 | 9 | 3.5 |
| | 0.0% | 13.5% | 27.0% | 52.4% | 7.1% | |
| Digitalisation increases company's risk and I am concerned. | 1 | 28 | 43 | 46 | 8 | 3.3 |
| | 0.8% | 22.2% | 34.1% | 36.5% | 6.3% | |

Table 11 : Impact of Covid-19

| | Strongly Disagree (1) | Disagree (2) | Neutral (3) | Agree (4) | Strongly Agree (5) | Average |
|--|----------------------------------|-------------------------|------------------------|----------------------|-------------------------------|----------------|
| The COVID-19 pandemic has increased the AC's workload for the current financial year-end. | 0 | 5 | 37 | 68 | 16 | 3.8 |
| | 0.0% | 4.0% | 29.4% | 54.0% | 12.7% | |
| The COVID-19 pandemic has increased the amount of efforts the AC has placed on ensuring that internal controls remain adequate and efficient (e.g. more frequent checks to ensure no management override of controls). | 0 | 4 | 30 | 70 | 22 | 3.9 |
| | 0.0% | 3.2% | 23.8% | 55.6% | 17.5% | |

Figure 5 : In light of the COVID-19 pandemic, the Top 5 concerns for Company



Conclusion

- ✓ **Celebrate : Decreasing trend in “busy” directors**
- ✓ **Press on : Progress in gender diversity**
- ✓ **Monitor : Increasing size of ACs**
- ✓ **Strengthen : Composition of ACs**
- ✓ **Need : Deep accounting / auditing expertise**
- ✓ **Prepare : 9-year rule (increasing long tenure AC members)**
- ✓ **Persevere : Increasing AC scope of work**
- ✓ **Communicate : Key Audit Matters (KAMs)**
- ✓ **Beware : Digitalisation and Covid-19**

Thank You!