

A STUDY ON THE PROFILE OF AUDIT COMMITTEES OF LISTED COMPANIES IN SINGAPORE 2015



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Executive Summary

The 2015 Study on “The Profile of Audit Committee of Listed Companies in Singapore” is the third study of audit committees (ACs) of listed companies in Singapore. The first two studies were conducted in 2009 and 2011, and they served as a baseline to calibrate the progress that ACs have made in Singapore.

The AC is a very important oversight mechanism established by the Companies Act to manage the agency problem arising from the conflict of interests between shareholders and management. An effective AC can help to ensure that the financial statements of listed companies are presented in a true and fair manner. This is all the more important in the current landscape where there are concerns about auditors’ quality and management’s propensity to manage their earnings.

This report consists of three parts. The first part is a review of the empirical literature on ACs with a focus on the attributes of effective ACs. The second part profiles the ACs of the listed companies in Singapore in terms of their compliance to the requirements of the Companies Act, the guidelines by the Code of Corporate Governance 2012 (CG Code 2012) and the Guidebook for Audit Committees in Singapore 2014 (GAC 2014), and the Listing Rules of Singapore Exchange. The third and final part of this report is a summary of the major issues and views shared by selected chairmen of ACs collated through one-on-one interviews.

The empirical literature on ACs uses various measures and proxies for the effectiveness of ACs. The Companies Act, the Code of Corporate Governance, and well publicised best practices of ACs provide guidelines on some of the desirable attributes of effective ACs in discharging their roles and responsibilities. In the empirical literature, an input-output framework is generally used where the inputs are the desirable attributes of ACs and the output is the audited financial reporting quality (AFRQ). Some of the more important components for the desirable attributes of AC include AC activism, independence of AC and expertise of AC members, amongst others. AFRQ can be proxied by the propensity for earnings restatement, earnings qualities and discretionary accruals, amongst others. The

extant empirical literature documents a positive correlation between the desirable attributes of ACs and the quality of outputs from ACs.

This study on ACs of listed companies in Singapore provides information on the level of compliance with the regulations, guidelines, and best practices for ACs. The general conclusion drawn based on a longitudinal comparison of the study results across 2009, 2011 and 2015 suggests that companies have made systemic efforts to improve the quality of ACs over the years. In addition, companies appear to have been receptive to the new requirements in the CG Code 2012 and have taken the opportunity, when refreshing their ACs, to bring in directors who further meet the requirements of best practices. The overall view is that the 2015 study presents an improving AC landscape in Singapore.

Finally, the one-on-one interviews with chairmen of ACs highlighted many interesting issues and challenges. It is noted that the challenges faced by the smaller listed companies differed significantly from the larger listed companies. Some of the chairmen were of the opinion that different regulations and requirements should be imposed on smaller and larger companies as their needs are different. For example, larger listed companies are better endowed with resources to attract seasoned AC members, provide better support for ACs, implement more robust internal controls to mitigate risk, and have more sophisticated mechanisms and infrastructure to enhance the performance of the ACs. The ever-increasing new requirements imposed on ACs do not necessarily improve the effectiveness of ACs but instead can impose additional costs with minimal benefits. For example, many of the chairmen were of the opinion that the 9-year independent director rule is arbitrary and does not necessarily address the independence or the quality of AC members.

In summary, this report provides a comprehensive and holistic view of the ACs of listed companies in Singapore. It serves as a good baseline benchmark on what more regulators and listed companies can do to improve the effectiveness of ACs. One area of improvement is enhancing companies' disclosure on the effectiveness of risk management, as required by the recent CG Code 2012.

1. Introduction

1.1 This study is commissioned by the Institute of Singapore Chartered Accountants (ISCA) as part of the on-going knowledge creation by the Corporate Governance Committee of the Institute to obtain information on the compliance with the Singapore Companies Act, the Code of Corporate Governance 2012 (CG Code 2012), the Guidebook for Audit Committees in Singapore - Second Edition (GAC 2014) and the Listing Rules of Singapore Exchange by audit committees (ACs) of listed companies in Singapore.

1.2 This study is a continuation of earlier studies published in 2009 and 2011 by ISCA. The earlier studies provided an understanding of the compliance of ACs with the various regulations and best practices such as the CG Code 2012, a general description of the state of the ACs of listed companies in Singapore and a comparative analysis of the development of ACs over time.

1.3 The third study has been enhanced. First, this study provides a review of the current empirical studies on ACs. The review summarises the current available knowledge about key AC attributes which will contribute to their effectiveness in discharging their roles. Second, this study assesses the compliance with the latest changes and provisions in the CG Code 2012. Third, interviews were conducted with AC chairmen to obtain a better understanding of the activities and challenges faced by ACs and the factors that contribute to an effective AC. Information uncovered in interviews is generally not available from archival data used in the earlier studies, and hence provides new perspective to the study.

2. Empirical Literature on Audit Committees

The Agency Problem

2.1 The agency problem is defined as the conflict of interests between owners (principals) and managers (agents) of companies. Managers are hired hands where their employment contracts define their benefits while shareholders are the ultimate residual beneficiaries of the

companies. The conflict of interests arises because managers may not act in the best interests of the company since their ultimate benefits are derived from the employment contract. The separation of ownership from management creates a governance challenge¹. There are three significant mechanisms to manage this agency problem. First, an incentive compatible employment contract can align the interests of management with those of the owners. Second, the existence of an external labour market may result in the removal of weak management by takeover. Third, the establishment of oversight² mechanism can check the actions of management. Audit committee belongs to the third mechanism to manage the agency problem.

Oversight Mechanisms: Financial Reporting and External Auditors

2.2 Financial reporting – which requires the preparation of financial statements using a set of prescribed accounting standards and mandatory statutory audit for public companies – is an important accountability mechanism which the Board uses to discharge its stewardship responsibility to shareholders. Management supervises the preparation of the financial statements and has a preference for earnings to be stable and favourable. This is in addition to achieving the financial performance as per market expectations. This preference raises the possibility for manipulation of accounting information that result in financial statements which may not be true and fair. These adverse actions by the management reduce the decision-usefulness of accounting information to users such as shareholders, bondholders, suppliers and investment analysts.

2.3 The Companies Act – or its equivalent – prescribes statutory audit for companies based on considerations³ of governance and stewardship. The purpose of the statutory audit is to provide reasonable assurance that the financial statements are fairly presented in accordance to prescribed accounting standards, which may contradict the preference of the management. Given that auditors are reliant on management for access to accounting

¹ Ownership concentration, such as in family firms and boards dominated by block shareholders, is considered a governance mechanism in the strategic management literature, but creates a separate governance challenge between major and minor shareholders.

² In the literature on governance and theory of firms, the word “monitoring” is usually use instead of “oversight”.

³ There is increasing recognition of the role of audit in the proper functioning of the capital market – see for example Tan (2015a) – but the motivation for legislation is governance and stewardship.

information and for economic benefits – such as contracts for non-audit services or even audit contracts traditionally awarded by the board comprising of executive directors⁴ – there is a deep public suspicion of the auditor’s independence. There can be a presumption that management can exert managerial pressure on auditors whenever possible. Accounting scandals around 2002 worsened the situation, leading to reforms to further safeguard audit quality (see Tan and Ho (2016) for a recent review).

Audit Committees

2.4 The concept of audit committee (AC) was proposed by the New York Stock Exchange in 1939, and has become embodied in regulations (such as the Companies Act, Sarbanes–Oxley Act (2002) [SOX] and listing rules) and professional norms (such as corporate governance codes). Four initiatives – the UK Cadbury Report (Cadbury Committee, 1992), the Smith Review (Smith Committee, 2003), the US Blue Ribbon Report (Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, 1999) and SOX – are particularly influential on the modern concept of AC.

2.5 Beattie et al (2012, 2014) observe that the traditional finance director–audit partner dyad is replaced by the finance director–AC–audit partner triad in the presence of an AC. The AC insulates the auditor from managerial pressure – especially if the AC consists, either solely or mostly, of independent directors⁵ – which together with other audit safeguards help to further enhance the credibility of the auditor’s independence.

2.6 Most of the AC’s term of reference relates to ensuring the reliability of the audited financial reports. The AC oversees internal control and internal audit of the companies – both of which influence audit planning under the risk-based auditing framework. The AC receives the auditor’s opinion (if the financial statements are fairly presented) and the management

⁴ Executive directors are employees of the company and they are part of the management team.

⁵ An early definition of independent director comes from the Blue Ribbon Report which states: “Members of the audit committee shall be considered independent if they have no relationship to the corporation that may interfere with the exercise of their independence from management and the corporation.” Therefore, an executive director is clearly not independent. A non-executive director may, or may not, be independent – and the independence is hence subjected to evaluation.

letter (that details potential internal control problems where a misstatement in the financial statements would likely occur), both of which management has an incentive to exert managerial pressure in contentious areas.

2.7 Traditionally, management makes decision⁶ that produce economic benefits for the auditor – such as hiring or retaining auditor, negotiating audit fees, and awarding contracts for non-audit services – which is either taken over by the AC or require an AC review. However, the role of AC has been enlarging over time. There has yet to be a consensus in practice⁷ if risk management should be managed by the AC or a separate committee, although it is common in the AC's term of reference. Arising from SOX, many ACs have now become the receiver of whistle blowing allegations regarding financial reporting matters.

2.8 While the AC appears to have diverse roles and responsibilities, the common thread is its value in producing high quality audited financial reporting which is instrumental to the corporate governance of public companies. In fact, the Cadbury Report (Cadbury Committee, 1992) explicitly states that “... *appropriately structured AC improves the quality of financial reporting and ensuring the independence of the statutory audit.*” The challenge is what is an “*appropriately structured AC*”?

2.9 Reviews of empirical AC research (Cohen et al. 2004; DeZoort et al. 2002; Turley and Zaman 2004; Pomeroy and Thornton 2008; Ghafran and O’Sullivan 2013) employ an “input-output” framework. We therefore argue that the AC output⁸ is audited financial reporting quality (hereafter AFRQ) as suggested in the Cadbury Report. Pomeroy and Thornton (2008) state that financial statement quality (i.e. accounting quality) and audit quality complement each other to produce high AFRQ. Their meta-analysis of 27 papers found that ACs are more effective at enhancing audit quality (e.g., through averting going-

⁶ Management comprising of directors makes these decisions as individuals, or jointly as a member of the board.

⁷ A forum of AC Chairman (Bender, 2007) argues that the enterprise risk consists of: strategic risk which is the board’s responsibility; operation risk which the AC can manage via its oversight of internal control; financial risk which the AC can manage via its oversight of financial reporting and auditing. If enterprise risk is managed as an integrated whole, i.e. using the enterprise risk model, then a separate Board Risk Committee (BRC) is required and the risk management role of AC will be confined to financial risk.

⁸ Ghafran and O’Sullivan (2013) uses the term AC effectiveness for the output which comprises financial reporting quality, external audit quality and internal audit quality.

concern reports and auditor resignations) than they are at fostering accounting quality (e.g., by making high-quality accruals and avoiding restatements). The inputs of the framework are AC characteristics considered by regulators and best practice norms to influence AFRQ. The three main AC's characteristics include: 1) AC activism; 2) independence of AC members; and 3) expertise of AC members.

AC Activism

2.10 One of the major concerns for AC effectiveness is how active the AC members are. For example, Spira (1999) raised the possibility that AC plays a ceremonial role in window dressing for good corporate governance. Empirical research seeks to proxy the AC activism using various measures. AC activism is usually measured by the frequency of meetings in archival research. The empirical result of the relationship between AC activism and high AFRQ is mixed: Some studies find high AFRQ with increased AC activism (Xie et al, 2003; Vafeas, 2005; Kent et al, 2010), some showing no significant relations (Bedard et al, 2004; Davidson et al, 2005; Baxter and Cotter, 2009), and a study even shows lower AFRQ with increased AC activism (Ghosh et al, 2010).

2.11 Two other dimensions of AC activism are the tenure of AC members and the busyness of the directors. The argument is that AC members with long tenure may become so comfortable with the management that they are less scrutinising (Boeker and Goodstein, 1993) and may accept management's judgment and decisions more readily. Vafeas (2003) argues that long tenured board members are more closely affiliated with management and therefore have a greater tendency to approve excessive compensation for the CEO. Hence there should be a term limit for board membership. However, there are contrary studies like Yang and Krishnan (2005) which find that earnings management is less likely in the presence of AC members with longer tenure.

2.12 For busy directors, it is argued that they are not able to devote as much attention to their roles as AC members because of their commitments in other boards. This was the charge laid on the directors of Enron during the US Senate enquires. The Senate opined that

some directors on the Enron board held so many directorships that they were unable to dedicate time to focus on the issues in Enron.⁹ Like the argument for directors with long tenure, there are also contrary findings concerning busy directors. Yang and Krishnan (2005) find that firms with AC members who sit on multiple boards have lower incidents of earnings management, and Sharma and Iselin (2006) find that restatements are less likely for such firms. However, Dhaliwal et al. (2010) find that accruals quality is positively enhanced when there are accounting experts in AC who hold low levels of multiple directorships. Fich and Shivdasani (2007) reports that “busy boards” face increased likelihood of financial litigation.

2.13 Rickling (2014) documents that the proportion of AC members with long tenure is positively associated with the likelihood of a firm repeatedly meeting or just beating analysts forecast. She also finds that firms with AC members holding more than three other board memberships are more prone to meeting or just beating analysts forecast.

2.14 Therefore, AC activism is an important component in raising AFRQ, but the proxy of meeting frequency appears to be an inadequate measure for AC activism. Moreover, AC members’ tenure and busyness may be important attributes in determining the effectiveness of the AC. The findings suggest that AC members may not be as effective or active as they should be if they are long tenured or if they are busy with multiple directorships. However, the empirical evidence is not conclusive.

Independence of AC Members

2.15 AC independence is generally associated with higher AFRQ. The current regulations in US, UK and Australia (which produce a large share of accounting research) require all AC members to be independent. In Singapore, the Companies Act, Section 201B, requires the AC chairman and the majority of the AC members to be independent. The best practice embodied in the CG Code 2012, Guideline 12.1 further requires all AC members to be non-executive directors.

⁹ U.S. Senate (2002), page 95.

2.16 Two Singapore studies, Bradbury, Mak and Tan (2006) and Kusnadi et al (2015), found that AC independence correlates with AFRQ. Kusnadi et al (2015) argue that the Singapore evidence shows that AC independence as a whole – and not independence of every AC member – suffices to produce high AFRQ (based on discretionary accrual¹⁰ quality).

2.17 Internationally, many studies show that AC independence correlates with higher AFRQ. For example, Chen and Zhou (2007) found that firms with more independent AC were quicker in dismissing Arthur Andersen as their auditor when the Enron scandal unfolded. Quick dismissal of Arthur Andersen was used as a proxy of the company's concern with AFRQ. In addition, AC independence is associated with higher audit fee (Vefeeas and Wagelein, 2007; Goodwin-Stewart and Kent, 2006; Zaman et al 2011), which is consistent with the notion that these independent ACs demand higher level of audit assurance. Numerous studies (Bedard et al, 2004; Ebrahim et al, 2007; Kent et al, 2010; Koh et al, 2007; Lo et al, 2010) use discretionary accrual (Dechow and Dichev, 2002) to proxy¹¹ AFRQ and they report that AC independence increases with AFRQ.¹² A meta-analysis by Pomeroy and Thornton (2008) shows that the different proxies¹³ used for AFRQ explained about half the variation in result across studies. The recent review by Ghafran and O'Sullivan (2013) indicates a consensus in the scholarly empirical literature that AC independence increases AFRQ especially for US-based studies.

2.18 Finally, Abbott et al (2004) find that firms with entirely independent ACs are much less likely to restate earnings than firms without a fully independent AC.

¹⁰ Discretionary accrual is a proxy created by academics to measure the quality of financial reporting as it captures in quantitative values the discretionary accounting choices made by management.

¹¹ This literature is sometimes called the AC independence literature on earnings management. Although earnings management can employ a large repertoire of accounting tools, excessive "discretionary" accrual is the preferred tools in accounting research. The prevalence of earnings management is far from a settled debate.

¹² However as in many empirical studies, there is also research which suggests otherwise. For example, Xie et al (2003) did not find any significant relationship between proportion of independent AC member and aggressive earnings management, suggesting that the result is not universal.

¹³ The proxies, be it continuous or binary, differ significantly in representing AFRQ. For example, discretionary accrual is a continuous variable representing the shades of differing AFRQ while auditor resignation and SEC accounting and auditing enforcement releases are binary and signal fairly serious problems in AFRQ.

Expertise of AC Members

2.19 The relation between the expertise of AC members and AFRQ is usually reviewed together with AC independence (and sometimes AC activism). The SEC defines financial expertise in the context of the Sarbanes-Oxley Act¹⁴ as a person who has the following attributes:¹⁵

- a. Ability to understand generally accepted accounting principles (GAAP) and financial statements;
- b. Ability to assess the general application of GAAP in accounting for estimates, accruals and reserves;
- c. Experience in preparing, auditing, analyzing or evaluating financial statements generally comparable to the breadth and complexity of issues in the financial statements of the expert's company, or experience actively supervising one or more persons engaged in such activities;
- d. Ability to understand internal controls and procedures for financial reporting; and
- e. Ability to understand audit committee functions.

2.18 In addition, SEC states that a person has acquired the above attributes for financial expertise through any or more of the following:

- a. Relevant education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions, or experience actively supervising one or more persons engaged in such activities
- b. Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- c. Other relevant experience.

¹⁴ Sarbanes-Oxley Act (2002), Section 407.

¹⁵ SEC Release Nos: 333-8177; 34-47235; File No. 57-40-02, para. 4c.

2.19 Dhaliwal et al (2010) distinguishes three types of financial expertise (accounting, finance and supervisory expertise¹⁶) to investigate their impact on AFRQ (measured by discretionary accrual). They find that finance expertise complements accounting expertise to improve AFRQ in independent ACs; however supervisory expertise has no complementary effect. Several other studies (Krishnan and Visvanathan, 2008; Carcello et al, 2006) have found similar results. In particular, a Singapore study (Kusnadi et al, 2015) has found that AC with finance and accounting expertise has higher AFRQ, but AC with only accounting expertise does not. The study concluded that mixed skill sets in the AC help to improve AFRQ.

2.20 Researchers are beginning to examine the contribution of industry expertise to AFRQ. Cohen et al (2013) shows that an AC which has accounting and industry expertise performs better than an AC with only accounting expertise. There are two arguments why industry expertise matters. First, accounting guidance, estimates and oversight of auditor are influenced by the company's operation in a given industry¹⁷. Secondly, the value of industry knowledge of auditors to improve AFRQ has been documented in prior studies (DeFond et al, 2000; Romanus et al, 2008; Reichelt and Wang, 2010), alluding to the plausibility that the result in the case of auditors may apply to ACs as well. There appears to be a consensus that AC expertise, especially accounting expertise supplemented by financial expertise, and possibly industry and supervisory expertise, improve AFRQ.

Summary of Literature Review

2.21 This review covers the extensive literature on ACs in the context of corporate governance of public companies. Financial reporting is a core element of the governance mechanism arising from the need for the Board to monitor managers. The need for oversight

¹⁶ Accounting expertise refers to current or previous experience as certified public accountants, chief financial officers, vice presidents of finance, financial controllers or any major accounting positions. Financial expertise refers to experience as investment bankers, financial analysts, or any other financial management roles. Supervisory expertise refers to experience as chief executives or presidents (Dhaliwal et al, 2010).

¹⁷ For example, revenue recognition often requires an understanding of industry-specific earnings process (e.g. software industry).

arises from the agency problem because of the separation of ownership and management. Auditing of the financial statements for public companies is mandatory and is established through corporate laws (in particular the Companies Act) on the basis of stewardship argument.

2.22 There is a deep public suspicion of auditors' independence, especially after the accounting scandals of Enron which resulted in the legislation of SOX. The external auditors are affected by the potential pressures from management arising from the management's preference for stable and favourable earnings. The suspicion of auditors' independence is worsened as management has decision authority on matters affecting the economic benefits of auditors. The role of AC is strengthened in the aftermath of the audit market reform (Tan and Ho, 2016) to address these perceived weaknesses. The AC now serves as an additional buffer between management and the external auditors. The issue then becomes whether the AC is effective in discharging its responsibilities and what are the attributes of an effective AC.

2.23 The literature on the effectiveness of an AC can be viewed from an input-output perspective. The output of AC is AFRQ. The major inputs to produce AFRQ are AC independence, AC expertise and AC activism. There is substantial empirical evidence internationally that AC independence and AC expertise correlate with high AFRQ.

2.24 The international results are confirmed by two Singapore studies (Bradbury et al, 2006; Kusnadi et al, 2015).

2.25 The empirical evidence of the effect of AC activism using frequency of AC meetings on AFRQ is controversial. However, AC activism as proxied by the tenure of AC members and busyness suggests that there may be a case for greater effectiveness of the AC by re-examining these two attributes.

2.26 There are two policy implications from the review. First, given that the AC inputs are generally correlated with higher AFRQ, monitoring AC inputs (particularly AC independence and AC expertise and more research on long tenure and busyness) can provide a useful surveillance on potential change to AFRQ in Singapore. The surveillance can be measured across time or across meaningfully defined market segments. Second, the construct of AC activism is important to AFRQ but poorly understood, and meeting frequency is clearly inadequate. Research method that can uncover richer information on AC activism – such as interviews with AC chairmen on what they actually do in resolving manager-auditor conflict and so on – can provide a clearer picture on AC activism. As all research methods have their own strengths and weaknesses in terms of validity (see Tan, 2015b for elaboration), triangulation of research findings should be the best practice to further verify the effectiveness and desired goals of policies or regulations.

3. Objectives of the Study

3.1 Building on the literature review on ACs, this study documents the presence of the desired attributes of ACs in Singapore listed companies. The study's objectives are as follows:

- a. Assessment of AC attributes:
 - i. Composition of ACs;
 - ii. Qualifications of AC members;
 - iii. Experience of AC members;
- b. Assessment of the extent of compliance of ACs:
 - i. With the relevant codes and guidelines;
 - ii. With the latest provisions of the CG Code 2012 in seven new areas:
 - Disclosure of board practices;
 - Disclosure of key terms of reference;
 - Disclosure of audit fees;
 - Appointment of internal auditor;
 - Disclosure of whistle blowing policy;
 - Accounting standards and issues;
 - Risk management

4. Methodology of the Study and Description of the Sample

4.1 There are 764 companies which had a listing on the Singapore Exchange. The sample¹⁸ comprises all listed companies that filed an annual report with the SGX for their financial year ending no later than 31 December 2014. The sample consists of 717 companies¹⁹, comprising 679 companies (542 listed on the Mainboard and 137 listed on Catalist), 15 business trusts and 23 REITs. The 717 companies also include 16 companies which had a secondary listing on the Mainboard (Secondary Listings). The data are primarily provided by Handshakes Pte Ltd, a data-analysis firm.

4.2 The sample had been classified into three groups based on their market capitalisation as at 31 December 2014:

- a. Companies which had a market capitalisation of S\$500 million and above;
- b. Companies which had a market capitalisation of less than S\$500 million; and
- c. Companies listed on the Catalist.

4.3 Table 1 provides a description of the listed companies over the three studies. The total number of companies profiled has increased by 6.2%, from 675 in the 2009 Study to 717 in the 2015 Study. For the 2015 Study, 22.9% of the listed companies have market capitalisation of S\$500 million and above. It is noteworthy that the number of companies with market capitalisation of S\$500 million and above had risen by 62.4%, from 101 in the 2009 Study to 164 in the 2015 Study.

4.4 The total number of directors sitting on the ACs also rose by 6.8%, from 2,165 in 2009 Study to 2,312²⁰ in 2015 Study, which is comparable with the increase in the number of companies profiled. The number of unique AC chairman increased by 11.1%, from 434 in

¹⁸ 47 companies were excluded because of the lack of valid information such as those that went IPO in 2014, recent corporate restructuring and missing annual reports.

¹⁹ The 2009 (2011) survey covered the financial reporting period ending 30 June 2007 to 30 June 2008 (1 January 2010 to 31 December 2010), and there were 675 (724) companies surveyed then.

²⁰ The total number of unique individuals who were chairmen (482) or members (1,263) of ACs does not add up to the 1,745 unique individuals serving on the ACs because some chairmen also serve as members in other ACs.

the 2009 Study to 482 in the 2015 Study. However, the unique number of individuals who served as members of AC was reduced by 9.9%, from 1,402 in the 2009 Study to 1,263 in the 2015 Study.

4.5 Finally, the number of financial institutions remained fairly constant over the three studies with an increase of two financial institutions in the 2015 Study.

Table 1: Sample Size of the Study

	2015 Study	2011 Study	2009 Study
Companies with Market Cap of S\$500m and above (≥S\$500m)	164 (22.9%)	148 (20.4%)	101 (15.0%)
Companies with Market Cap less than S\$500m (<S\$500m)	409 (57.0%)	453 (62.6%)	439 (65.0%)
Companies listed on the Catalist (Catalist)	144 (20.1%)	123 (17.0%)	135 (20.0%)
TOTAL	717 (100.0%)	724 (100.0%)	675 (100.0%)
Total number of directors in ACs	2,312	2,353	2,165
Total number of unique individuals who serve as Chairman	482	460	434
Total number of unique individuals who serve as members	1,263	1,258	1,402
Number of Financial Institutions	27 (3.8%)	25 (3.5%)	25 (3.7%)

5. Legislation and Code of Best Practices on Audit Committees

5.1. In Singapore, there are five major sources of regulations or prescription of best practices governing ACs for listed companies. Since the last study in 2011, three of the five sources had been revised. The five major sources of regulations or prescription of best practices – where asterisks indicate sources that are revised since the 2011 Study – are:

- a. The Companies Act (Chapter 50), Section 201B [Companies Act];
- b. The Singapore Code of Corporate Governance (2012) [CG Code 2012] **;
- c. The Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers which are Incorporated in Singapore (2013) by the Monetary Authority of Singapore [GCG-Banks 2013] **;

- d. The Singapore Exchange Listing Rules [LR]; and
- e. Guidebook for Audit Committees in Singapore – Second Edition (2014) by the Work Group to review the Guidebook for Audit Committees in Singapore [GAC 2014] **.

5.2. The pertinent provisions from each of the above legislation and code are reproduced in Annex A. The substance of the above provisions can be summarised into the following key points:

- a. It is a legal requirement for all listed companies to have an AC;²¹
- b. The AC must have a minimum of three members;²²
- c. The chairman of the AC must be an independent director;²³
- d. The AC must be deemed to be independent and this means that the AC shall not consist of a majority of executive directors, or relations of executive directors, or any person having a relationship which would interfere with the exercise of independent judgment in carrying out the functions of the committee;²⁴
- e. At least two members of the AC (including the chairman) must have relevant accounting or related financial management expertise or experience (hereafter called “financially-trained” individuals);²⁵
- f. The functions, duties and roles of the AC should be specified;²⁶
- g. The company’s annual report should disclose AC activities and “measures taken by the AC members to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements”,²⁷ and

²¹ Companies Act (Chapter 50), Section 201B(1).

²² Companies Act (Chapter 50), Section 201B(2); CG Code 2012 (Guideline 12.1); GAC 2014 (Guideline 1.2.1); LR 704(8).

²³ Companies Act (Chapter 50), Section 201B(3); CG Code 2012 (Guideline 12.1) and GAC 2014 (Guideline 1.2.10). The Companies Act requires the chairman who is “not an executive director or employee of the company or any related corporation”, which implicitly assumes that he/she is independent (Section 201B(3)).

²⁴ Companies Act (Chapter 50), Section 201B(2). The Companies Act is less stringent than the CG Code 2012 (Guideline 12.1) which requires “All of the members of the AC should be non-executive directors” while the Companies Act only requires “a majority” shall not be executive director or employee of the company or any related corporation.

²⁵ CG Code 2012 (Guideline 12.2) and GAC 2014 (Guideline 1.2.5).

²⁶ Companies Act (Chapter 50), Section 201B(5); CG Code 2012 (Guidelines 12.4-12.7); GAC 2014 (Guidelines 2.3.2 to 2.3.3).

h. There are guidelines for the tenure of the AC.²⁸

5.3. It is not coincidental that many of the above provisions form part of the findings in the literature review on the attributes of effective ACs. Thus a documentation of the existence and prevalence of the above provisions in the ACs in listed companies in Singapore will provide anecdotal evidence on the state of the effectiveness of ACs in Singapore.

5.4. In recent years, increasing emphasis has been placed on the AC to understand and comment on the adequacy and effectiveness of the company's risk management and internal control systems²⁹, including the promulgation of a whistle blowing policy³⁰ for the company. This emphasis seems to suggest a continuous evolution in the roles of ACs consistent with the literature.

6. Study Findings

6.1 General Descriptions

6.1.1 Table 2 shows the distribution of the number of AC meetings held during the year. The majority of the 717 listed companies (78.5%) in the study reported four or more AC meetings in their annual report for the year. This figure is the highest percentage in the three studies (2009: 71.8% and 2011: 54.5%). Only one company did not have any AC meetings during the year.

²⁷ CG Code 2012 (Guideline 12.8).

²⁸ GAC 2014 (Guidelines 1.2.12, 1.2.16-1.2.17).

²⁹ CG Code 2012 (Guideline 11.2), GAC 2014 (Section 3); LR 1207(10)

³⁰ CG Code 2012 (Guideline 12.7), GAC 2014 (Guidelines 2.2.51-2.2.65); LR 719(2)

Table 2: Distribution of the Frequency of AC Meetings

Number of AC Meetings	2015 Study	2011 Study	2009 Study
0	1 (0.1%)	3 (0.4%)	3 (0.4%)
1	7 (1.0%)	15 (2.1%)	20 (3.0%)
2	112 (15.6%)	123 (17.0%)	168 (24.9%)
3	33 (4.6%)	59 (8.1%)	104 (15.4%)
4	431 (60.1%)	385 (53.2%)	263 (39.0%)
5	80 (11.2%)	90 (12.4%)	57 (8.4%)
6	34 (4.7%)	27 (3.7%)	29 (4.3%)
7 to 14	18 (2.5%)	18 (2.5%)	19 (2.8%)
No Disclosure	1 (0.1%)	4 (0.6%)	12 (1.8%)
TOTAL	717 (100.0%)	724 (100.0%)	675 (100.0%)

6.1.2 Only one of the 717 companies did not disclose the number of AC meetings held in the 2015 Study. In contrast, there were four non-disclosures for 2011 and twelve for 2009.

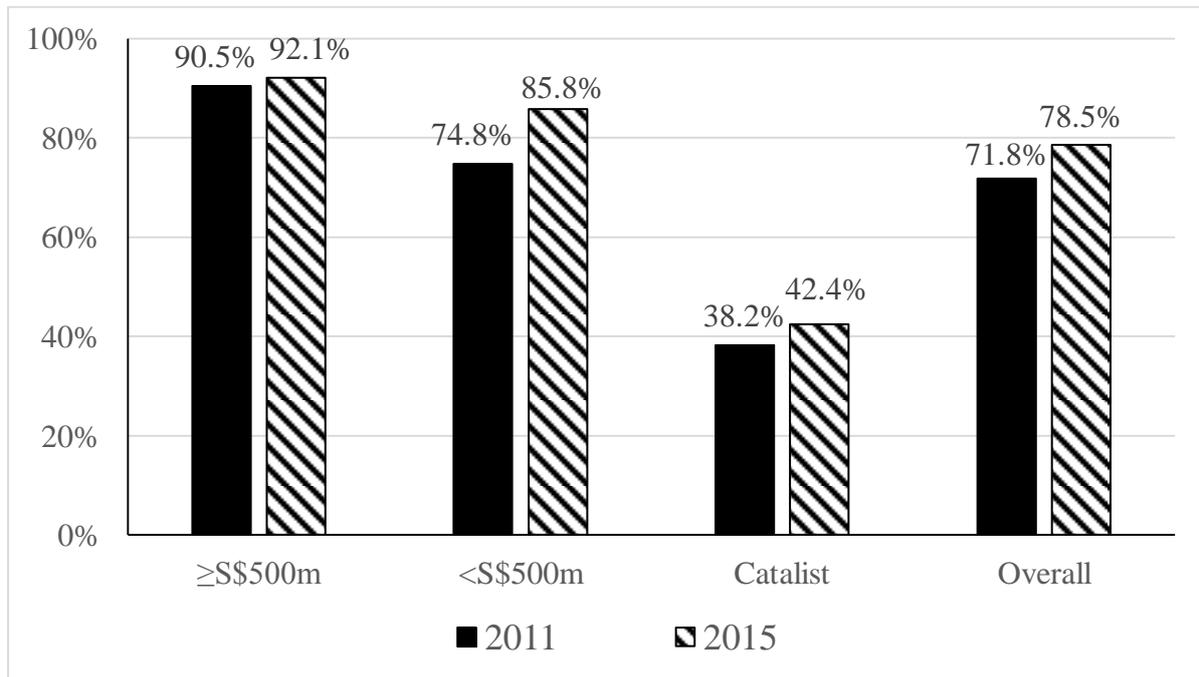
6.1.3 From Table 3, 92.1% of companies with market capitalisation of S\$500 million and above had at least four AC meetings during the year, in comparison to 85.8% for companies which had market capitalisation of less than S\$500 million, and 42.4% for Catalist-listed companies.

Table 3: Distribution of the Frequency of AC Meetings by Size

Number of AC Meetings	2015 Study			2011 Study		
	≥S\$500m	<S\$500m	Catalist	≥S\$500m	<S\$500m	Catalist
	No (%)					
0	0 (0.0%)	0 (0.0%)	1 (0.7%)	1 (0.7%)	1 (0.2%)	1 (0.8%)
1	0 (0.0%)	1 (0.2%)	6 (4.2%)	3 (2.0%)	9 (2.0%)	3 (2.4%)
2	8 (4.9%)	43 (10.5%)	61 (42.4%)	9 (6.1%)	67 (14.8%)	47 (38.2%)
3	4 (2.4%)	14 (3.4%)	15 (10.4%)	1 (0.7%)	34 (7.5%)	24 (19.5%)
4 & above	151 (92.1%)	351 (85.8%)	61 (42.4%)	134 (90.5%)	339 (74.8%)	47 (38.2%)
No disclosure/ Not available	1 (0.8%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (0.7%)	1 (0.8%)
TOTAL	164 (100.0%)	409 (100.0%)	144 (100.0%)	148 (100.0%)	453 (100.0%)	123 (100.0%)

6.1.4 Figure 1 shows the percentage of companies where the AC met four times or more for the 2015 Study and 2011 Study, according to their sizes, and in total. The figure shows a consistent increase across the board.

Figure 1: Percentage of Companies Where the AC Met Four Times or More



6.1.5 Table 4 shows the statistics of the frequency of the meetings of the ACs. Overall, there was a slight increase in the average number of AC meetings for the companies profiled for the 2015 study as compared to 2011 and 2009 studies (2015 : 3.9; 2011 : 3.8 and 2009 : 3.6). The median number of AC meetings for Catalyst companies was three, while non-Catalist companies had a median of four, with the same medians for all three studies.

6.1.6 Table 4 also provides the statistics for non-financial and financial companies. Overall, the average number of AC meetings for both non-financial and financial companies had risen for the 2015 Study. The median number of AC meetings was four for both non-financial and financial companies.

Table 4: Statistics on the Frequency of AC Meetings

Statistics	≥S\$500m			<S\$500m			Catalist			Total		
	2015 Study	2011 Study	2009 Study	2015 Study	2011 Study	2009 Study	2015 Study	2011 Study	2009 Study	2015 Study	2011 Study	2009 Study
Average	4.6	4.2	4.6	4.0	3.8	3.5	3.0	3.0	3.0	3.9	3.8	3.6
Median	4.0	4.0	4.0	4.0	4.0	4.0	3.0	3.0	3.0	4.0	4.0	4.0
Minimum	2.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0
Maximum	14.0	8.0	12.0	12.0	7.0	12.0	7.0	7.0	8.0	14.0	8.0	12.0

No table of figures entries found.	Non-Financial Companies			Financial Companies			Total		
	2015 Study	2011 Study	2009 Study	2015 Study	2011 Study	2009 Study	2015 Study	2011 Study	2009 Study
Average	3.9	3.8	3.0	4.6	4.3	4.2	3.9	3.8	3.6
Median	4.0	4.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0
Minimum	0.0	0.0	0.0	2.0	2.0	2.0	2.0	0.0	0.0
Maximum	14.0	8.0	7.0	11.0	6.0	10.0	14.0	8.0	12.0

6.1.7 The convergence to a median or average of four AC meetings per year could be due to mandatory quarterly reporting where ACs need to meet and deliberate the recommendations to the Board on the release of quarterly results.³¹

6.1.8 The distribution of the number of chairmanship and membership of ACs held by individuals is presented in Table 5. For the sample of 717 companies, a total of 482 individuals held the position of chairman of AC and 1,263 individuals were members of AC. The highest number of chairmanship for ACs held by any individual was six. A significant majority of the individuals held only one chairmanship position (71.6%) or sat on one AC (82.9%).

³¹ Companies with market capitalisation of S\$75 million or below require only half-yearly report. These companies are more likely to be listed on the Catalist than on the Mainboard.

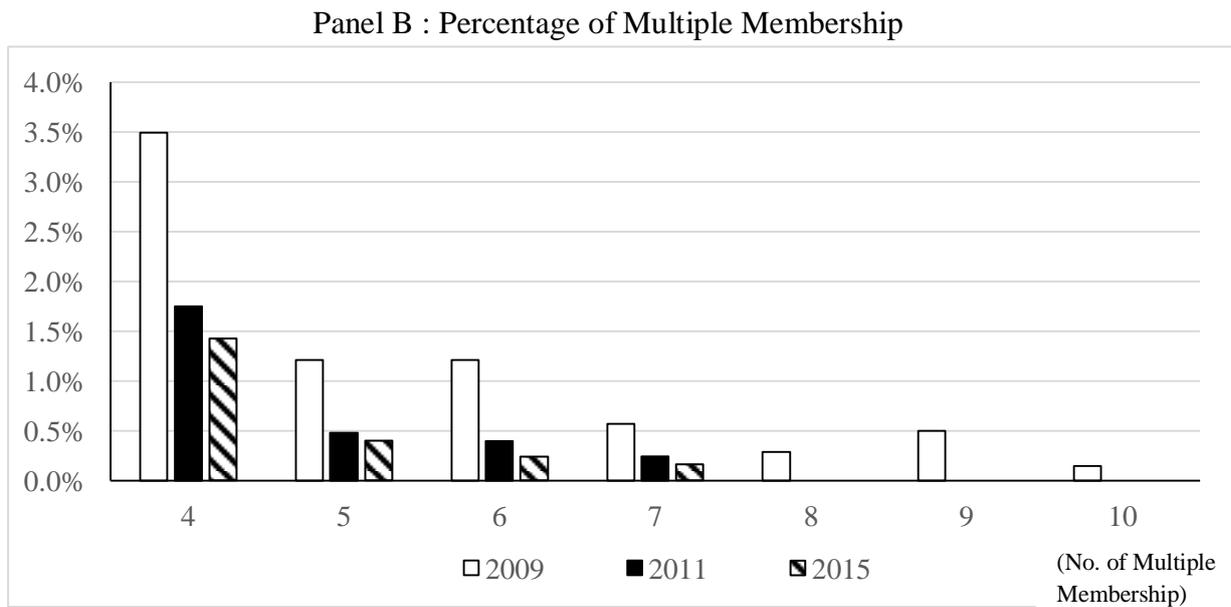
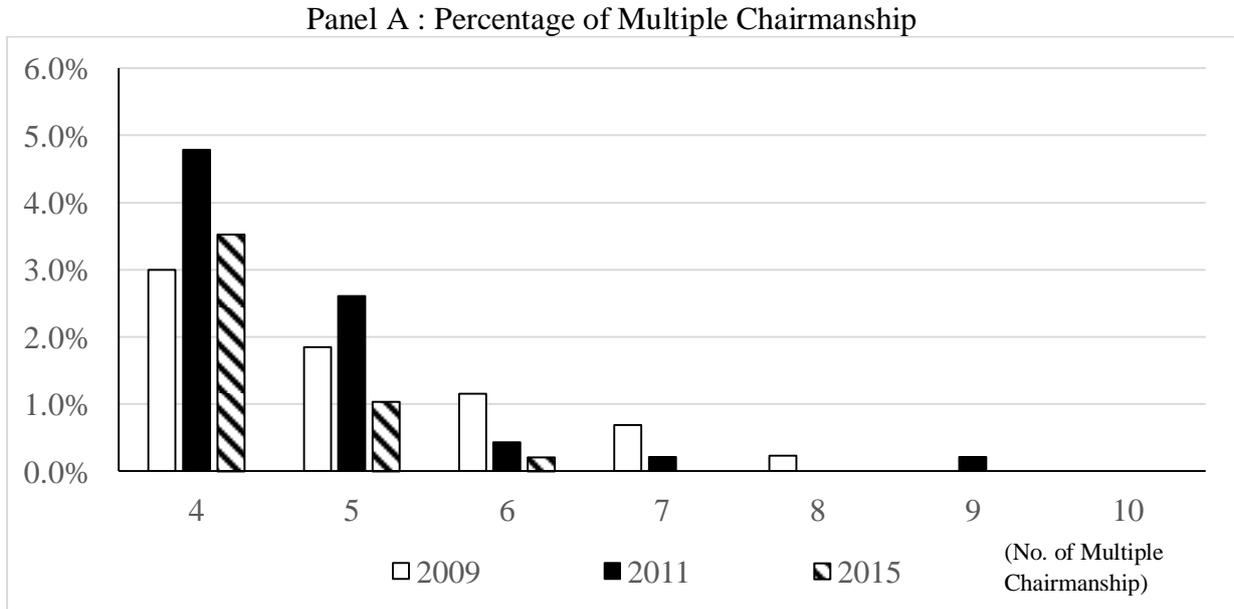
Table 5: Distribution of the Number of Chairmanship and Membership of ACs Held

Chairmanship of AC	2015 Study	2011 Study	2009 Study	Membership of AC	2015 Study	2011 Study	2009 Study
1	345 (71.6%)	323 (70.2%)	313 (72.1%)	1	1047 (82.9%)	1,026 (81.6%)	1,063 (75.8%)
2	74 (15.4%)	72 (15.7%)	63 (14.5%)	2	140 (11.1%)	153 (12.2%)	166 (11.8%)
3	40 (8.3%)	27 (5.9%)	28 (6.5%)	3	48 (3.8%)	43 (3.4%)	69 (4.9%)
4	17 (3.5%)	22 (4.8%)	13 (3.0%)	4	18 (1.4%)	22 (1.7%)	49 (3.5%)
5	5 (1.0%)	12 (2.6%)	8 (1.8%)	5	5 (0.4%)	6 (0.5%)	17 (1.2%)
6	1 (0.2%)	2 (0.4%)	5 (1.2%)	6	3 (0.2%)	5 (0.4%)	17 (1.2%)
7	0 (0.0%)	1 (0.2%)	3 (0.7%)	7	2 (0.2%)	3 (0.2%)	8 (0.6%)
8	0 (0.0%)	0 (0.0%)	1 (0.2%)	8	0 (0.0%)	0 (0.0%)	4 (0.3%)
9	0 (0.0%)	1 (0.2%)	0 (0.0%)	9	0 (0.0%)	0 (0.0%)	7 (0.5%)
10	0 (0.0%)	0 (0.0%)	0 (0.0%)	10	0 (0.0%)	0 (0.0%)	2 (0.1%)
TOTAL	482³² (100.0%)	460 (100.0%)	434 (100.0%)	TOTAL	1263 (100.0%)	1258 (100.0%)	1402 (100.0%)

6.1.9 Since the first AC study in 2009, the number of individuals with multiple chairmanship or membership in AC has dropped. This decrease is a positive development for the AC landscape in Singapore. Figure 2 provides a graphic representation of this decline in the percentage of multiple chairmanship and membership.

³² Five companies did not disclose the name of the chairman of the audit committee despite naming all the members of the Audit Committee. It explains why only 712 companies are covered comprising of 482 unique individuals.

Figure 2: Number of Multiple Chairmanship and Membership



6.1.10 Table 6 shows the breakdown of the chairmanship and membership of ACs according to gender on an overall basis (inclusive of multiple memberships). The finding suggests a systematic, albeit a very slow, increase in the percentage and absolute number of women in both chairmanship and membership of ACs. Since the first study in 2009, the percentage of

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female AC members (including chairmen) had increased by 2.8% in 6 years. At this rate of increase, it will take another 5 years to reach 10%.³³

Table 6: Distribution of AC Memberships According to Gender

	Chairmen			Members			Total		
	2015 Study	2011 Study	2009 Study	2015 Study	2011 Study	2009 Study	2015 Study	2011 Study	2009 Study
Male	679 (95.4%)	701 (97.0%)	659 (97.8%)	1457 (91.1%)	1,519 (93.2%)	1,393 (94.0%)	2,136 (92.4%)	2,220 (94.3%)	2,052 (95.2%)
Female	33 (4.6%)	22 (3.0%)	15 (2.2%)	143 (8.9%)	111 (6.8%)	89 (6.0%)	176 (7.6%)	133 (5.6%)	104 (4.8%)
TOTAL	712 ³⁴ (100%)	723 ³⁵ (100%)	674 (100%)	1600 (100%)	1,630 (100%)	1,482 (100%)	2,312 (100%)	2,353 (100%)	2,156 (100%)

6.1.11 Greater efforts may need to be expended to encourage the participation of women directors as AC chairmen or members.

6.2. Assessment of the Composition of the ACs

6.2.1 Table 7 provides the summary statistics of the number of directors for the companies and members in ACs respectively. The number of directors and number of members of an AC are significantly influenced by the company size. For example, for companies with market capitalization above S\$500m, the average number of directors on the board was 8.7 while the average number of members in AC was 3.5. These numbers are greater than those from companies with less than S\$500m in market capitalization and Catalist companies.

³³ Assuming linearity, annual increment in percentage of women from 2009 to 2015 is 0.47% (=2.8%/6) per year. Therefore, number of years needed to reach 10% will require at least 5.1 (=10.0% - 7.6%)/0.47%) years.

³⁴ Five companies did not have a chairman for their ACs as the previous chairman had resigned or not mentioned in the annual report. Therefore, there were 712 chairman (717 - 5 = 712) for the sample.

³⁵ One company did not have a chairman for their ACs as the previous chairman had resigned. Therefore, there were 723 chairman (724 - 1 = 723) for 724 companies in the sample.

Table 7: Summary Statistics of Number of Company Directors and AC Members

	Market Cap of S\$500m and above											
	2015				2011				2009			
	Min	Max	Average	Med	Min	Max	Average	Med	Min	Max	Average	Med
No of Directors	4.0	20.0	8.7	8.0	5.0	22.0	8.6	8.0	4.0	22.0	9.4	9.0
No of AC Members	2.0	7.0	3.5	3.0	3.0	6.0	3.4	3.0	3.0	7.0	3.6	3.0
% of AC Members/Directors	20.0%	80.0%	42.4%	42.9%	18.0%	80.0%	42.0%	43.0%	18.0%	80.0%	41.0%	38.0%

	Market Cap of Less than S\$500m											
	2015				2011				2009			
	Min	Max	Average	Med	Min	Max	Average	Med	Min	Max	Average	Med
No of Directors	3.0	12.0	6.3	6.0	3.0	12.0	6.5	6.0	4.0	16.0	6.8	6.0
No of AC Members	2.0	5.0	3.2	3.0	1.0	5.0	3.2	3.0	2.0	7.0	3.2	3.0
% of AC Members/Directors	27.3%	100.0%	52.6%	50.0%	25.0%	80.0%	51.0%	50.0%	23.0%	83.0%	49.0%	50.0%

	Catalist											
	2015				2011				2009			
	Min	Max	Average	Med	Min	Max	Average	Med	Min	Max	Average	Med
No of Directors	3.0	9.0	5.7	6.0	4.0	10.0	5.8	6.0	3.0	10.0	6.1	6.0
No of AC Members	2.0	5.0	3.1	3.0	3.0	4.0	3.2	3.0	2.0	5.0	3.2	3.0
% of AC Members/Directors	33.3%	100.0%	56.5%	57.1%	33.0%	80.0%	56.0%	60.0%	30.0%	80.0%	54.0%	50.0%

6.2.2 From Table 7, the average number of directors in this study as compared to the 2011 Study has increased slightly for companies with market capitalisation above S\$500m (8.6 for 2011; 8.7 for 2015). However, the same statistics for companies with market capitalisation of less than S\$500m (6.5 for 2011; 6.3 for 2015) and those from the Catalist (5.8 for 2009; 5.7 for 2015) had decreased. The number of members in the AC followed a similar trend of the number of directors for the three size categories over the two studies.

6.2.3 Table 8 shows the distribution of the size of the AC. The minimum number of AC members as required by the Companies Act, the LM, CG Code 2012 and GAC 2014 is three. For companies with market capitalisation of S\$500 million or more, all have at least three members in the AC. In fact, the percentage of these companies having four members and above in the AC had increased as compared to the 2011 Study and 2009 Study (33.7% for 2009; 36.5% for 2011; 38.4% for 2015).

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6.2.4 Table 8 shows that for companies with less than S\$500 million of market capitalisation, there are nine companies which have two members or less in the AC. The corresponding figure for Catalist companies is five.

Table 8: Distribution of AC Memberships According to Types of Companies

Market Cap >S\$500m	2015 Study	2011 Study	2009 Study
Three Members in AC	101 (61.6%)	94 (63.5%)	67 (66.3%)
Four Members in AC	52 (31.7%)	44 (29.7%)	26 (25.7%)
Five Members in AC	8 (4.9%)	9 (6.1%)	6 (5.9%)
Six Members in AC	2 (1.2%)	1 (0.7%)	1 (1.0%)
Seven Members in AC	1 (0.6%)	0 (0.0%)	1 (1.0%)
TOTAL	164 (100.0%)	148 (100.0%)	101 (100.0%)

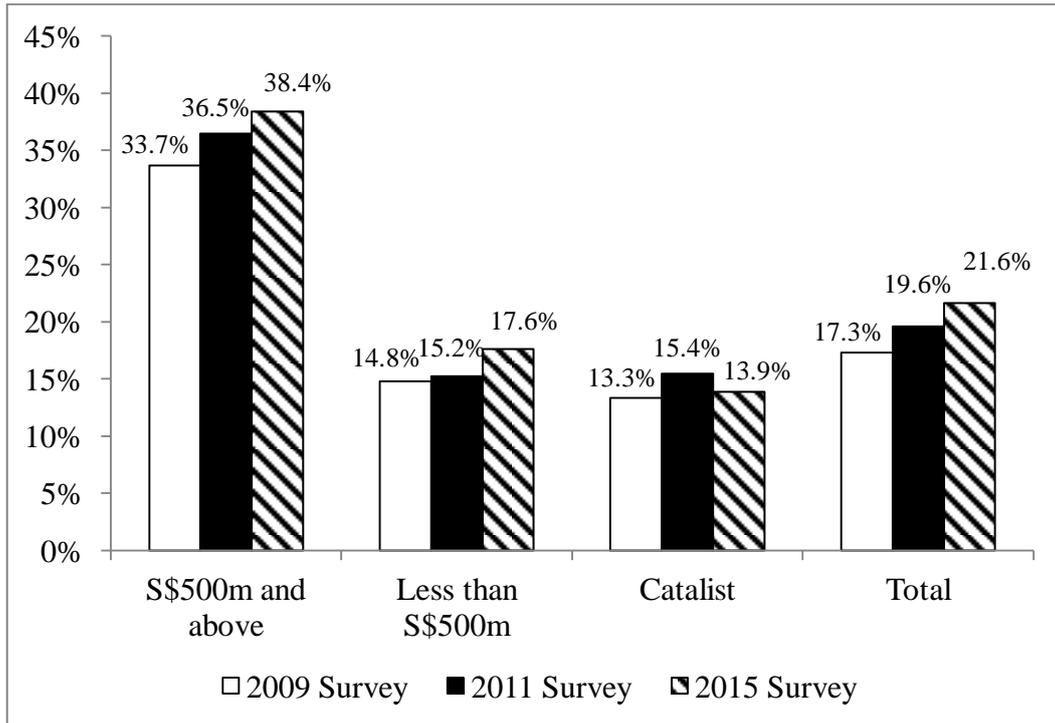
Market Cap < S\$500m	2015 Study	2011 Study	2009 Study
One Member in AC	0 (0.0%)	1 (0.2%)	0 (0.0%)
Two Members in AC	9 (2.2%)	5 (1.1%)	1 (0.2%)
Three Members in AC	328 (80.2%)	378 (83.4%)	373 (85.0%)
Four Members in AC	66 (16.1%)	61 (13.5%)	60 (13.7%)
Five Members in AC	6 (1.5%)	8 (1.8%)	4 (0.9%)
Six Members in AC	0 (0.0%)	0 (0.0%)	0 (0.0%)
Seven Members in AC	0 (0.0%)	0 (0.0%)	1 (0.2%)
TOTAL	409 (100.0%)	453 (100.0%)	439 (100.0%)

Catalist	2015 Study	2011 Study	2009 Study
One Member in AC	0 (0.0%)	0 (0.0%)	0 (0.0%)
Two Members in AC	5 (3.5%)	0 (0.0%)	4 (3.0%)
Three Members in AC	119 (82.6%)	104 (84.6%)	113 (83.7%)
Four Members in AC	19 (13.2%)	19 (15.4%)	17 (12.6%)
Five Members in AC	1 (0.7%)	0 (0.0%)	1 (0.7%)
Six Members in AC	0 (0.0%)	0 (0.0%)	0 (0.0%)
Seven Members in AC	0 (0.0%)	0 (0.0%)	0 (0.0%)
TOTAL	144 (100.0%)	123 (100.0%)	135 (100.0%)

Overall	2015 Study	2011 Study	2009 Study
One Member in AC	0 (0.0%)	1 (0.1%)	0 (0.0%)
Two Members in AC	14 (2.0%)	5 (0.7%)	5 (0.7%)
Three Members in AC	548 (76.4%)	576 (79.6%)	553 (81.9%)
Four Members in AC	137 (19.1%)	124 (17.1%)	103 (15.3%)
Five Members in AC	15 (2.1%)	17 (2.3%)	11 (1.6%)
Six Members in AC	2 (0.3%)	1 (0.1%)	1 (0.1%)
Seven Members in AC	1 (0.1%)	0 (0.0%)	2 (0.3%)
TOTAL	717 (100.0%)	724 (100.0%)	675 (100.0%)

6.2.5 The percentage of listed companies with four or more members in the AC for the three size categories and the sample as a whole are shown in Figure 3. There is a general increase in the percentage of ACs with four or more members (except for Catalyst companies). For the sample, the percentage of companies with four or more AC members has also increased (17.3% for 2009; 19.6% for 2011; 21.6% for 2015).

Figure 3: Percentage of AC having Four or More Members



6.2.6 The types of directors making up the ACs are shown in Table 9. The Companies Act classifies directors as executive or non-executive. The Companies Act does not have the category of independent director. The CG Code 2012 uses the categories of executive director, non-executive director and independent director.

6.2.7 The Companies Act Section 201B(2)(b) states: “An audit committee shall be appointed by the directors from among their number (pursuant to a resolution of the board of directors) and shall be composed of 3 or more members of whom a majority shall not be — (a) executive directors of the company or any related corporation”. However, CG Code 2012 Guideline 12.1 states: “The AC should comprise at least three directors, the majority of whom, including the AC chairman, should be independent. All of the members of the AC

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should be non-executive directors.” Therefore, compliance with the guidelines of CG Code 2012 will also result in the compliance with the Companies Act but not necessarily the reverse.

6.2.8 Table 9 Panel A, shows that 99.2% of the chairman of ACs are independent. There were six chairmen who were classified as non-executive director. For these six chairmen, there was no mention whether they are independent. Therefore, the Companies Act had been duly complied with, but the conformance with CG Code 2012 was uncertain.

Table 9: Types of Directors in the ACs

Panel A : Chairmen of All Companies	2015 Study	2011 Study	2009 Study
Independent Director	706 (99.2%)	718 (99.3%)	673 (99.9%)
Non-Executive Director	6 (0.8%)	1 (0.1%)	1 (0.1%)
Executive Director	0 (0.0%)	3 (0.4%)	0 (0.0%)
Alternate Director	0 (0.0%)	1 (0.1%)	0 (0.0%)
Others	0 (0.0%)	0 (0.0%)	0 (0.0%)
TOTAL	712 (100.0%)³⁶	723 (100.0%)	674 (100.0%)
Panel B : Members for All Companies	2015 Study	2011 Study	2009 Study
Independent Director	1302 (81.4%)	1281(78.6%)	1186 (80.0%)
Non-Executive Director	259 (16.2%)	285 (17.5%)	253 (17.1%)
Executive Director	38 (2.4%)	41 (2.5%)	42 (2.8%)
Alternate Director	1 (0.1%)	19 (1.2%)	1 (0.1%)
Others	0 (0.0%)	4 (0.2%)	0 (0.0%)
TOTAL	1600 (100.0%)	1630 (100.0%)	1482 (100.0%)
Panel C : Total for All Companies	2015 Study	2011 Study	2009 Study
Independent Director	2008 (86.9%)	1999 (85.0%)	1859 (86.2%)
Non-Executive Director	265 (11.5%)	286 (12.2%)	254 (11.8%)
Executive Director	38 (1.6%)	44 (1.9%)	42 (1.9%)
Alternate Director	1 (0.0%)	20 (0.8%)	1 (0.0%)
Others	0 (0.0%)	4 (0.2%)	0 (0.0%)
TOTAL	2312 (100.0%)	2353 (100.0%)	2156 (100.0%)

³⁶ There were five companies which did not name their chairmen. Thus, there are only 712 companies instead of 717 companies.

6.2.9 From Table 9 Panel B, 97.6% of the members of AC are either independent or non-executive directors. Overall, there is a strong element of independence in ACs as all chairman and 97.6% of members of AC are either independent or non-executive directors as shown in Table 9 Panel C.

6.2.10 Table 9 Panel C shows that there are 38 executive directors in the ACs despite the CG Code 2012 not allowing executive directors in AC. The number of alternate director has drastically fallen to one in the 2015 Study from twenty in the 2011 Study.

6.3 Assessment of the Qualifications of AC Members

6.3.1 Table 10 provides a summary of the distribution of the formal educational qualification of the chairmen and members of the AC. The percentage of chairman with graduate or post-graduate education, or professional qualifications, continues to be high (94.6% for 2015 Study and 2011 Study) and this is the case too for members of the AC (2015 : 88.2%; 2011 : 83.6%). This fact speaks well of the formal educational qualifications of the chairmen and members of the AC in Singapore listed companies.

6.3.2 Overall, there is still insufficient information on the educational qualifications for a significant percentage (2015 : 8.2%; 2011 : 11.2%) of the chairmen and members of ACs.

Table 10: Distribution of Educational Qualifications of AC Members

	2015 Study			2011 Study		
	Chairmen	Members	Total	Chairmen	Members	Total
Doctorate/LLD	29 (6.0%)	97 (7.7%)	110 (6.9%)	23 (5.0%)	96 (7.6%)	106 (6.9%)
Post Graduate Qualifications	143 (29.7%)	397 (31.4%)	494 (31.0%)	131 (28.5%)	368 (29.3%)	444 (28.8%)
Bachelor/LLB	215 (44.6%)	559 (44.3%)	705 (44.3%)	197 (42.8%)	500 (39.7%)	619 (40.1%)
Professional Qualifications	69 (14.3%)	61 (4.8%)	115 (7.2%)	84 (18.3%)	88 (7.0%)	148 (9.6%)
Post-Secondary/ Diploma	5 (1.0%)	33 (2.6%)	36 (2.3%)	4 (0.9%)	40 (3.2%)	42 (2.7%)
Secondary	0 (0.0%)	2 (0.2%)	2 (0.1%)	0 (0.0%)	11 (0.9%)	11 (0.7%)
Insufficient Information	21 (4.4%)	114 (9.0%)	131 (8.2%)	21 (4.6%)	155 (12.3%)	173 (11.2%)
TOTAL	482 (100.0%)	1,263 (100.0%)	1,593 (100.0%)	460 (100.0%)	1,258 (100.0%)	1,543 (100.0%)

6.3.3 Table 11 shows the distribution of the major areas of education of the chairmen and members of the AC: 37.3% of AC chairmen are accountancy trained (2011 : 37.2%); 47.1% of AC chairmen major in accountancy, finance or economics.

Table 11: Distribution of Major Areas of Education of AC Members

	2015 Study			2011 Study		
	Chairmen	Members	Total	Chairmen	Members	Total
Accountancy	180 (37.3%)	178 (14.1%)	302 (19.0%)	171 (37.2%)	167 (13.3%)	286 (18.5%)
Finance	22 (4.6%)	67 (5.3%)	80 (5.0%)	21 (4.6%)	48 (3.8%)	62 (4.0%)
Economics	25 (5.2%)	88 (7.0%)	102 (6.4%)	29 (6.3%)	78 (6.2%)	92 (6.0%)
Management	120 (24.9%)	302 (23.9%)	388 (24.4%)	113 (24.6%)	301 (23.9%)	366 (23.7%)
Law	32 (6.6%)	199 (15.8%)	216 (13.6%)	35 (7.6%)	218 (17.3%)	235 (15.2%)
Engineering	27 (5.6%)	147 (11.6%)	165 (10.4%)	27 (5.9%)	124 (9.9%)	140 (9.1%)
Arts	13 (2.7%)	42 (3.3%)	48 (3.0%)	18 (3.9%)	57 (4.5%)	65 (4.2%)
Science	22 (4.6%)	61 (4.8%)	75 (4.7%)	19 (4.1%)	82 (6.5%)	89 (5.8%)
Others	9 (1.9%)	61 (4.8%)	70 (4.4%)	9 (2.0%)	50 (4.0%)	58 (3.8%)
Insufficient information	32 (6.6%)	118 (9.3%)	147 (9.2%)	18 (3.9%)	133 (10.6%)	150 (9.7%)
TOTAL	482 (100.0%)	1,263 (100.0%)	1,593 (100.0%)	460 (100.0%)	1,258 (100.0%)	1,543 (100.0%)

6.3.4 From Table 11, 30.4% of all the chairmen and members of the ACs have formal educational qualifications in accountancy, finance or economics in the 2015 Study. This is a slight improvement from 2011 where the proportion stood at 28.5%. The percentage of chairmen having formal educational qualifications in accountancy or finance or economics is much higher than members of the AC for both studies (2015: 47.1%; 2011: 48.1%)

6.3.5 The finding suggests that a good percentage of the chairmen and members of ACs do fulfil the requirement of the CG Code 2012 for members of AC to have “recent and relevant accounting or related financial management expertise or experience”.

6.4 Assessment of the Experiences of AC Members

6.4.1 Table 12 shows the major full-time experiences of the chairmen and members of the AC.

Table 12: Distribution of Full-Time Experiences of AC Members

	2015 Study			2011 Study		
	Chairmen	Members	Total	Chairmen	Members	Total
Accountancy/Auditing	133 (31.7%)	83 (8.2%)	187 (14.4%)	122 (26.5%)	103 (8.2%)	188 (12.2%)
Banking/Finance/Investment	138 (32.9%)	225 (22.1%)	310 (23.8%)	153 (33.3%)	265 (21.1%)	358 (23.2%)
Senior Management	98 (23.3%)	373 (36.6%)	436 (33.5%)	113 (24.6%)	507 (40.3%)	575 (37.3%)
Academia	6 (1.4%)	29 (2.8%)	32 (2.5%)	9 (2.0%)	50 (4.0%)	53 (3.4%)
Civil Service	9 (2.1%)	29 (2.8%)	33 (2.5%)	13 (2.8%)	42 (3.3%)	49 (3.2%)
Legal Practices	21 (5.0%)	174 (17.1%)	183 (14.1%)	31 (6.7%)	204 (16.2%)	217 (14.1%)
Others	8 (1.9%)	72 (7.1%)	79 (6.1%)	10 (2.2%)	56 (4.5%)	64 (4.1%)
Insufficient Information	7 (1.7%)	33 (3.2%)	40 (3.1%)	9 (2.0%)	31 (2.5%)	39 (2.5%)
TOTAL	420 (100.0%)	1,018 (100.0%)	1,300 (100.0%)	4,60 (100.0%)	1,258 (100.0%)	1,543 (100.0%)

6.4.2 Despite the fact that only 30.4% of all the chairmen and members of the ACs had major areas of education in accountancy, finance or economics in Table 11, Table 12 shows that 38.2% of the chairmen and members of the ACs had accountancy/auditing or banking/finance/investment as their full-time experience.

6.4.3 The statistics for chairmen of ACs are even more encouraging as 64.6% (2011: 59.8%) of the chairmen has accountancy/auditing or banking/finance/investment as their major full-time experience. This suggests that chairmen of ACs in listed companies in

Singapore are well qualified in accounting and financial matters and the trend had been increasing over time.

6.4.4 The statistics for the formal education (majoring in accounting, finance or economics) and experience (accountancy/auditing or banking/finance/investment) of both chairmen and members suggest that listed companies in Singapore are making efforts to comply with the CG Code 2012 and the GAC 2014. These percentages increase in each successive study. More importantly, the finding suggests that majority of the AC of Singapore listed companies are led by suitably qualified chairmen and members.

6.4.5 If we deem individuals who are described as “Senior Management” as having the necessary accounting or related financial management expertise or experience, Table 12 would suggest that at least 87.9% of chairmen and 66.9% of the members of ACs in this study would have met Guideline 12.2 in the CG Code 2012.

6.4.6 One possible interpretation of the above findings is that companies are specifically applying the CG Code 2012 and the GAC 2014 when they appoint new chairmen and members to their ACs.

6.4.7 Table 13 shows the statistics on the number of years the individuals had been a director of the company. 18.5% of the chairmen of AC (2011 : 11.5%) and 22.4% of the members of the AC (2011 : 19.4%) had been with the company for one year or less. This suggests that companies have opportunities to source and appoint chairmen or members who meet the ‘recent and relevant accounting or related financial management expertise or experience’ of the CG Code 2012.

Table 13: Number of Years AC Members have been with the Companies

	2015 Study			2011 Study		
	Chairmen	Members	Total	Chairmen	Members	Total
Less than or equal to One year	132 (18.5%)	358 (22.4%)	490 (21.2%)	86 (11.9%)	316 (19.4%)	402 (17.1%)
More than One Year to Five Years	207 (29.1%)	519 (32.4%)	726 (31.4%)	250 (34.5%)	563 (34.5%)	813 (34.5%)
More than Five Years to Ten Years	213 (29.9%)	409 (25.6%)	622 (26.9%)	211 (29.1%)	374 (22.9%)	585 (24.9%)
Greater than Ten Years	150 (21.1%)	281 (17.6%)	431 (18.6%)	118 (16.3%)	220 (13.5%)	338 (14.4%)
Insufficient Information	10 (1.4%)	33 (2.1%)	43 (1.9%)	59 (8.1%)	157 (9.6%)	216 (9.2%)
TOTAL	712 (100.0%)	1,600 (100.0%)	2,312 (100.0%)	724 (100.0%)	1,630 (100.0%)	2,354 (100.0%)

6.4.8 The renewal of AC chairmen and members provides unique opportunities for companies to comply with the requirements of the CG Code 2012.

6.4.9 A large percentage of chairmen and members (21.1% and 17.6% respectively) had been with the company 10 years or more. The new 9-year independent director rule would prima facie deem all these directors as non-independent. Companies will then have to explain why they are still considered independent and should continue to serve in the ACs. A possible benefit of the new 9-year independent director rule is that it serves as a reminder for companies to consciously plan the succession of their directors.

6.5 Assessment of the Extent of Compliance of ACs with CG Code 2012

6.5.1 Table 14 reports the association between the percentages of executive directors in ACs and the size of ACs. The Companies Act requires that the majority of the members of AC shall not be executive directors (Section 201B(2)(a)). Amongst the 717 companies, only one company did not comply with this requirement. However, CG Code 2012 Guideline 12.1 requires all members of the AC to be non-executive directors and the chairman should be independent. With regards to the requirement for all AC members to be non-executive

directors, 37 companies (5.2%) and 42 companies (5.8%) did not comply with this requirement for the 2015 Study and the 2011 Study respectively.

Table 14: Companies which have Executive Directors in their ACs

No of Members in the AC	2015 Study						2011 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%	67%		20%	25%	33%	50%
1	0	0	0	0	0	0	1	0	0	0	0
2	14	0	0	0	0	0	4	0	0	0	0
3	548	0	0	18	0	0	576	0	0	28	0
4	137	0	15	0	1	0	125	0	11	0	2
5	15	3	0	0	0	0	17	1	0	0	0
6	2	0	0	0	0	0	1	0	0	0	0
7	1	0	0	0	0	0	0	0	0	0	0
TOTAL	717	3	15	18	1	0	724	1	11	28	2

6.5.2 An often articulated concern in the market concerning listed companies in Singapore is the lack of financially-trained individuals available for appointment to the ACs. Table 15 shows the summary statistics on the number of AC members who are deemed to be financially-trained. The overall percentage of ACs with two or more members who are financially-trained is 67.6% (2011 : 44.3%; 2009 : 45.8%). Again, this registers a significant improvement as compared to the previous two studies.

Table 15: Summary Statistics of AC Members who Are Financially-Trained

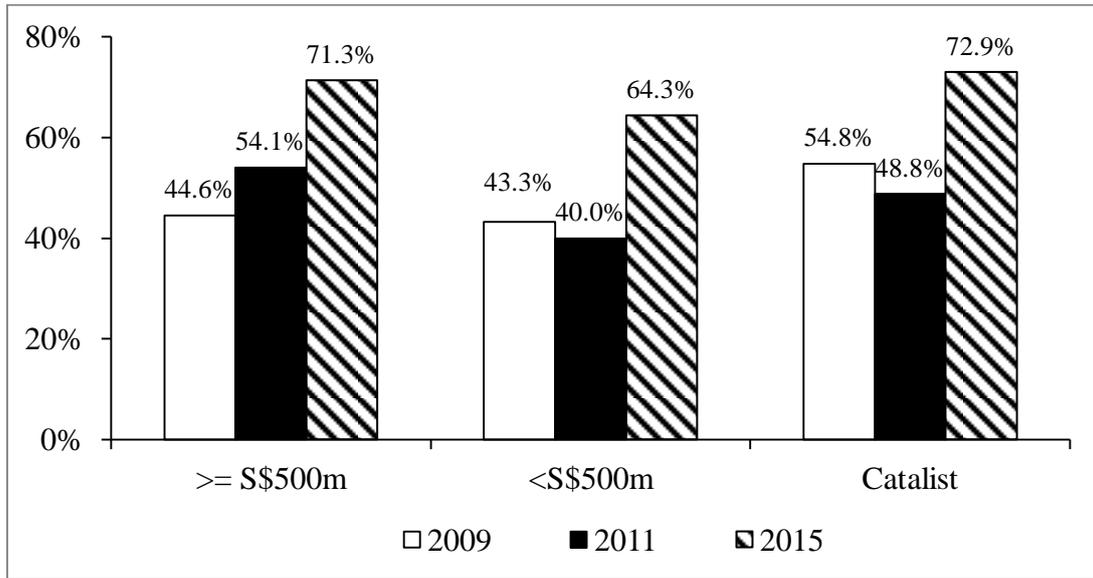
No. of Financially-Trained Members in AC	2015 Study			
	≥S\$500m	<S\$500m	Catalist	Total
	Number of Companies			
0	4 (2.4%)	18 (4.4%)	8 (5.6%)	30 (4.2%)
1	43 (26.2%)	128 (31.3%)	31 (21.5%)	202 (28.2%)
2	51 (31.1%)	164 (40.1%)	67 (46.5%)	282 (39.3%)
3	54 (32.9%)	93 (22.7%)	37 (25.7%)	184 (25.7%)
4	12 (7.3%)	6 (1.5%)	1 (0.7%)	19 (2.6%)
TOTAL	164 (100.0%)	409 (100.0%)	144 (100.0%)	717 (100.0%)

No. of Financially-Trained Members in AC	2011 Study			
	≥S\$500m	<S\$500m	Catalist	Total
	Number of Companies			
0	15 (10.1%)	55 (12.1%)	14 (11.4%)	84 (11.6%)
1	53 (35.8%)	217 (47.9%)	49 (39.8%)	319 (44.1%)
2	58 (39.2%)	135 (29.8%)	47 (38.2%)	240 (33.1%)
3	21 (14.2%)	43 (9.5%)	13 (10.6%)	77 (10.6%)
4	1 (0.7%)	3 (0.7%)	0 (0.0%)	4 (0.6%)
TOTAL	148 (100.0%)	453 (100.0%)	123 (100.0%)	724 (100.0%)

No. of Financially-Trained Members in AC	2009 Study			
	≥S\$500m	<S\$500m	Catalist	Total
	Number of Companies			
0	14 (13.9%)	48 (10.9%)	13 (9.6%)	75 (11.1%)
1	42 (41.6%)	201 (45.8%)	48 (35.6%)	291 (43.1%)
2	36 (35.6%)	137 (31.2%)	59 (43.7%)	232 (34.4%)
3	7 (6.9%)	52 (11.8%)	14 (10.4%)	73 (10.8%)
4	2 (2.0%)	1 (0.2%)	1 (0.7%)	4 (0.6%)
TOTAL	101 (100.0%)	439 (100.0%)	135 (100.0%)	675 (100.0%)

6.5.3 Figure 4 summarises the percentage of ACs with two or more financially-trained members from Table 15. The increase in percentage for the 2015 Study is very encouraging for all three firm size categories.

Figure 4: Percentage of ACs with Two or More Financially-Trained Members



7. Compliance with the New Guidelines in CG Code 2012

7.1 With the introduction of CG Code 2012, this section seeks to document the state of compliance with the CG Code 2012 new provisions on matters pertaining to the AC.

7.2 CG Code 2012 Principle 12 requires the board to establish an AC with “written terms of reference which clearly set out its authority and duties”. Table 16 shows that majority of the companies (99.6%) made reference to the terms of reference of their ACs and most of the reference (98.6%) was made in the corporate governance section of the annual report.

Table 16: Disclosure of the Terms of Reference for ACs

Section of Disclosure	Frequency	Percentage
Corporate Governance Section of the Annual Report	707	98.6%
Director Report Section of the Annual Report	7	1.0%
No Disclosure	3	0.4%
Total	717	100.0%

The Profile of Audit Committees of Listed Companies in Singapore 2015

7.3 56.3% of the companies state the maximum number of directorships in listed company boards which their directors may hold.

7.4 Table 17 provides a distribution of the description of the roles and duties of the ACs in the Annual Reports for the 717 companies. Table 17 shows that the descriptions of the roles of the AC in the annual reports generally conform to the requirements in the GC Code 2012 and GAC 2014. However, four areas which require closer attention are : 1) Review impact of new or proposed accounting principles or regulatory requirements (34.2%); 2) Review regulatory filings (such as with SGX) (31.5%); Undertake the statutory and regulatory functions of the AC as prescribed by law (31.0%); 3); and 4) Review of whistle blowing programmes (30.1%).

Table 17: Description of the Roles of the ACs in the Terms of Reference

Roles of AC in the Terms of Reference	CG Code 2012 Guidelines	GAC 2014 Guidelines	Frequency	Percent
Recommend the re-appointment and compensation of the external auditor to the board	12.4(e)	Section 6	673	93.9%
Review financial statements and financial reporting	12.4(a)	Section 4	663	92.5%
Reviewing the level of non-audit services	12.6	Section 6	673	93.9%
Review issues related to conflicts of interest (interested persons transactions)	7.1	Section 2 : 2.2.32 – 2.2.50	643	89.7%
Review adequacy, scope, and results of external audit	12.4(d)	Section 6	638	89.0%
Review risk management controls	11.1	Section 3	627	87.4%
Review internal controls	11.3	Section 3	611	85.2%
Review adequacy, scope, and results of internal audit	12.4(c)	Section 4	555	77.4%
Commission and Review internal investigations (such as fraud, legal cases etc)	12.4(b)	Appendix A	491	68.5%
Review issues related to compliance	10.2	Appendix B	439	61.2%
State the maximum number of listed company board representations which directors may hold	4.4	Section 1 : 1.2.16 – 1.2.17	404	56.3%
Review impact of new or proposed accounting principles or regulatory requirements	1.6	Section 5	245	34.2%
Review regulatory filings (such as with SGX)	10.2	Appendix B	226	31.5%
Undertake the statutory and regulatory functions of the AC as prescribed by law	10.2	Sections 4 and 6	222	31.0%
Review of whistle blowing programmes	12.7	Section 2 : 2.2.51 – 2.2.65	216	30.1%

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7.5 The disclosure of audit fees is a new requirement in the CG Code 2012 (Guidelines 12.6). Table 18 shows the distribution of the disclosure of auditors' fees for the 717 companies in their annual report. 97.5% of the 717 companies disclosed the aggregate amount of auditors' fees paid with 95.3% of these companies breaking down the fees into those paid for audit services and those for non-audit services. As a new requirement, the compliance rate is high.

Table 18: Distribution of the Disclosure of Auditors Fees

Auditors' Fees	Percentage
Disclosure of the aggregate amount of fees paid to external auditors	97.5%
Disclosure of the breakdown of the fees paid to the external auditor for audit and non-audit services	95.3%

7.6 The disclosure of whistle blowing policy (CG Code 2012 Guideline 12.7) is another new requirement. Table 19 shows the frequency of companies' disclosure of the existence of a whistle blowing policy and the procedures for raising concerns in the whistle blowing policy.

7.7 93.9% of the companies disclosed the existence of a whistle blowing policy and 37.9% of the companies actually disclose the procedure for raising concerns under the whistle blowing policy.

Table 19: Disclosure of Whistle Blowing Policy

Whistle Blowing Policy	Percentage
Disclosure of the existence of a whistle blowing policy	93.9%
Disclosure of the procedure to raise the concerns	37.9%

7.8 Table 20 shows the frequency of availability of channels in which a whistle blower can report a concern. For the 717 companies, the most popular channel is the AC followed by management. The Study also documents that 33.9% of the sample did not disclose the

reporting channel. A very small percentage of the companies states that there is an external party involved in the whistle blowing procedure.

Table 20: Channels for Reporting Concerns Under Whistle Blowing Policy

Channels of Reporting.	Percentage
AC	50.2%
Management	2.5%
Internal auditor	1.4%
Designated external party	2.9%
AC/Management	5.2%
AC / Management / Internal auditor	1.5%
AC / Internal auditor	2.0%
AC / Internal auditor / designated external party	0.1%
AC / Designated external party	0.1%
Management / Internal auditor	0.1%
No Disclosure	33.9%
Total	100.0%

7.9 CG Code 2012 Guideline 12.8 is another new requirement which states: “The Board should also disclose in the company's Annual Report measures taken by the AC members to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements.”

7.10 The 2015 Study found that 264 companies (36.8%) actually disclosed the measures taken by the AC members to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements. The major measures undertaken by AC members to keep abreast with the changes are tabulated in Table 21.

Table 21: Major Sources of Updating for the AC Members on Changes to Accounting Standards and Issues which have a Direct Impact on Financial Statements

Description	Percentage
The AC is kept informed on relevant changes on a regular basis by external auditors	20.6%
The AC is kept informed on relevant changes on a regular basis by parties other than the external auditors	8.4%
The AC is kept informed by attending training conducted by external parties	7.8%

7.11 The major source of update is the external auditors, followed by presentations conducted by external parties and finally external training attended by the AC members.

7.12 Risk management has taken on a more important and urgent emphasis in both the CG Code 2012 and GAC 2014 where guidelines are included. In the sample of 717 companies, only 105 (14.5%) of them had separate board risk committee (BRC). In fact, 601 companies (83.8%) of the sample deemed the AC as having the basic responsibility for overseeing risk management and internal control.

7.13 CG Code 2012 introduced the requirement to assess the “effectiveness” and “adequacy” of the company’s risk management system (Guidelines 11.2 and 11.3). The responsibility for the assessment of the effectiveness of the risk management system of the company lies with the board (Guideline 11.2). However, GAC 2014 Guideline 3.2.2 said that “It is recommended that ACs adopt the higher standard of the Code to understand and comment on both the adequacy and effectiveness of both the risk management and internal control systems.” Table 22 shows the disclosure of the assessment of the internal control and risk management system by the AC as found in the annual reports.

Table 22: Disclosure of the Assessment of the Internal Control and Risk Management Systems

Description	Frequency	Percent
Internal controls - adequacy	683	95.3%
Internal controls - effectiveness	331	46.2%
Risk management - adequacy	474	66.1%
Risk management - effectiveness	295	41.1%

7.14 95.3% of the ACs commented on the adequacy of the internal controls while only 46.2% commented on the effectiveness of the company’s internal control system. The comments on the adequacy and effectiveness of the risk management system were 66.1% and 41.1% of the companies respectively. The finding from Table 22 suggests that the disclosure on the effectiveness of the internal controls and risk management has some way to go.

7.15 The findings from Table 22 for the 2015 Study suggest that the new requirements of the CG Code 2012 and GAC 2014 were well received by companies and improvements may be further achieved in the future.

8. Findings from One-on-One Interview with AC Chairmen

8.1 In this final section, we discuss findings from the interviews of selected AC chairmen on their views and comments on some areas covered in both the empirical literature review and the 2015 Study.

8.2 The interview covers the following four areas:

- a. Composition of the AC;
- b. Appointment of external auditors and audit quality
- c. Emerging scope of AC; and
- d. Coping with changing requirements and market innovations.

Description of the Pool of Interviewed Chairmen

8.3 For this study, 18 AC chairmen were interviewed individually. There were three female and 15 male chairmen. These chairmen represent a total of 37 listed companies and the profiles of these companies are shown in Tables 23 and 24.

Table 23: Profile of Companies Where AC Chairmen Were Interviewed (Size)

Size	No of Interview Sample	% Interview Sample	No. of Total Sample	% of Total Sample
Companies with Market Cap of S\$500m and above (\geq S\$500m)	16	43.2%	164	22.9%
Companies with Market Cap less than S\$500m ($<$ S\$500m)	17	45.9%	409	57.0%
Companies listed on the Catalist (Catalist)	4	10.8%	144	20.1%
Total	37	100.0%	717	100.0%

Table 24: Profile of Companies Where AC Chairmen Were Interviewed

Types	No of Interview Sample	% Interview Sample	No. of Total Sample	% of Total Sample
Financial Institution	6	16.2%	27	3.8%
Non-Financial	31	83.8%	690	96.2%
Total	37	100.0%	717	100.0

8.4 The profile of the companies of these 18 chairmen was slightly over-represented by companies with market capitalization of S\$500m and above and financial institutions.

General Opinions and Comments

8.5 The chairmen were very candid in their responses and articulated their views, concerns and suggestions on the four areas of concerns in Section 8.2. They also provided general opinions concerning their roles and the challenges facing ACs.

8.6 Many of the chairmen view the AC as an important committee of the board with heavy responsibility entrusted to them.³⁷ The AC chairman assumes a significant lead role to ensure that the financial statements duly presented to the board has met the statutory and other requirements of a listed company. This is in addition to ensuring the adequacy and effectiveness of the internal controls of the company to safeguard the financial soundness of the company. Different chairmen had different perspectives concerning the role of AC with regards to risk management.

8.7 In the interviews, it was observed that AC of small and large listed companies faced very different challenges. For example, large listed companies have resources to support the AC and this enables them to attract high quality and experienced directors to be AC members. In addition, the risk exposure for ACs of large companies seem to be well mitigated --- the technical competency of the management, existence of internal audit and other consultancy resources are available to support the work of the AC.

³⁷ In fact, one Chairman called the AC a “work horse” of the Board.

8.8 Smaller listed companies generally face a greater constraint in financial resources to support the work of the AC whether it be internal audit, assess to consultancy services and the number of AC members. In fact, one chairman of a smaller listed company opined that he has to live with whatever resources available to discharge his role. In addition, it can be challenging to find directors who want to be members of the AC for smaller listed companies given that the risk is high and the directors' fees can be constrained.

8.9 Some of the chairmen viewed the AC as a strategic partner to the management and Board, to not only safeguard the financial soundness of the company, but also to enhance the business. Some chairmen opined that the tone set by the AC is critical and the AC members should walk the talk in terms of integrity, avoidance of conflict of interest, and diligent work ethics.

8.10 Many chairmen articulated their concerns about the increasing requirements imposed by the regulators. One chairman commented that changes in the regulatory landscape are coming at too fast a pace. Many are concerned that the additional requirements will result in a "box ticking" mentality where the AC is more concerned about compliance in form rather than discharging its role and responsibilities in substance.

8.11 A large number of chairmen opined that the director fee for AC chairmanship and membership is too low in commensuration with the work carried out by the AC.

Composition of Audit Committee

8.12 Most of the chairmen opined that they want to have members who are able to articulate their views on the issues facing the AC. In addition to technical knowledge, financial literacy and industry experiences, some of the key phrases used to describe the desirable attributes of the AC members include: team players, different viewpoints, independent, willing to speak

out, holistic understanding of the business, dedication, ability to question judgement, having moral courage or boldness amongst others.

8.13 One of the most well-articulated desirable attributes of members for a good AC is the ability to speak out independently on matters facing the AC.

8.14 Most of the chairmen opined that a high-performing AC requires the members to have trust, independence and the conducive environment to speak one's mind and opinions. Communication is deemed as a key factor in a high-performing AC. Communication is multidimensional and includes communication amongst the AC members, with internal auditors, with management, with external auditors and the Board.

8.15 Most of the chairmen preferred diversity in the experiences, views and expertise of the members of the AC. In addition to financial knowledge, one particular skill set which is frequently desired by the chairmen is industry relevant knowledge and experiences. Many of the chairmen opined that it is critical to have at least one member of the AC to be knowledgeable about the industry in which the company operates in.

8.16 All the chairmen opined that it is important for at least one member of the AC (and not necessarily the chairman) to be well versed in financial reporting, particularly, the financial reporting standards. The important qualification for financial reporting knowledge is in the currency and relevance of the financial knowledge. This is deemed important in light of rapid developments in the complexities of financial reporting standards.

8.17 Most of the chairmen agree that it would be preferable if at least one member is a professional accountant. However, the emphasis is on the currency and relevance of the financial knowledge and not merely past experience or qualifications.

8.18 Some of the chairmen opined that it may be better if there is a second member of the AC with current accounting knowledge and relevant financial management skills, as this will reduce the tendency for the rest of the AC members to rely on just one financial expert in the AC to recommend and make the decision. This may be crucial if the chairman is the only financial expert and there may not be another enquiring voice once the chairman shared his opinions.

8.19 With regards to succession planning, most chairmen think that the 9-year independent rule is arbitrary. All expressed the view that the 9-year threshold does not determine whether AC members are independent or not. There is a general expectation that AC members will behave professionally and they will opt to step down if their professionalism or reputation is compromised, or they lacked the abilities to fulfil the requirements of the AC.

8.20 However, several chairmen opined that the 9-year independent rule may be a necessary evil to remind the Board to consider succession planning. This comply-or-explain 9-year independent rule forces companies to have a robust system to defend the independence of the director and to encourage the company to make forward looking succession planning.

8.21 At least one chairman opined that the 9-year independent rule may work against a company which may need to rely on the significant corporate memories and experiences of longer-tenured AC members in managing market turbulences. This is particularly important because AC members may not have experienced a full business cycle with the ups and downs of the company under the 9-year rule. This is more so for companies which are highly complex or the operations are highly sophisticated which requires very specific and deep knowledge of the industry.

Appointment of external auditors and audit quality

8.22 There have been recent proposals for companies to publish their selection criteria for appointing or re-appointing their external auditors. The major arguments are that articulation

of the selection criteria would make the selection more transparent and objective. Further, it provides a framework which ACs could use in selecting their external auditors.

8.23 Most of the chairmen opined that this recent proposal may not be necessary as they already have selection criteria in place for appointment or re-appointment of external auditors. Some of the selection criteria include: the technical competency of the auditing partner, timely completion of the audit engagement; quality of feedback on the audit; auditors' ability to work with the management; thoroughness and quality of the audit; relevant industry experiences; ability to communicate with the AC, management and Board, amongst others.

8.24 Reputation and prior experience with the external auditors are two most important inputs for assessing the audit quality of the external auditors. Some of the chairmen opined that the audit partner is one of the key determining factors. It was also noted that relationship plays a part in the selection of the external auditors.

8.25 Most chairmen (particularly those from large listed company) opined that audit fee is a secondary consideration and quality is of utmost importance. One chairman of a large listed company suggested that the AC uses a "two envelopes" approach -- the quality envelop takes precedence and then followed by the negotiation on the price. However, the AC chairmen of smaller listed companies opined that auditors' fee is still a very important criterion in the selection of the auditors in addition to the quality. Some of the chairmen of smaller companies candidly said they could not afford the fees of the Big 4 auditors.

8.26 Some of the chairmen highlighted concerns that the external auditors are generally shortlisted by the management and thus the AC may not be directly involved in the selection of the external auditors in substance. This arrangement may not be a best practice as the AC, or at least the AC chairman, should have an access to the candidates for shortlisting.

8.27 Most of the chairmen are lukewarm about the usefulness of innovations to improve the audit quality such as audit partners and firm rotation, limitation of non-audit services, mandatory re-tendering and enhanced audit report. Most AC chairmen are not convinced that these innovations will result in greater independence and higher quality of audit. In fact, they are concerned that these innovations will increase the audit fees and time burdens on management and AC time without commensurate increase in audit quality. However, limitation of non-audit service was deemed by some chairmen as a necessary prohibition.

8.28 One chairman issued the caution that mandatory re-tendering can result in the race to the lowest auditors' fees at the expense of audit quality, which will totally negate the purpose of mandatory re-tendering.

8.29 Numerous chairmen expressed concerns on the enhanced audit report where key audit matters (KAMs) will be disclosed. They are concerned about the potential fallout when what was previously a private conversation between auditors, management and AC will now be made public, albeit in a condensed form. This will change the behaviour between the auditors, management and AC. In addition, significant time and effort will be spent in negotiating what is to be disclosed in the enhanced audit report.

8.30 A further nuance is that a brief KAM may lead to misunderstandings since the context for the issue raised may not be sufficiently described. Readers may draw inappropriate inferences and conclusions. A lengthier description may attract even more discussions if the issues are not well communicated in words. The commenting chairmen were very concerned about this development.

8.31 A chairman used the example of non-audit services to illustrate the challenges in implementing the limitation on non-audit services. Since the fee for external auditor is not high, therefore most non-audit services will be deemed as crossing the prohibition threshold. This can result in inefficiency as the non-audit service will have to be provided by another

service provider which may result in added cost and inefficiency as more management time will have to be spent in preparing and managing the new service provider.

Emerging Scope of AC

8.32 Currently, there are three possible arrangements for risk management in listed companies with regards to the board or board committees. First, a separate board risk committee (BRC) is established to oversee the risk management for the company. Secondly, the AC is expanded to become the audit and risk committee (ARC). Finally, the management of financial risk is within the role and responsibility of the AC while the Board generally oversees the other risks (operational, safety, health, reputation etc) of the company.

8.33 Generally, most of the chairmen opined that the optimal arrangement is dependent on the complexities of the company and the legislation or guidelines governing the company in the industry in which it operates. For example, it is a necessity to have a separate risk committee for financial institutions.

8.34 For companies which are less complex, be it a single product company, or by smallness of size, the AC would usually double up as the risk management committee with or without any change in its name. There are some concerns among the chairmen of smaller companies that the AC members' role is significantly enlarged and they may not be able to cope with added responsibility such as overseeing cyber-security or IT risk.

8.35 One chairman opined that traditionally, the AC is responsible for the risk management of the company because most risks ultimately will affect the financials of a company. Thus the AC must have some cognizance of the risk exposure as it is responsible for the internal controls, which mitigate the risks that may lead to errors or misstatements in financial statements.

8.36 However, for ACs that double up on risk management, most of the chairmen opined that there is no need to change the composition of the AC, as the members would be able to handle the added responsibility given their knowledge and experience. The major change is in mindset and practices during the meeting, namely, more time, discussion and attention will have to be directed at risk management during the AC meeting. The temptation is for the AC to become a box-ticker to fulfil its risk management role. In addition, several chairmen opined that the directors' fee for AC membership has not caught up with the added responsibilities.

8.37 The challenge for companies with separate AC and BRC lies with the coordination between the two committees. As mentioned, ultimately many risks will impact on the financials of the company. Therefore, it is important for the AC to be cognizant of the risk facing the company, the mitigations against these risks, and the impact of the residual risk. In addition, coordination is needed to prevent any risk which may "fall through the crack" between the AC and BRC.

8.38 Generally, chairmen from companies which had separate BRC and AC opined that it is a good practice to have overlapping membership for both committees. In fact, several AC chairmen opined that the AC chairman should be a member of the BRC and vice-versa for the BRC chairman. This arrangement ensures that information flow is timely, and action plan is coordinated, to mitigate risk.

8.39 All the chairmen opined that internal audit can play a greater role. Several chairmen said that the AC cannot do its job well without the support of good internal audit. Several chairmen opined that internal audit should make greater progress towards risk-based audit rather than the traditional compliance or checklist approach.

8.40 Most AC chairmen of smaller companies opined that the internal audit should be outsourced. The manpower assigned to the internal audit is so small that career progression

for the internal audit staff, succession planning, and ultimately the effectiveness of the internal audit can be compromised.

8.41 For larger companies with an in-house internal audit department, several of the chairmen were concerned with the reporting line, independence and effectiveness of the internal audit since ultimately the internal audit is significantly influenced by the management. One chairman suggested that the annual performance appraisal of the head of the internal audit should be conducted by the chairman of the AC. In addition, many of the chairmen opined that proper governance and reporting line for in-house internal auditor should be established in consultation with the AC. A chairman said that the internal audit would need the protection of the AC for the internal audit to discharge its role and function well.

8.42 Several chairmen articulated that they would like to see internal audit as a partner with management to help manage the risk and internal controls of the company instead of being merely a policeman or a box ticker. This relationship is to overcome the perception that internal audit is a burden to the conduct of business rather than a strategic partner to create value for the business through proper checks and balances.

8.43 Many of the chairmen opined that the internal audit function should continue to evolve into a professional service much like the external audit in order for it to have greater traction and usefulness to the AC.

Coping with changing requirements and market innovations

8.44 With the ever increasing complexities of financial reporting standards, innovations in external audits, legislative and best practice requirements, one of the concerns for AC is: how to help the members of the AC to keep up with these changes?

8.45 Most of the chairmen are of the opinion that the members of AC should be professional in keeping themselves informed of the developments. The AC members understand their liabilities and the expectations of being AC members and thus they have personal incentives to be kept updated.

8.46 Companies do provide training or set aside funds in which members of the AC can draw on to attend courses. However, the basic principle is that keeping oneself updated is a personal responsibility.

8.47 Some of the chairmen opined that their companies are already making preparations for the convergence to IFRS in 2018, the added disclosure for key audit matters in the new audit report, and considering the adoption of integrated reporting and/or sustainability reporting. However, the differences in the degree of preparations and readiness between big and small listed companies are significant. This difference is consistent with the observation that small and large listed companies have access to very different resources to help the ACs discharge their responsibilities.

8.48 In summary, the interviews with AC chairmen provided a better understanding of the challenges and issues faced by the AC chairmen. The challenges faced by the ACs of small and large companies are very different, and greater care may be needed in promulgating new regulations or best practices. Some practices may increase the cost for smaller companies with minimal improvements, while having little impact for large companies.

9. Conclusion

9.1 The AC is a very important oversight mechanism and it is no surprise that the AC is specifically legislated in the Companies Act. In addition, CG Code 2012 and the GAC 2014 provide significant guidelines on the best practices for ACs. The guidelines are consistent with the documented positive correlation between audited financial reporting quality and the

desirable attributes of an effective AC. Some of the desirable attributes of an effective AC includes: AC activism, independence of AC, and expertise of AC members, amongst others.

9.2 This study of ACs of listed companies in Singapore shows that these documented desirable attributes are either required by the Companies Act or they can be found in the CG Code 2012, GAC 2014 and the SGX Listing Rules.

9.3 Comparing the documented attributes of ACs of listed companies across the 2009, 2011 and 2015 studies, we observed a positive improvement in the ACs in the 2015 Study. These findings are encouraging as they suggest that the requirements for an effective AC are taken very seriously by the listed companies. In addition, the findings provide evidence that the AC landscape in Singapore is improving over time.

9.4 Companies which renew their AC members have also systematically appointed new directors who are in compliance with the requirements of best practices for ACs, namely, individuals having current accounting knowledge and relevant financial management skills.

9.5 Finally, the extant literature and the study findings are further corroborated by the views and inputs from AC chairmen through one-to-one interviews. The major findings in the interview are : 1) small and large listed companies faced different challenges and requirements for compliance (one size fits all) does not augur well with the chairmen. 2) common understanding of the desirable attributes of AC members for an effective AC; and 3) concerns about the ever-increasing requirements placed on AC members. The chairmen are of the opinion that some of the new regulations are artificial (for example, the 9-year independent rule for directors). These new rules or requirements impose additional costs but the benefits are either illusory or not well defined.

9.6 In summary, this report provides support that the AC landscape in Singapore is improving and regulators will have to work harder to further identify gaps or areas where significant improvement in the effectiveness of AC can be further enhanced.

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Annex A

**Companies Act (Chapter 50)
Audit committees**

201B. —(1) Every listed company shall have an audit committee.

(2) An audit committee shall be appointed by the directors from among their number (pursuant to a resolution of the board of directors) and shall be composed of 3 or more members of whom a majority shall not be —

- (a) executive directors of the company or any related corporation;
- (b) a spouse, parent, brother, sister, son or adopted son or daughter or adopted daughter of an executive director of the company or of any related corporation; or
- (c) any person having a relationship which, in the opinion of the board of directors, would interfere with the exercise of independent judgment in carrying out the functions of an audit committee.

(3) The members of an audit committee shall elect a chairman from among their number who is not an executive director or employee of the company or any related corporation.

(4) If a member of an audit committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below 3, the board of directors shall, within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members.

(5) The functions of an audit committee shall be —

- (a) to review —
 - (i) with the auditor, the audit plan;
 - (ii) with the auditor, his evaluation of the system of internal accounting controls;
 - (iii) with the auditor, his audit report;
 - (iv) the assistance given by the company's officers to the auditor;
 - (v) the scope and results of the internal audit procedures; and
 - (vi) the balance-sheet and profit and loss account of the company and, if it is a holding company, the consolidated balance-sheet and profit and loss account, submitted to it by the company or the holding company, and thereafter to submit them to the directors of the company or the holding company; and
- (b) to nominate a person or persons as auditor, notwithstanding anything contained in the articles or under section 205,

together with such other functions as may be agreed to by the audit committee and the board of directors.

(6) The auditor has the right to appear and be heard at any meeting of the audit committee and shall appear before the committee when required to do so by the committee.

(7) Upon the request of the auditor, the chairman of the audit committee shall convene a meeting of the committee to consider any matters the auditor believes should be brought to the attention of the directors or shareholders.

(8) Each audit committee may regulate its own procedure and in particular the calling of meetings, the notice to be given of such meetings, the voting and proceedings thereat, the keeping of minutes and the custody, production and inspection of such minutes.

(9) Where the directors of a company or of a holding company are required to make a report under section 201(5) or section 201(6A) and the company is a listed company, the directors shall describe in the report the nature and extent of the functions performed by the audit committee pursuant to subsection (5).

(10) In this section, “listed company” means a company that is incorporated in Singapore and has been admitted to the official list of a securities exchange in Singapore and has not been removed from the official list.

(11) Any reference in this section to a director who is not an executive director of a company is a reference to a director who is not an employee of, and does not hold any other office of profit in, the company or in any related corporation of that company in conjunction with his office of director and his membership of any audit committee, and any reference to an executive director shall be read accordingly.

**SINGAPORE CODE OF CORPORATE GOVERNANCE 2012
AUDIT COMMITTEE**

Principle:

12 The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.³⁸

Guidelines:

12.1 The AC should comprise at least three directors, the majority of whom, including the AC Chairman, should be independent. All of the members of the AC should be non-executive directors. The Board should disclose in the company's Annual Report the names of the members of the AC and the key terms of reference of the AC, explaining its role and the authority delegated to it by the Board.

12.2 The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members, including the AC Chairman, should have recent and relevant accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgement.

12.3 The AC should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

12.4 The duties of the AC should include:

- (a) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the company and any announcements relating to the company's financial performance;
- (b) reviewing and reporting to the Board at least annually the adequacy and effectiveness of the company's internal controls, including financial, operational, compliance and information technology controls (such review can be carried out internally or with the assistance of any competent third parties);
- (c) reviewing the effectiveness of the company's internal audit function;
- (d) reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors; and
- (e) making recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors.

³⁸ The Board may wish to refer to the sample terms of reference contained in the Guidebook for Audit Committees in Singapore issued by the Audit Committee Guidance Committee which was established on 15 January 2008 by the Monetary Authority of Singapore, the Accounting and Corporate Regulatory Authority and Singapore Exchange Limited to develop practical guidance for audit committees of listed companies.

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12.5 The AC should meet (a) with the external auditors, and (b) with the internal auditors, in each case without the presence of Management, at least annually.

12.6 The AC should review the independence of the external auditors annually and should state (a) the aggregate amount of fees paid to the external auditors for that financial year, and (b) a breakdown of the fees paid in total for audit and non-audit services respectively, or an appropriate negative statement, in the company's Annual Report. Where the external auditors also supply a substantial volume of non-audit services to the company, the AC should keep the nature and extent of such services under review, seeking to maintain objectivity.

12.7 The AC should review the policy and arrangements by which staff of the company and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC's objective should be to ensure that arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken. The existence of a whistle-blowing policy should be disclosed in the company's Annual Report, and procedures for raising such concerns should be publicly disclosed as appropriate.

12.8 The Board should disclose a summary of all the AC's activities in the company's Annual Report. The Board should also disclose in the company's Annual Report measures taken by the AC members to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements.

12.9 A former partner or director of the company's existing auditing firm or auditing corporation should not act as a member of the company's AC: (a) within a period of 12 months commencing on the date of his ceasing to be a partner of the auditing firm or director of the auditing corporation; and in any case (b) for as long as he has any financial interest in the auditing firm or auditing corporation.

**GUIDELINES ON CORPORATE GOVERNANCE FOR BANKS,
FINANCIAL HOLDING COMPANIES AND DIRECT INSURERS
WHICH ARE INCORPORATED IN SINGAPOR (2013)
by the Monetary Authority of Singapore**

AUDIT COMMITTEE

Similar to the SINGAPORE CODE OF CORPORATE GOVERNANCE 2012 except for the following additional provision:

Additional Guidelines of the Authority

12.10 The AC should maintain records of all its meetings, in particular records of discussions on key deliberations and decisions taken.

12.11 The AC should ensure that the financial statements of the Financial Institutions are prepared in accordance with accounting policies and practices that are internationally accepted.

12.12 The AC should have a robust process to discharge its responsibility in recommending for approval the appointment, reappointment, removal and remuneration of the external auditor. The AC should determine appropriate criteria for selecting the external auditor and should have policies and procedures to regularly monitor and assess the knowledge, competence, independence and effectiveness of the external auditor.

12.13 The AC should ensure that the external auditor has unrestricted access to information and persons within the Financial Institution as necessary to conduct the audit. The AC should also understand the external auditor's approach to reviewing the adequacy of internal controls relevant to the audit.

12.14 The AC should require that the external auditors promptly communicate to the AC any information regarding internal control weaknesses or deficiencies. The AC should ensure that significant findings and observations regarding weaknesses are promptly rectified and that this is supported by a formal process for reviewing and monitoring the implementation of recommendations by the external auditors.

12.15 The AC should establish a formal policy and structured process which governs its assessment of the independence of external auditor. This should involve a consideration of all relationships between the Financial Institution and the audit firm (including the provision of non-audit services) which could adversely affect the external auditor's actual or perceived independence and objectivity, length of tenure and any safeguards established by the external auditor.

12.16 In addition to Guideline 12.7, for sensitive information, the Financial Institution should establish an internal "whistle blowing" policy that offers employees anonymity and other protection from negative consequences.

AUDIT COMMITTEE GUIDANCE COMMITTEE GUIDEBOOK FOR AUDIT COMMITTEES IN SINGAPORE (2013)

The Guidebook comprises six sections. Each section opens with a table listing the key relevant regulatory requirements and guidelines for ACs with respect to that particular area. As this list serves only as a reference and is not intended to be exhaustive, AC members are advised to refer to the relevant sections in full in the Companies Act, the Singapore Exchange Securities Trading Limited Listing Manual and the Code of Corporate Governance as appropriate.

The best practices sub-section that follows focuses on areas in which ACs often face uncertainty, as well as provides practical solutions and guidance to issues ACs commonly encounter. Some of the issues and guidance included in this Guidebook may not provide the most optimal solution for all scenarios. Companies are encouraged to seek the necessary professional advice where appropriate.

Each section will then end with the detailed regulatory requirements and guidelines that were listed at the start of each section. As with the summary table, this sub-section serves only as a reference and is not intended to be exhaustive.

The six sections of the Guidebook are:

1. AC Composition

This section aims to provide guidance for current and prospective AC members to assess their independence and suitability for membership in the AC. It also outlines the roles and responsibilities of AC members.

2. AC Agenda

The second section sets the scope of the AC, including its interaction with the Board, its annual workplan and periodic meetings, as well as its oversight responsibility over interested person transactions and the whistle-blowing policy.

3. Risk Management and Internal Controls

The Board is responsible for the governance of risk, but it is common for the Board to delegate oversight of risk management and internal controls to the AC. This section outlines the common risk governance structures and the various frameworks to ensure that the company's risk management and internal control system is adequate and effective.

4. Internal Audit

Internal audit is an important function to assist the Board in discharging its duties. This section examines the considerations when deciding whether the internal audit function should be in-house or outsourced. It also covers the common issues relating to AC's oversight over the internal audit function.

5. Financial Reporting

A key duty of the AC is to review the significant financial reporting issues and judgements so as to ensure the integrity of the company's financial statements. This section also highlights factors indicative of weaknesses in the financial reporting process.

6. External Audit

The last section describes the role of external auditors, factors that the AC should consider when evaluating the independence of external auditors, as well as considerations for the appointment of external auditors, their remuneration and terms of engagement.

THE SINGAPORE EXCHANGE LISTING RULES³⁹

Rule 610

The following additional information should be provided in the prospectus, offering memorandum, introductory document and shareholders' circular:—

- (5) An opinion of the board, with the concurrence of the **audit committee** on the adequacy of the internal controls, addressing financial, operational and compliance risks.
- (6) A statement by the issuer's **audit committee** that, after making all reasonable enquiries, and to the best of their knowledge and belief, nothing has come to the attention of the **audit committee** members to cause them to believe that the person appointed as the chief financial officer (or its equivalent rank) does not have the competence, character and integrity expected of a chief financial officer (or its equivalent rank) of a listed issuer.

Rule 704 - Announcement of Specific Information

(8) Any appointment or reappointment of a director to the **audit committee**. The issuer must state in the announcement whether the board considers the director to be independent. The issuer must also provide such additional disclosure as may be appropriate in the circumstances to enable its shareholders to assess the independence or otherwise of the appointed director. In the event of any retirement or resignation which renders the **audit committee** unable to meet the minimum number (not less than three) the issuer should endeavour to fill the vacancy within two months, but in any case not later than three months.

Appointment of Special Auditors

(14) The Exchange may require an issuer to appoint a special auditor to review or investigate the issuer's affairs and report its findings to the Exchange or the issuer's **Audit Committee** or such other party as the Exchange may direct. The issuer may be required by the Exchange to immediately announce the requirement, together with such other information as the Exchange directs. The issuer may be required by the Exchange to announce the findings of the special auditors.

Rule 716

An issuer may appoint different auditing firms for its subsidiaries or significant associated companies (referred to in Rule 715(1)) provided that:—

- (1) the issuer's board and **audit committee** are satisfied that the appointment would not compromise the standard and effectiveness of the audit of the issuer; or
- (2) the issuer's subsidiary or associated company, is listed on a stock exchange.

³⁹ SGX Listing Rules accessed from SGX website on 19 May 2015:
http://rulebook.sgx.com/en/display/display_viewall.html?rbid=3271&element_id=4830&print=1.

Rule 719 - Suspected Fraud or Irregularity

(1) Internal Controls

An issuer should have a robust and effective system of internal controls, addressing financial, operational and compliance risks. The **audit committee** (or such other committee responsible) may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the systems of internal control.

(2) Suspected Fraud Or Irregularity

If the **audit committee** of an issuer becomes aware of any suspected fraud or irregularity, or suspected infringement of any Singapore laws or regulations or rules of the Exchange or any other regulatory authority in Singapore, which has or is likely to have a material impact on the issuer's operating results or financial position, the **audit committee** must discuss such matter with the external auditor and, at an appropriate time, report the matter to the board.

Rule 908

In interpreting the term "same interested person" for the purpose of aggregation in Rules 905 and 906, the following applies:—

(1) Transactions between an entity at risk and interested persons who are members of the same group are deemed to be transactions between the entity at risk with the same interested person.

(2) If an interested person, (which is a member of a group) is listed, its transactions with the entity at risk need not be aggregated with transactions between the entity at risk and other interested persons of the same group, provided that the listed interested person and other listed interested persons have boards the majority of whose directors are different and are not accustomed to act on the instructions of the other interested persons and their associates and have **audit committees** whose members are completely different.

As an example, Entity-At-Risk A, Listed B and Listed C are all subsidiaries of Ultimate D. Listed B, Listed C and Ultimate D have boards, the majority of whose directors are different and are not accustomed to act on the instructions of Ultimate D and its associates and have **audit committees** whose members are completely different. Transactions between Entity-At-Risk A and Listed B need not be aggregated with transactions between Entity-At-Risk A and Listed C or with transactions between Entity-At-Risk A and Ultimate D.

Rule 912

In deciding on any sale of units of its property projects to an issuer's interested persons or a relative of a director, chief executive officer or controlling shareholder, an issuer's board of directors must be satisfied that the terms of the sale(s) are not prejudicial to the interests of the issuer and its minority shareholders. The **audit committee** must review and approve the sale(s) and satisfy itself that the number and terms of the sale(s) are fair and reasonable and are not prejudicial to the interests of the issuer and its minority shareholders.

Rule 916

The following transactions are not required to comply with Rule 906:—

- (1) The entering into, or renewal of a lease or tenancy of real property of not more than 3 years if the terms are supported by independent valuation.
- (2) Investment in a joint venture with an interested person if:—
 - (a) the risks and rewards are in proportion to the equity of each joint venture partner;
 - (b) the issuer confirms by an announcement that its **audit committee** is of the view that the risks and rewards of the joint venture are in proportion to the equity of each joint venture partner and the terms of the joint venture are not prejudicial to the interests of the issuer and its minority shareholders; and
 - (c) the interested person does not have an existing equity interest in the joint venture prior to the participation of the entity at risk in the joint venture.
- (3) The provision of a loan to a joint venture with an interested person if:—
 - (a) the loan is extended by all joint venture partners in proportion to their equity and on the same terms;
 - (b) the interested person does not have an existing equity interest in the joint venture prior to the participation of the entity at risk in the joint venture; and
 - (c) the issuer confirms by an announcement that its **audit committee** is of the view that:—
 - (i) the provision of the loan is not prejudicial to the interests of the issuer and its minority shareholders; and
 - (ii) the risks and rewards of the joint venture are in proportion to the equity of each joint venture partner and the terms of the joint venture are not prejudicial to the interests of the issuer and its minority shareholders.
- (4) The award of a contract by way of public tender to an interested person if:—
 - (a) the awarder entity at risk announces following information:—
 - (i) the prices of all bids submitted;
 - (ii) an explanation of the basis for selection of the winning bid; and
 - (b) both the listed bidder (or if the bidder is unlisted, its listed parent company) and listed awarder (or if the awarder is unlisted, its listed parent company) have boards, the majority of whose directors are different and are not accustomed to act on the instructions of the interested person or its associates and have **audit committees** whose members are completely different.

(5) The receipt of a contract which was awarded by way of public tender, by an interested person if:—

- (a) the bidder entity at risk announces the prices of all bids submitted; and
- (b) both the listed bidder (or if the bidder is unlisted, its listed parent company) and listed awardee (or if the awardee is unlisted, the listed parent company) have boards, the majority of whose directors are different and are not accustomed to act on the instructions of the interested person or its associates and have **audit committees** whose members are completely different.

Rule 917

An announcement under Rule 905 must contain all of the following information:—

- (4)
 - (a) A statement:—
 - (i) whether or not the **audit committee** of the issuer is of the view that the transaction is on normal commercial terms, and is not prejudicial to the interests of the issuer and its minority shareholders; or
 - (ii) that the **audit committee** is obtaining an opinion from an independent financial adviser before forming its view, which will be announced subsequently.
 - (b) Transactions that satisfy Rule 916(1), (2) and (3) are not required to comply with Rule 917(4)(a).
- (5) The current total for the financial year of all transactions with the particular interested person whose transaction is the subject of the announcement and the current total of all interested person transactions for the same financial year.
- (6) Where the issuer accepts a profit guarantee or a profit forecast (or any covenant which quantifies the anticipated level of future profits) from the vendor of businesses/assets, the information required in Rule 1013(1). The issuer must also comply with Rule 1013(3).

Rule 920

- (b) A circular to shareholders seeking a general mandate must include:—
 - (vi) an opinion from the **audit committee** if it takes a different view to the independent financial adviser;
- (c) An independent financial adviser's opinion is not required for the renewal of a general mandate provided that the **audit committee** confirms that:—
 - (i) the methods or procedures for determining the transaction prices have not changed since last shareholder approval; and

Rule 921

(b) however, the opinion from an independent financial adviser is not required for the following transactions. Instead, an opinion from the **audit committee** in the form required in Rule 917(4)(a) must be disclosed:—

(i) the issue of shares pursuant to Part IV of Chapter 8, or the issue of other securities of a class that is already listed, for cash.

(ii) purchase or sale of any real property where:—

- the consideration for the purchase or sale is in cash;
- an independent professional valuation has been obtained for the purpose of the purchase or sale of such property; and
- the valuation of such property is disclosed in the circular.

(5) an opinion from the **audit committee**, if it takes a different view to the independent financial adviser.

Rule 1207

The annual report must contain enough information for a proper understanding of the performance and financial conditions of the issuer and its principal subsidiaries, including at least the following:—

(6)

(b) Confirmation by the **audit committee** that it has undertaken a review of all non-audit services provided by the auditors and they would not, in the **audit committee's** opinion, affect the independence of the auditors.

(10) Opinion of the board with the concurrence of the **audit committee** on the adequacy of the internal controls, addressing financial, operational and compliance risks.

Practice Note 7.5 General Meetings

2. Location of general meeting

2.2 General meetings are important avenues for shareholders to voice their opinion and seek clarifications from the Board and management on matters relating to an issuer. At these meetings, shareholders are given the opportunity to meet with the management team, the external auditors and key members of the Board, such as the Chairman, the **Audit Committee Chairman** and the independent directors. This enhances the quality of communication between the issuer and its shareholders.

Practice Note 12.2 Adequacy of Internal Controls

1. Introduction

1.1 This Practice Note provides guidance on the application of Rules 610(5) and 1207(10).

1.2 Issuers are required to disclose the following in their prospectuses and annual reports:

"Opinion of the Board with the concurrence of the **audit committee** on the adequacy of the internal controls, addressing financial, operational and compliance risks."

Rule 610(5) requires the disclosure to be made in the prospectus whereas Rule 1207(10) requires the disclosure to be in the annual reports.

2. Intent of Rules 610(5) and 1207(10)

2.1 Internal controls, including financial, operational and compliance controls, serve to safeguard shareholders' investments and company's assets.

2.2 The **audit committee** is usually responsible for overseeing internal controls. The Board, which includes executive directors, is also responsible for assessing the adequacy of these internal controls.

2.3 The objective of Rules 610(5) and 1207(10) is to increase transparency and accountability. In providing this opinion, the Board and the audit committee are required to demonstrate that they have rigorously assessed the internal controls in relation to all three areas of risk, namely financial, operational and compliance.

3. Compliance with Rules 610(5) and 1207(10)

3.1 In satisfying Rules 610(5) and 1207(10), the Board and the **audit committee** may ask for an independent audit on internal controls to assure themselves on the adequacy of the controls, or if they are not satisfied with the systems of internal controls.

3.2 The issuer should maintain proper record of the discussions and decisions of the Board and the **audit committee**.

3.3 Compliance with Rules 610(5) and 1207(10) involves the following disclosures:-

- (i) Where the Board and the **audit committee** are satisfied that the issuer has a robust and effective system of internal controls, the disclosure must include the basis for such an opinion.

To avoid doubt, under Rule 246(9), all listing applicants are required to provide, for the Exchange's assessment, the auditor's report to management on the internal controls and accounting systems. Where weaknesses exist in a potential issuer's internal controls and accounting systems, the Exchange may seek a confirmation from the auditors of the potential

issuer that the material weaknesses were addressed. This is in addition to Rule 610(5) which requires the Board and audit committee to disclose the basis for their views on the robustness and effectiveness of the issuer's system of internal controls.

(ii) In relation to Rule 1207(10), where the Board and/or the **audit committee** is of the view controls need to be strengthened, or has concerns that controls are inadequate, the Board would have to disclose the issues and how it seeks to address and monitor the areas of concerns.

4. Format of Disclosure

4.1 The provision of this opinion has no prescribed format.

4.2 As the Board and **audit committee** are obliged by Rules 610(5) and 1207(10) to provide the specific disclosures in Paragraph 3.3 above, the Exchange recommends the opinion be provided in the following ways:-

(i) Disclosure to be made in the section on "**Audit Committee**" or "Internal Controls" of the prospectus for compliance with Rule 610(5).

(ii) Disclosure to be made in the Directors' Report or Corporate Governance section of the annual report for compliance with Rule 1207(10).

5. General Principle

5.1 Good disclosures which comply with Rules 610(5) and 1207(10) comprise the following:

(i) The Directors' opinion on the Group's internal controls addressing financial, operational and compliance risks; and

(ii) The basis for the Directors' opinion.

5.2 Should the Board with the concurrence of the **audit committee**, disclose that in its opinion, the Group's internal controls has weaknesses, then clear disclosure of these weaknesses and the steps taken to address them is necessary for investors to make an informed decision about the Company.

Annex B

Questionnaire for the Interview with Chairmen, Audit Committee

The following are suggested questions to cover in the major areas.

a. Composition of the AC

- As a Chairman, how would you like your AC members to support you? What attributes, skill sets and experience should your AC member possess?
- What factors contribute to a high-performing AC?
- Is it critical to have a qualified professional accountant on the AC? Why or why not?
- Would you be adverse to the suggestion of mandating at least one qualified professional accountant on AC? Why or why not?
- What are the possible succession plans for AC members with respect to the 9-year independent rule?

b. Appointment of external auditor and audit quality

- How does the company select its auditor and what is the role of the AC in the selection? Do you support enhanced disclosure of the external auditor appointment process? What would be the information, elements and the extent of the appointment process that you think should be disclosed?
- How does the AC assess the quality of the audit firm, the engagement partner as well as the audit process and deliverables?
- What is the Chairman's view about the following requirements/proposals to improve audit quality such as:
 - Audit partner and audit firm rotation
 - Limitation on non-audit services
 - Mandatory re-tendering of external audit services
 - Enhanced audit report from 2016 (Key Audit Matters)

c. Emerging Scope of AC

- Should the AC be responsible for the risk management of the company?
- If not, how could the company coordinate the overlapping responsibility for financial risk?
- If yes, how can we ensure that the AC has sufficient knowledge and experience to handle risk management – cyber security, operational, reputational, safety, etc?
- Will the inclusion of risk management as a role of AC affect the composition, of AC and compensation of the members in the AC? If yes, how?
- Is there a greater need to further strength the internal audit of the company and if yes, how would the AC be instrumental in this?

d. **Coping with changing requirements and market innovations**

- How does AC cope with the changing requirements and market innovations such as:
 - The convergence to IFRS in 2018
 - New accounting standards (eg. the new revenue standard and the financial instruments standard)
 - The revised audit report format which require disclosure of Key Audit Matters (KAMs) in particular
 - The new provisions in the Companies Act, Corporate Governance Code, new requirements affecting certain industries
 - Innovative reporting framework like Integrated Reporting
 - Comply or explain approach to Sustainability Reporting.

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About the Corporate Governance Committee of ISCA

The Corporate Governance Committee promotes matters relating to corporate governance, in particular those matters affecting the interests of members and the profession, which will include:

- Providing thought leadership and knowledge sharing through research and publications;
- Contributing towards intended or proposed changes to the regulatory framework relating to corporate governance in Singapore;
- Representing the interest of the members and the profession through relevant platforms organised by government or regulatory bodies, professional bodies and other relevant organisations on matters relating to corporate governance.

The Corporate Governance Committee 2015/2016 consists of:

Mr Ho Tuck Chuen (Chairman)	Mr Irving Low
Mr Basil Chan (Deputy Chairman)	Associate Professor Mak Yuen Teen
Associate Professor El'fred Boo Hian Yong	Mr Anthony Mallek
Mr Anthony Cheong Fook Seng	Mr Neo Sing Hwee
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NOTES

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