MEDIA RELEASE

INVESTORS WANT GREATER TRANSPARENCY AND DISCLOSURE IN FINANCIAL REPORTING

– Survey of Retail and Institutional Investors shows investors place a premium on audited financial statements and want more engagement with board and management

Singapore, 25 August 2016 – Retail and institutional investors in Singapore have re-affirmed the value of statutory audits and are increasingly demanding that companies produce high quality financial reports. These were some of the key findings in a first of its kind study that surveyed Singapore investors’ views about financial reporting and audits. The study’s findings were presented at the Singapore Accountancy Convention today. Jointly organised by the Accounting and Corporate Regulatory Authority (ACRA) and the Institute of Singapore Chartered Accountants (ISCA), the event was attended by over 900 delegates. Recognising that increased investor activism contributes significantly towards the vibrancy and confidence in Singapore’s capital markets, this year’s convention focuses on meeting investors’ needs and strengthening their confidence in financial reporting and audits.

The study jointly commissioned by ACRA and ISCA, was conducted by the NUS Business School, with some 200 institutional and retail investors. The following key findings were revealed in the study:

i. Investors rated financial statements as the most important source for making investment decisions, as compared to sources such as company announcements, one-to-one meetings with investors and analyst reports. Companies should therefore ensure their financial reporting is of high quality and focus on providing high quality disclosures that are useful, sufficient and understandable to investors.

ii. Investors re-affirmed the value of audited financial statements. The study indicated that close to five times more investors expressed confidence in audited financial statements as compared to non-audited financial information. Some 90% of the institutional investors also indicated that a modified audit opinion (i.e., qualified, adverse or disclaimer) will affect their investment decisions. Investors also
indicated they are more likely to engage auditors when the enhanced auditor reporting standards take effect from 2017. Under the enhanced reporting standards, auditors must highlight significant accounting issues as key audit matters (KAMs)\(^1\) in their audit reports.

iii. Investors also sought greater transparency and improved interaction with audit committees, including having audit committees explain their basis for auditor selection. Over 80% of retail and close to 90% of institutional investors surveyed want audit committees to use ACRA’s newly introduced audit quality indicators (AQIs)\(^2\) framework when evaluating appointment of auditors.

iv. When assessing the quality of corporate governance, investors tend to focus on directors’ experience, remuneration and independence, and the company’s internal controls and risk management policies. Over 90% of investors surveyed also felt it was the responsibility of directors to ensure financial statements complied with accounting standards.

3 Commenting on the study, Mr Kenneth Yap, Chief Executive of ACRA said: “Companies should develop a culture of disclosure by default and engage investors early and in a timely fashion. Audit committees are urged to openly address key financial concerns and respond to key audit matters raised by auditors in the new reporting format”.

4 Mr Lee Fook Chiew, Chief Executive Officer of ISCA, said: “As the survey results have shown, investors place a premium on audited financial statements, underscoring the value of audit in upholding financial reporting quality. The enhanced auditor reporting standards will further meet investors’ needs for quality financial information. Having the standards is just one part of the equation. Public accountants, who play a key role in maintaining audit quality, must continue to uphold professional standards and preserve the integrity of financial reporting.”

5 Said Prof Mak Yuen Teen, Associate Professor of NUS Business School “The survey supports the importance of regulatory programmes and other initiatives to improve financial reporting and audit quality, and ACRA’s efforts in this regard

\(^1\) KAMs, as the name suggests are matters that, in the auditor’s judgement, were of the most significance in the audit of the financial statements for the period in question. This may include areas of the financial statements most susceptible to misstatements, areas that depend on management estimates and judgements and audits of significant events or transactions during the year

\(^2\) 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. For information, please visit [https://www.acra.gov.sg/uploadedFiles/Content/News_and_Events/Press_releases/AQI%20Media%20Release_final(web).pdf](https://www.acra.gov.sg/uploadedFiles/Content/News_and_Events/Press_releases/AQI%20Media%20Release_final(web).pdf) .
have contributed significantly to the trust that local and international investors have in the quality of financial reporting and audit especially for Singapore-incorporated companies. High quality financial reporting and audit are critical to good corporate governance and I would urge all stakeholders, including directors, investors, auditors and regulators, to continue to play an active role in raising standards of financial reporting, audit and corporate governance in Singapore."

6 The survey findings have given new impetus to an on-going joint collaboration between ACRA, ISCA and the Securities Investors Association (Singapore) (SIAS) to equip retail investors with key information for investment decision making. A joint ACRA-ISCA-SIAS guide to be published by early 2017 will help retail investors capitalise on new auditing developments such as mandatory KAMs disclosures in auditors’ reports to be issued from next year onwards, to deepen their understanding of a company’s financials and engagement with company directors, auditors and management.

Attachment:
Annex 1: Key Points from the Investor Perception Study

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About ACRA

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities, public accountants and corporate service providers in Singapore. ACRA also facilitates the development of business entities and the public accountancy profession. As a regulator and facilitator, ACRA constantly strives to provide a responsive and trusted regulatory environment for businesses, public accountants and corporate service providers and make Singapore the best and trusted place for doing business. ACRA’s role is to achieve synergies between the monitoring of corporate compliance with disclosure requirements and regulation of public accountants performing statutory audit. ACRA’s goal is to make good corporate governance, quality corporate financial reporting and high quality audit the hallmarks of our financial and corporate sectors.
About ISCA

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA’s vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 30,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore’s transformation into a global accountancy hub.

ISCA is the Administrator of the Singapore QP and the Designated Entity to confer the Chartered Accountant of Singapore - CA (Singapore) - designation.

ISCA is an Associate of Chartered Accountants Worldwide – supporting, developing and promoting over 325,000 Chartered Accountants in more than 180 countries around the world.

For more information, visit www.isca.org.sg.
Annex 1

Key Points from the Investor Perception Study

The key findings and takeaways from the survey are:

**Investors view financial statements as the most important source of information for decision making**

Investors rate financial statements as the most important source for investment decision-making compared to other information sources (e.g. company announcements, one-to-one meetings/conference calls, analyst reports, etc), with 94% of institutional investors rating financial statements as “important” or “very important”, and 81% of retail investors doing so. However, feedback from investors from the focus group discussion appeared to suggest that at times, the usefulness of financial statements is limited by too much aggregation of information, lack of sufficient disclosures and disclosures that are difficult to understand.

**Key Takeaways:**

- Companies (board of directors, audit committees and management) should ensure continued relevance of financial statements by focusing on providing high quality disclosures that are useful, sufficient and understandable.
- Investors should continue to hold companies to high standards of financial reporting. Greater transparency and clarity in disclosures will help them derive an accurate picture of the business which is vital for investment decisions.

**Institutional and retail investors differ on extent and nature of financial information used for decision-making**

Both institutional and retail investors placed emphasis on quantitative financial measures such as net profit, operating cash flows and dividends. However, institutional investors also focused on qualitative financial statement items relating to related party transactions, critical accounting judgements and estimates and accounting policies compared to retail investors. Institutional investors also spent more time analysing financial statements and placed emphasis on different financial ratios compared to retail investors.

**Key Takeaway:**

- More education and awareness is needed to help investors understand, consider and use both qualitative and quantitative types of information in financial statements as they provide a holistic view of the company’s financial affairs and operations and will translate into better investment decision making.
Statutory audits significantly increase investor confidence in the financial statements

There was substantially more investor confidence in audited financial statements compared to non-audited financial statements, with the number of investors expressing confidence over the financial statements increasing close to five times when they were audited. Modified audit opinions were also more likely to affect investment decisions of institutional investors. Investors have also indicated that they were more likely to engage auditors with the impending new requirement that auditors indicate Key Audit Matters (KAMs) in financial reports under the enhanced auditor reporting standards from January 2017.

Investors also recognised the significance of auditor independence to audit quality. They view factors such as the audit fees, tenure of audit firm and partner, non-audit fees and the nature of non-audit services as important considerations on auditor independence, with the latter two given greater emphasis by institutional investors.

Key Takeaway:

• With the added responsibility of KAMs reporting from January 2017 onwards, auditors should prepare to communicate more with investors and seize this opportunity to bring the quality of audits to a new level.

Investors welcome more transparency and improved interactions with audit committees

Investors overwhelmingly believed that audit committees should provide a commentary to the shareholders about their views on the significant accounting issues highlighted as KAMs by the auditors. They also welcome greater transparency on information relating to the quality of auditors appointed. A high percentage of investors surveyed (82% of institutional investors and 90% of retail investors) would like audit committees to use audit quality indicators (AQIs) to evaluate auditors. These investors would similarly like audit committees to explain to them the basis for selecting the recommended auditor. With the introduction of the multiple proxies regime from 3 January 2016, investors, particularly retail investors have also expressed that they were more likely to attend Annual General Meetings (AGMs) to ask directors and audit committees questions, especially when there were contentious issues.

Key Takeaways:

• Companies should be prepared for deeper levels of engagement with investors who, armed with greater insights into the audit process and the underlying drivers of a company’s performance, will demand greater accountability from its directors and management.
• Audit committees should provide greater transparency to investors by:
  o Issuing an audit committee commentary in the company’s annual report to explain significant financial reporting issues and to complement KAMs reporting by auditors.
Evaluating auditors using AQIs and communicating to investors the basis of selecting the recommended auditors.

Investors value regulatory programmes and initiatives aimed at improving financial reporting and audit quality, although more can be done to raise awareness on these initiatives.

More than 75% of the investors surveyed agreed that independent regulatory oversight programmes over financial reporting and audits were important in ensuring good quality financial reporting. There was however little awareness and understanding of the specific regulatory initiatives employed such as ACRA’s Financial Reporting Surveillance Programme (FRSP) and the Practice Monitoring Programme (PMP) that conducts audit inspections.

Key Takeaway:

• More outreach efforts by professional bodies and regulators are needed to enable investors to better understand the regulatory programmes and initiatives that ensure a robust financial reporting regime and how they can leverage on the regulatory outcomes and findings for their own investment reviews and decisions. An example would be the recent introduction of the Audit Quality Indicators Disclosure framework by ACRA which could help investors better understand the thought process of the audit committee and be assured that the appointment process for auditors is sound.

Directors’ experience, remuneration, independence and the company’s internal control and risk management matters are most common aspects of corporate governance that investors are interested in.

When assessing the quality of corporate governance of a company, both groups focused on qualification / experience of directors, remuneration of directors / senior management and internal control and risk management matters. In particular, remuneration, independence of directors and risk management were the three areas that investors have asked most questions about, with institutional investors also often asking questions about competencies of directors. In general, institutional investors also placed more importance and asked more questions on corporate governance matters compared to retail investors.

Key Takeaway:

• Companies should ensure sufficient attention is given towards providing greater transparency and better disclosures on their corporate governance practices and ensure that they stand up to scrutiny.

Please visit www.acra.gov.sg or www.isca.org.sg for the full report.

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