

WELCOME AND OPENING ADDRESS
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AT THE ACRA-SGX-SID AUDIT COMMITTEE SEMINAR 2022

Distinguished guests
Ladies and gentlemen

Good morning and welcome to the 8th Audit Committee Seminar.

Background

2. I am sure we can all agree that high-quality financial information is crucial to market confidence. Hence, it is important for all stakeholders including directors, audit committees, auditors and regulators to strengthen ***financial oversight, accountability and reporting*** to sustain a robust governance framework and lay a strong foundation for financial reporting.

Raising financial reporting quality – a closer look at audit adjustments

3. Last year, I talked about how board of directors should invest in and build strong finance teams. To assess the strength of finance functions in Singapore, we embarked on a study on audit adjustments made to the financial statements of Singapore-listed companies.

4. I am pleased to launch the report of that study today. My appreciation goes to Associate Professor Themin Suwardy and Dr Lim Chu Yeong who led the study. Compared to a similar study we did in 2014, this study examined a broader data set of 412 companies for 3 years from 2018 to 2020. We also included a survey on the effectiveness of companies' finance functions involving close to 280 audit committee chairmen and heads of finance. I recall I asked for your support for the study. Let me thank all of you who have participated and contributed to the study.

5. Professor Themin will share more details after this, but let me highlight a few observations. We found that auditors proposed over \$78 billion of audit adjustments over a 3-year period covered in the study, with most of these due to factual or misclassification errors. This suggests that there is room to improve the quality of financial statements prepared by the company, without having to rely on the auditor to pick up such errors. In what is perhaps a silver lining, a minority of companies account for most of the proposed adjustments, although I would caution that for some of these companies, they had over \$100 million worth of proposed audit adjustments in every set of their financial statements persistently over the three years. This clearly calls for greater scrutiny over these companies' financial reporting by their management and audit committees.

6. We also found that more than one-third of the proposed adjustments were identified by the companies themselves and put through as late client adjustments during the audit. Again, many of them were either factual or misclassification adjustments, suggesting that companies should review

their financial statements preparation process and examine what can be done to minimise errors and improve the process.

7. In this regard, audit committees have an important role in helping companies to step up their game in financial reporting. This can involve having an open conversation with the finance team and the auditor to investigate the root cause of audit adjustments and to intervene early to prevent these adjustments from occurring or recurring. Investments in training, digital transformation and automation can also help to improve the financial year-end reporting process.

ACRA's initiatives to enhance oversight and enforcement

8. Let me share what ACRA is doing to contribute to high quality financial reporting. We are stepping up efforts and leveraging technology to review financial statements more effectively. We are building risk profiling models using Artificial Intelligence and Machine Learning to help us identify potential non-compliances with accounting standards in financial statements. This will allow us to focus our enforcement efforts on potential errant companies such as those at risk of undisclosed insolvency, or inadequate recognition of impairment charge. With the models, we plan to expand our scope of financial reporting surveillance to cover many more of the 75,000 financial statements filed with us each year.

9. As you are aware, green is the colour these days as investors and financial institutions place greater emphasis on investing in and financing sustainable businesses. With that, the importance of sustainability reporting is going to gain traction both locally and across the globe.

10. ACRA will be working with stakeholders to prepare for the implementation of sustainability reporting. This includes contributing to the standards setting process, building talent and capacity, and collaborating with various agencies and professional bodies to set out a roadmap and encourage sustainability reporting, particularly by larger companies.

11. We strongly encourage companies to pay more attention to this area, not only on how sustainability considerations may impact your business, but also on how your business may make a difference in or contribute to sustainability, or even make sustainability your competitive advantage. For audit committees, you will probably have to put on an added lens to look at the implications of sustainability from a financial reporting and risk perspective and to help your company to put in place necessary processes, controls, and assurance around sustainability disclosures.

Conclusion

12. Before I end, I must revisit my favourite topic – voluntary compliance. I believe the only sustainable way for us to achieve high quality financial reporting is where all parties work together to get it right the first time around. This means management and directors making sure that the financial statements are properly done, not relying on auditors to raise adjustments, and auditors doing their job without the need for audit inspectors from ACRA to point out shortcoming in their audits. In short, we all play our part, take pride in our work – and are clear about what is the right thing to do. I may sound like a broken record but this is what I truly

believe in – my consistent message in my yearly opening address, one that I hope you take to heart and better still help to advocate.

13. I wish you all a fruitful seminar this morning, and a safe year ahead.
Thank you.
