

**WELCOME SPEECH BY
MR KENNETH YAP, CHIEF EXECUTIVE,
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AT THE ACRA-SGX-SID AUDIT COMMITTEE SEMINAR
TUESDAY, 12 JANUARY 2016, AUDITORIUM, RELC CENTRE**

RAISING THE BAR FOR FINANCIAL REPORTING AND AUDIT

Mr Loh Boon Chye, Chief Executive Officer of Singapore Exchange
Mr Willie Cheng, Chairman of the Singapore Institute of Directors
Distinguished Guests
Ladies and Gentlemen

Good morning. It is my pleasure to welcome you to the second ACRA-SGX-SID Audit Committee Seminar. It is also very encouraging to see that we have more than doubled the attendance at the inaugural session, with about 450 attendees today.

AUDIT COMMITTEES (ACs) PLAY A CRUCIAL OVERSIGHT ROLE

2. This second AC seminar is timely - ACs have arguably the most onerous oversight role of all the Board working committees.
 - a. (1) Statutory requirement under Companies Act for listed companies to have audit committees and (2) Directors responsible for ensuring financial statement true and fair and comply with accounting standards. Also, stringent qualification requirements under the Code of Corporate Governance (for at least two members to have recent and relevant accounting experience).
 - b. Role is even more significant given today's dynamic and complex financial reporting landscape.
3. The importance of independent oversight by audit committees is evident from findings of ACRA's Financial Reporting Surveillance Programme (FRSP), which seeks to help directors identify blind-spots in financial reporting.
 - a. Straightforward errors noted from our reviews. One example is the consolidated statements of cash flows.

- i. In one case, a listed company reported a negative operating cash flow even though the business was profitable and generating positive cash flow.
 - ii. In another instance, the listed company recognised entire revenue and profits from its construction contracts, well before they were substantially completed.
 - iii. These errors could easily be detected by directors during desktop reviews of the financial statements.
 - iv. That they remain undetected shows a lack of stringent oversight and over-reliance on accounting team.
 - v. Indicative of a need for ACs to be more vigilant.
4. In light of this, ACRA, SGX and SID are committed to help ACs discharge their duties. Today's seminar will highlight 4 key developments in the corporate regulatory landscape with significant impact for ACs and key takeaways that AC members should pay careful attention to.

8 FINANCIAL REPORTING SURVEILLANCE PROGRAMME (FRSP): RAISING THE BAR ON FINANCIAL REPORTING

5. One of the key highlights today will be an analysis of the inaugural FRSP report launched on 1 Oct 2015.

Two takeaways

6. The intention of the FRSP exercise is not to be punitive, but to encourage Boards and their ACs to raise their game by ensuring that management produces quality financial reporting and employs a competent and well-resourced accounting team to do so.
7. The FRSP exercise is not meant to be an ambush on the companies. Annually, ACRA publishes the FRSP areas of review focus, updated to reflect emerging accounting issues.

- a. The areas of focus for FY2015 include: control over investees; call or put option over shares of investee; business acquisitions; long-life assets value and impairment testing; breaches of borrowing covenants; sale-and-leaseback transactions; statement of cash flows; impact from currency environment; earnings per share; and fair value measurement.
- b. Encourage ACs to pay extra attention to these areas in your 2015 financial statements and ask the right questions of management on difficult issues.

EXPANDED AUDITOR'S REPORT: ENHANCING TRANSPARENCY THROUGH KEY AUDIT MATTERS (KAMs)

8. Highlight will be working with auditors on the new Expanded Auditor's Report
 - a. From 2017, auditors will be required to go beyond the usual true-and-fair rubric, to articulate key audit matters considered in their review, and to express a view on whether the company is a going concern.
9. Positive impact of the expanded auditor's report clearly evident in the UK, which has adopted it since 1 Oct 2012.
 - a. According to feedback from the investor community, some were pleasantly surprised by the disclosures made by the auditors and have found them useful in their engagement with companies during AGMs.
 - b. We are privileged to have with us my counterpart from the UK, Paul George, Executive Director of the FRC to share the UK's first-mover experience on the expanded auditors' report with us.
10. Urge ACs in Singapore to embrace this new development.

11. As this will be implemented from FY2016 financial statements, important to ensure company prepares for this and starts to engage shareholders early on the change, e.g. at the upcoming FY2015 annual reports and AGMs.

AUDIT QUALITY INDICATORS (AQIs): DEEPENING THE AUDIT QUALITY CONVERSATION

12. Third highlight today is the Audit Quality Indicators (AQIs).

ACs have the responsibility to choose the auditors with the right experience, skill and support to discharge their duties.

- a. To help ACs make a more informed choice when choosing auditors, ACRA has issued the AQIs Disclosure Framework, comprising 8 audit quality markers, to help ACs better evaluate their auditors.
- b. Although the AQI framework is voluntary, the Big-4 firms have committed to supporting it. I do hope ACs would recognise its value and adopt it in their auditor appointment process, requiring AQIs to be provided from all auditors tendering for the job.

ACRA-PwC-SID MINI GUIDE FOR AUDIT COMMITTEES

13. If all of the above sounds overwhelming, help is available. Today, we will be launching the Mini-Guide for ACs, a joint collaboration between ACRA, PwC and SID.
 - a. This mini-guide provides ACs with practical information on the hot topics mentioned above.
 - b. It provides some illustrative examples of key audit matters from Australia and the UK, and a summary of key upcoming changes to the accounting standards.

- c. Of particular interest will be two major standards to come into force in coming years, namely FRS 109: Financial Instruments, and FRS 115: Revenue from contracts with customers.
- d. We hope you will find the Mini-Guide useful.

SGX'S REGULATORY REMINDERS: EQUIPPING DIRECTORS WITH KNOWLEDGE OF BEST PRACTICES ON TRANSPARENT AND TIMELY DISCLOSURES

14. 4th Highlight will be SGX update on disclosure requirements

Financial statements are published once a year, but transactions that significantly impact company's share price, financial performance and position may occur throughout the year.

15. To help companies better comply with the duty to disclose, SGX will share case studies on regulatory considerations and recommended practices in providing transparent, complete and timely disclosures.
16. I trust that SGX's sharing will serve as an useful reminder for directors.

CONCLUSION

17. The important role of ACs cannot be overstated.
- a. You are the gatekeepers of your companies' financial integrity and trust.
 - b. To discharge your duties effectively, the AC must set the bar high and demand that the management produces high quality financial statements, and ensure that they choose the right auditors, properly supervise the audit process, and provide greater transparency for investors in the new expanded audit report.

18. As you go through today's seminar, you will see that some of the programmes/initiatives have been a result of your feedback to us. Please continue to give us your feedback and let us know how we can help you better discharge your legal responsibilities.
19. With that, I wish you a fruitful and enjoyable seminar.
20. Thank you.