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MEDIA RELEASE

ICPAS Study Finds Positive Trends in Audit Committee Profiles

- Increasing number of financially-trained individuals in Audit Committees*
- Decrease in individuals holding multiple chairmanships and memberships*
- However, increasing trend of alternate directorships a concern*

Singapore, 24 April 2012 – A study has found that while the Companies Act and the Code of Corporate Governance have been effective in bringing forth structural changes to the profile of audit committees in Singapore-listed companies, the increasing trend of having alternate directors could be an area of concern. Commissioned by the Institute of Certified Public Accountants of Singapore (ICPAS), the 2011 “Study on the Profile of Audit Committees of Listed Companies in Singapore” is a follow up to the 2009 ICPAS study and provides a comparative understanding of the continuing compliance of Audit Committees (ACs) of listed companies in Singapore in relation to the Companies Act and CG Code.

More Financially-trained Individuals in Audit Committees

The survey found that of the AC Chairmen who were recently appointed for about a year or less, 97.7 per cent of them are financially trained. This represents a 12.9 per cent increase from 2009, which saw 84.8 per cent of them with financial training.

Additionally, the number of financially-trained AC members soared by 26.3 per cent to 69.3 per cent in 2011, up from 43 percent in 2009.

“Having AC members who possess accounting knowledge has a number of benefits. Empirical research based on US stock markets has shown that ACs with accounting expertise in its membership is negatively associated with earnings restatement and induces positive market reactions.” said Dr Ernest Kan, ICPAS President.

“Given that the financial reporting standards have evolved in complexity coupled with heightened regulatory scrutiny and a competitive business environment, it would be valuable to have at least one AC member who is a trained accountant who would be able to guide the AC in navigating the web of regulatory requirements”, Dr Kan added.

Decrease in Individuals with Multiple Chairmanships and Memberships

The study also found a decrease in the number of individuals holding more than six AC memberships and the number of individuals holding more than four AC chairmanships. In 2011, there were three individuals holding more than six AC memberships, versus 21 in 2009. In 2011, there were 16 individuals holding more than four AC chairmanships, compared to 17 in 2009.

NUS Professor Ho Yew Kee, member of the ICPAS Corporate Governance Committee, who conducted the study, feels that this is a good sign. “AC members and especially AC Chairmen must have enough time to carry out their duties. Listed companies are required to have quarterly reporting, which means that all AC members would expect to meet at least quarterly to vet the financial reports and carry out their responsibilities. Assuming that an individual holds no more than four AC chairmanships or six memberships, he or she would need to spend around six or more working days to manage the quarterly reporting process.”

“It would be good to consider a threshold of four chairmanships and six memberships as trigger points to review if an AC member can execute his duties adequately, taking into account his professional qualifications, experience and existing commitments,” Prof Ho added.

Increased Number of Alternate Directors

The study found that the number of alternate directors appointed to ACs of listed companies has risen from 1 in 2009 to 19 in 2011.

Alternate directors are subjected to the same fiduciary duties and liabilities as full directors in Singapore, UK and Australia. Consequently, this is a point of interest as alternate directors are obliged to exercise independent judgment in carrying out their duties with the same efficacy and professionalism as a director.

“Alternate directors need to ensure that there is continuity in knowledge sharing with the director and keep themselves well informed of the matters brought before the Board. Against this backdrop, it is important for them to be aware of their responsibilities as alternate directors,” said Dr Ernest Kan, ICPAS President.

The survey covered 724 listed companies with a total of 1,543 individuals in 2,353 director roles and serving as chairmen and/or members in the ACs. The study was undertaken by the ICPAS Corporate Governance Committee whose objective is to be an advocate of corporate governance best practices.

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Note to Editors:

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