



Closing Speech

16 January 2019

Closing Speech by Tan Boon Gin, CEO of Singapore Exchange Regulation, at the ACRA-SID-SGX Audit Committee Seminar

Ladies and gentlemen

1. The Financial Times said in a leader last month: Unless corporate accounts can be trusted, there is no trust in business.¹ The paper was commenting on the state of auditing and auditors in the UK.
2. That same trust deficit is no less relevant in Singapore today. We must recognise that the level of trust in companies, directors, and the work of auditors suffered a body blow in 2018. Trust in the market has also suffered as a result.
3. We must all, as companies, directors, audit committees, auditors and regulators, act in the face of this trust deficit. Consider the effects if we don't: valuations may suffer, the cost of funding may go up and confidence in both the capital market industry and the audit profession may be lost.

¹ "A robust blueprint to reform the auditors", Financial Times (20 December 2018).

4. So what should we do, and by this I mean, what should ALL of us, do? I believe we are all going to have to take collective action on three fronts:

Role of audit committees and auditors

5. Traditionally, the scope of a company's audit plan is reviewed by the audit committee and agreed with the external auditors. Any intervention by SGX is ex post, such as through the appointment of special auditors to follow up on findings of concern from the statutory audit.
6. Starting from this audit cycle, for selected companies, SGX will play a much more active role, ex ante, in determining the scope of the statutory audit. We have already started doing so by meeting with the audit committees and auditors of listed companies – about 15 so far - with more to come. The purpose of these meetings is to highlight to ACs and auditors, issues that we are concerned about based on our own review of the company, what we expect the audit to cover and discuss in the Key Audit Matters of the Annual Report. The Key Audit Matters must also include matters that we have been constantly querying the company about in the course of the year.
7. The exchange regards Key Audit Matters as a critical part of our disclosure based regime. They provide transparency to investors on any areas of concern arising from a company's audit. At the same time, they provide assurance that these matters have been brought to the attention of the board. Where the exchange has asked that specific issues be addressed, the auditors will have to describe the work they have done to address these issues.

8. Our intervention ex ante is a clear signal of our expectations, that we expect audit committees and auditors to increase the thoroughness of the year-end audit, and also improve the disclosures relating to it for the benefit of shareholders.
9. Furthermore, when problem areas do require further investigation, a special auditor or independent reviewer appointed for a listed company must have the gumption to take a professional stance on matters of concern including breaches of laws and regulations, instead of hiding behind their terms of engagement or expressing themselves in language so vague that the resulting report is nonactionable. It bears emphasising that such appointments and the terms of reference must always be acceptable to the exchange. We have recently begun to intervene more actively to change the terms of reference where they are not to our satisfaction and to require the special auditor to report directly or even exclusively to SGX where appropriate. Those appointed to these roles who fail to carry out their responsibilities in a credible manner may find that we will stop them from being appointed again.

Role of professional body and industry standards

10. Auditing like any other profession is ultimately dependent on the individuals who are carrying out the responsibility of reviewing the accounts and certifying whether the financial statements comply with industry standards.
11. In that respect, it is important to emphasise here that apart from actions that can be taken by regulators against an audit firm, individual practising accountants are also answerable to their professional bodies, such as the Institute of Singapore Chartered Accountants (“ISCA”), for the standards of

their work. SGX has not shied away from referring what we feel are shortcomings on the part of professionals to their respective industry bodies. This includes two cases referred so far to ISCA, and SGX will continue referring such cases where warranted. Only by assiduously and conspicuously upholding standards that the public can rely on, will trust also be upheld.

Role of the exchange

12. I will now address some initiatives the exchange is considering in the area of audits. A company's statutory auditor is typically appointed by the shareholders in general meeting. Indeed, our Companies Act expressly reserves the power to change auditors to the shareholders by way of special notice. However, there may be instances where, shareholders' wishes notwithstanding, there is a need for us to intervene, in the interest of the market as whole.

13. In the UK Competition and Markets Authority's update of its audit services study in December 2018,² there was a suggestion that all FTSE350 companies' audits should be carried out jointly by two audit firms, at least one of which should be from outside the big four. Tapping on this idea, SGX will be proposing a new power to require the appointment of a second auditor, on top of the existing statutory auditor, but only in exceptional circumstances. This will complement SGX's current power to require the appointment of a special auditor, who will typically only look into a specific area, whereas the second auditor will jointly sign off on the year-end audit together with the first auditor.

² https://assets.publishing.service.gov.uk/media/5c17cf2ae5274a4664fa777b/Audit_update_paper_S.pdf

14. SGX will also be proposing that all listed companies will have to appoint either a Singapore-based auditor or, in the case of companies with significant overseas operations with a foreign auditor, to have a Singapore-based auditor jointly sign off on the year end audit conducted by the foreign auditor. This will increase regulatory traction, access to working papers and accountability.

15. Finally, I am pleased to announce that SGX has entered into an MOU with the Singapore Accountancy Commission and the Institute of Valuers and Appraisers, Singapore (IVAS), to promote the integrity of business valuations involving listed companies. Valuations have long been an area of concern among shareholders, particularly minority shareholders. Last year, we worked with the Singapore Institute of Surveyors and Valuers to produce a guide on real estate valuation for REITs and IPOs, which we intend to incorporate into our rules. We expect our MOU with IVAS to result in similar developments, which will raise the overall standard of both business and real estate valuations, reporting and disclosures in Singapore.

Conclusion

16. We will of course be consulting the market before we implement the proposals that I have outlined today. It's going to a busy 2019.

17. On that note, thank you everyone for participating in the discussions and presentations we have had today. And wishing you a Purposeful and Fruitful Year ahead! Thank you.